ACCF R&E REPORT TO THE MEMBERSHIP ON THE COUNTY MANAGER'S FISCAL YEAR 2009 PROPOSED BUDGET

I. Executive Summary and Table of Contents

Revenues ($ millions)

County Manager's Base Budget	924.6
FY08 add'l carryover from mid-year review	1.8
FY 08 3rd/4th quarter carryover	0.6
Residential utility tax repeal	(1.5)
Out-of-state plate local fees	0.2
Delete DHS parking charge	(0.1)
Total	925.6

Expenditures ($ millions)

County Manager's Base Budget (excl School Transfer)	575.9
School Transfer (Base Budget)	348.7
1% "Efficiency Rebate"/incl. FTE reductions	(4.8)
Stormwater/additions to general fund base budget	2.2
AIRE Initiative reductions	(0.9)
Net OPEB Contribution	2.4
Retirement enhancements reserve	3.4
Paving increases	0.2
Neighborhood Conservation (substitute bond for PAYG funding)	(0.5)
IT Maint Capital (reduce 200% incr to 100%)	(0.6)
Delete add'l Metro subsidy for service on Rt 38B	(0.4)
Total	925.6

Comment

As the Manager reminds us in his FY09 Proposed Budget (PB), this is the first year he has proposed increasing the tax rate (as opposed to actual tax bills and fees, which have risen every year) during his tenure as Manager. The reason given was the need to deal with two extraordinary situations: one, the County's future health care liabilities (known as OPEB); and two, the need to repair and replace a deteriorating Stormwater system. The R&E Committee has examined both of these issues in detail, and sees no compelling need for a property tax rate increase to fund these requirements as there are suitable ways to fund these requirements without resorting to a tax increase.

While these two requirements are front-page items and merit scrutiny, the Committee also strove to examine the growth and trend in the County's budget and the associated tax and fee burden on the average resident. These will be examined in detail later in this report.

We note with approval that the Manager has finally identified some cuts in expenditures and positions. The advertised reductions are $1 million in services, and 10.55 positions. But since these steps are accompanied by a 7% increase in expenditures and an actual increase of 38 FTEs, the best that can be said about this is that ‘it’s a start’. There is much more that can and should be done, but until the Board communicates this as a priority, it will likely continue to be neglected. This is particularly true in the current environment where certain revenue components (e.g., assessments and interest income) are uncertain. As part of this report, we identify for the Manager a number of opportunities to reduce costs.

The R&E Committee is pleased that the County has finally recognized the true nature of the unreserved fund balances, i.e., that they are discretionary funds that can be allocated for virtually any purpose. In the past five years, the General Fund Balance has grown from $62MM in FY 2003 to $115.5MM as of the end of FY2007.

To put this into context, if the County chose to do so, it could fund virtually all the projected Stormwater costs from this fund without resorting to a new Stormwater District Tax; or, make a very substantial additional contribution to the OPEB liability deficit. The County really needs to examine the content and future application of this very large amount of ‘discretionary’ funds.

The report this year will be presented to the membership before many of the County Board Work Sessions have been completed, and before important information pertaining to overtime expenses and transportation priorities has been provided. This suggests the need for an earlier submission of the budget. The Committee will continue to follow and report on these items, and may offer a supplemental resolution for consideration of the membership if appropriate. We are confident, nevertheless, that the current report and recommendations offer substantial and practical alternatives for the Board and the Manager to consider.

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II. Overview and Committee Review Process

<u>Overview</u>

This year's team is the same as last year, but with a little more experience and knowledge. The report focuses on four areas:

- Budget Growth
- Stormwater
- OPEB and Compensation
- Transportation

As in the past, we strive to be 'data-driven'; to the extent information is available. We take pride in the fact that we are the only independent, community-based organization that annually reviews the County's budget and fiscal policies.

Our efforts have benefited greatly from the responsiveness and competence of the County employees we deal with, particularly in the Department of Management and Finance. They have made themselves available during their busiest and most stressful season to meet with the committee and to answer most of our questions.

<u>Committee Review Process</u>

This year, the R&E Committee began its process in January, a full month prior to the submission of the budget. The Committee:

- Reviewed the FY07 Closeout Report, the FY07 Comprehensive Annual Financial Report (CAFR) and the FY09 Manager's Proposed Budget
- Worked closely with other ACCF committees to address differences. Expanded the voting procedures to provide for separate budget votes on selected issues.
- Attended meetings of the Fiscal Affairs Advisory Committee (FAAC) and County Board Work Sessions.
- Suggested opportunities for cost savings and alternative funding for necessary budget items.

IV. Reviewed Program Areas

The Committee focused this year on the two requirements that the Manager identified as driving the need for an increase in the tax rate: +2 cents for OPEB and +1.4 cents for Stormwater. We also felt that the time was right to examine the recent growth in the County budget, and the reasons therefore. We are indebted to all of the committee members for their efforts, but most especially to Wayne Kubicki who did the 'heavy lifting' in analyzing prior years' budgets.

A. Budget Growth

The R&E Committee wondered what factors drove an increase in the adopted general fund budget from $538 million in FY 2001 to $934.6 million for FY 2009, an increase of 74%, or about 9% a year. What caused this increase…was it population growth? inflation? critical infrastructure repairs (such as Stormwater), or what? We devoted a considerable amount of time to examining this phenomenon with the hope of being able to offer some reasonable guidelines for budget growth taking into account the needs of the community. Looking at population growth, Arlington's population during that period increased from 189,983 in FY01 to 206,100 (FY09 est.), an increase of less than 1% a year. Looking at inflation (CPI-U, Washington-Baltimore) the index was at 108.9 in 2001 and 136.3 in 2008, an increase of 25% or about 4% a year. Even adding the two together results in less than 5% a year. As a further measure, we looked at the Municipal Cost Index (MCI), an index developed exclusively by American City & County designed to show the effects of inflation on the cost of providing municipal services That index was 153.4 in 2001, and 191.9 in 200, an increase of 25%, or about 4% a year.

We further examined the trend in the County's budget growth. There was a remarkable increase beginning in 2001 (7.1%) through 2009 (over 6% if adopted) compared with the period 1995-2000. The following chart shows the increases:

Arlington County
Adopted General Fund Budgets

Adopted

Fiscal Year	Gen Fund Budget	Increase from prior yr $ Million	%	
1995	418.3	13.8	14.4%	
1996	429.1	10.8	2.6%	**3.7% average annual**
1997	449.7	20.6	4.8%	**increase over these**
1998	464.8	15.1	3.4%	**six years**
1999	482.8	18.0	3.9%	
2000	502.3	19.5	4.0%	
2001	537.8	35.5	7.1%	
2002	581.7	43.9	8.2%	
2003	627.8	46.1	7.9%	**7.4% average annual**
2004	665.7	37.9	6.0%	**increase over these**
2005	718.5	52.8	7.9%	**eight years**
2006	758.9	40.4	5.6%	
2007	828.9	70.0	9.2%	
2008	888.5	59.6	7.2%	

The question should then be asked, what caused budgets to double (percentage-wise) over the two periods. Wayne Kubicki's analysis shows the following increases for the period FY 1994 through FY 2008.

	FY 94-2000 Average Annual Increase	FY01-FY08 Average Annual Increase
County Board	2.2%	9.2%
County Manager	-11.7%	16.3%
General District Court	1.3%	14.7%
Fire Department	1.5%	9.5%
Police Dept	2.6%	6%
Environmental Services	1.9%	8.7%
Non-Departmental	.7%	14.1%
Metro	-2.0%	9.2%
Capital Projects	13.2%	16.8%
Salaries	N/A	6.8%
Retirement	N/A	15.1%
Health	N/A	10.5%

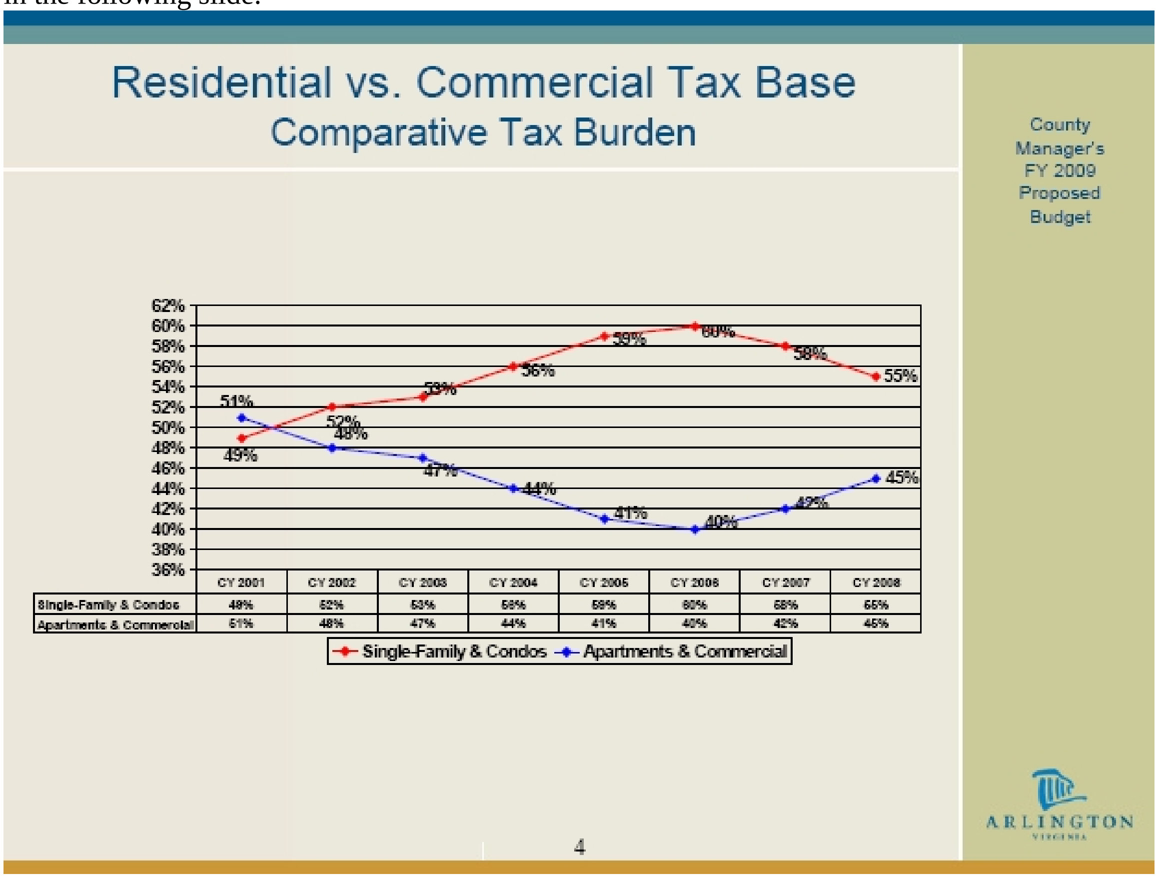
While these figures should be only the starting point for any analysis, they do highlight the areas where the fastest growth has occurred since FY 2001. The departments or categories with the largest percentage increases are not necessarily those with the largest absolute budgets. As shown on pages A8-9 of the Manager's proposed budget, the largest categories of expenses are personnel compensation, debt service and Metro.

None of the foregoing answers the particular question of budget growth. Of course, the events of 9/11 and Arlington's proximity to the nation's capital have factored into our increased requirements. But what seems to be the driving factor is illustrated by the following table:

Fiscal Year	Assessed Value	% Change from	General Fund %Change

	Real Property ($millions)	Previous Year	from Previous Year
1998	19050		
1999	19987	4.92	3.9
2000	21367	6.90	4.0
2001	23509	10.02	7.1
2002	27188	15.65	8.2
2003	31680	16.52	7.9
2004	35563	12.26	6.0
2005	42275	18.87	7.9
2006	50633	19.77	5.6
2007	54293	7.23	9.2

This table suggests that the more rapid increase in County spending have been directly related to recent increases in assessments, i.e., higher assessments=greater funds availability=budget and tax increases. If that is the case, and we believe that it is, it poses several issues. One is the issue of equity…burden sharing, to put it bluntly. As the increase in residential assessments has climbed in recent years, so have the taxes on homeowners. The comparative tax burden is shown in the following slide:



The other issue is the wisdom of the County taking advantage of spikes in homes assessments. It is the rough equivalent of the Federal Government taxing unrealized capital gains on stocks. But as we all know, what goes up must eventually come down. From hindsight, we now see that the spike in home values was stimulated by extraordinarily low interest rates and a lending system that was more interested in booking loans than in having them repaid. Nearby cities and counties are now trying to accommodate a precipitous decline in assessments along with a corresponding decrease in tax revenues. Their solution has been to cut expenditures while trying to minimize increases in taxes and tax rates.

Due to its close-in location, the decline in Arlington residential assessments is not as severe as other counties. Indeed, Arlington's property tax revenues are projected to rise by a total of $24 million over the next year due to an increase in assessments for apartment and commercial buildings. The County further proposes to increase taxes on commercial properties by 12.5 cents, in addition to the 3.4 cents increase proposed for all properties. While the proposed budget would decrease expenditures by the reduction of certain programs and services and elimination of some FTEs, other proposals in the budget result in a 6.3% overall increase in spending and a net increase of 38.5 FTEs.

As the County progresses through the annual budget process, it should also be noted that the proposed budget (the one most widely publicized and made available to the public), is rarely the budget that we end up with, as illustrated by the following table:

Fiscal Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
($ millions)							
Proposed Budget	**737.9**	**800.9**	**859.2**	**898.8**	**974.1**	**1055.6**	**1145.1**
Adopted Budget	**754.5**	**805.3**	**870.6**	**917.3**	**1003.4**	**1070.0**	**1145.1**
Revised (Mid year)					**1006.2**	**1071.0**	
Actual expenditures	**793.9**	**834.4**	**908.9**	**928.0**	**1092.7**		

Taking Fiscal year 2003 as an example, note that the budget increased from $738 million proposed to $754 million adopted to $794 million actual, an eventual increase of $56 million (7.6%). This progression is typical, and there are many factors that explain it. But one should be wary of press releases and statements that accompany the widely publicized 'proposed' budget. This year for example, the advertised increase in the proposed budget is only 4.7%. However, if the suggested tax increases are applied, the actual increase would be 6.3%. And if history is a guide, that amount might well be followed by increases in the adopted budget and the actual expenditures.

B. Stormwater

Last year's Report and Recommendation recognized the need for funding of a long-neglected Stormwater system. We further recommended that funding be obtained from traditional sources (i.e., base budget, carryover/PAYGO, and bond funding), rather than resorting to a new Stormwater District Tax.

Over and above the FY 09 base budget proposal, the Manager is requesting new funding and a dedicated revenue stream to supplement the County's existing spending on stormwater management.

As was the case last year, we see this request and the source of funds as two separate issues, and have reviewed them as such.

The base budget already contains approximately $2.5M for stormwater management, with the funds spread over five different departments, while the Manager's 'strategic priority request amounts to an additional $8.0M of spending in FY09. The major components of which are:

- $5.8M of “capital” items (storm drainage improvements and system maintenance).
- $513K for improved operations and maintenance (3.0 FTEs + contract services).
- $757K for additional regulation and enforcement (4.0 FTEs + contract services).
- $316K for GIS inventory and other program updates (3.0 FTEs).

Of the total of 11 FTEs proposed for FY09, 8 are new. The majority of the FTEs are for increased inspections and enforcement, as required by a spring 2006 audit by the Virginia Dept. of Conservation & Recreation and the U.S. Environmental Protection Agency.

A bit of history here will put this issue in context. Arlington was the fastest growing county in the country between 1930 and 1950, and much of our existing stormwater infrastructure was built during that period. The current system consists of 28 miles of open channel (both natural and engineered) and 360 miles of underground piping. While most of the underground piping is concrete (with an usual life span of 50-75 years, and up to 100 years in ideal conditions), 11 miles is corrugated metal pipe, which typically has a life span of 40 years.

In broad brush, more than “maintenance by emergency” (such as a culvert collapse) attention needs to be given to the stormwater system. Adding to that are environmental regulations tied to the Chesapeake Bay. Therefore, the Committee concludes that more funding for stormwater efforts is needed, and hence we support the entire Manager’s request of $8.0M for FY09.

However, we do <u>not</u> support the Manager’s proposed funding scheme of a new 1.4 cent dedicated sanitary district tax, applied to the real property tax base (i.e., a 1.4 cent real estate tax increase). The stormwater system is a basic function of local government, and should continue to be funded solely from the General Fund.

We therefore recommend a base budget increase of $2.2M, which includes the non-capital costs described in the County’s Stormwater Funding Program Fact Sheet.

We further recommend that the additional $5.8M of “capital” costs in the Fact Sheet be funded by either bonds through the upcoming new CIP this spring or unallocated carryover capital funds from the FY07 close-out and/or other already existing County reserves. It should be noted that the County has included storm drainage capital costs in previous bond referenda ($1.5M in 2002 and $2.95M in 2004). Further, the adopted CIP for FY05-10 had projected additional bond requests of $3.1M in 2006 and $3.6M in 2008 – but both of these “out-year” requests were removed from the last adopted CIP (FY07-12), with the 2006 projected amount not put on the ballot.

C. <u>OPEB, Personnel and Compensation</u>

The FY09 proposed budget for Compensation has been the most difficult to analyze in recent memory. As recently as March 25th (one month <u>after</u> the initial release of the proposed budget), the County Manager described many of the compensation changes being proposed for health care and retirement benefits as a “work in progress.”

Using all funds for County government (but excluding the schools transfer) as the benchmark, compensation is the biggest single component, making up $344.6M of a total budget of $714M (48%).

The proposed base FY09 budget contained provisions for normal "step" increases, the merit pay increases which nearly all County employees receive. Broken down by the number of employees, these step increases can be summarized as follows:

- 4.1% for 17% of employees.
- 3.3% for 29% of employees.
- 2.3% for 36% of employees.
- No step increase for 18% of employees already at top step.

Additionally, the base budget does not contain any so-called "market pay adjustment" ("MPA"), referred to by most people as a COLA adjustment. Over the past seven fiscal years, such adjustments have averaged around 2%. Last year's figure was 1.5%.

Over and above the base budget, the Manager has proposed a 2-cent increase in the real estate tax rate (generating $11.6 in additional funds for FY09, and $5.7M in additional carryover funds for FY08), with the additional revenue going toward Other Post Employment Benefits ("OPEB" – the County's heretofore almost totally unfunded future liability for retiree health care premiums) and adjustments to the County's retirement system. As proposed by the Manager, this additional real estate tax revenue would be excluded from the Revenue Sharing Agreement with the School Board, with all of the incremental revenue staying in the General Fund. As discussed in the Revenue section of this report, we do not support this tax increase. We do, however, support some additional spending here.

At a work session with the County Board on March 20th, the Manager detailed his current thinking on both OPEB and retirement adjustments.

Until now, the County has not dealt with retiree health care costs on an actuarial (future liability) basis, instead using a simple pay-as-you-go annual appropriation. Future liabilities, for both current retirees and current employees upon retirement were essentially unfunded. The current unfunded liability for future retiree health care has been priced at $516M – a condition the Manager has described as "not sustainable."

The major provisions of the Manager's current proposals for healthcare revisions are as follow:

For active employees, the County in the past has covered 80% of the cost of healthcare, regardless of the plan (HMO or POS) chosen by the employee. Under the revised scheme, the County will cover approximately 80% of current CIGNA HMO costs, with employees covering any incremental cost based on their choice of plans. Additionally, the County's contribution would not automatically increase in the future, with any future increases totally at the County Board's discretion.

Retirees currently have the same choices as current employees - a plan totally unlike that of our neighboring jurisdictions, which have a flat, fixed premium contribution (Fairfax, $220/month; Alexandria, $260; Prince William, $240). By comparison, the County portion for a CIGNA POS plan for a retiree with a spouse would be $891/month. Under the revised scheme, the County's premium contributions would be capped - $900/month for current retirees, with future retirees receiving lower amounts, phasing down to $600/month for those retiring 10 years from now and beyond. The County would pay 80% of the CIGNA HMO plan amount (up to the related cap), with the retiree covering the balance. 10 years of service would be required for new employees to begin retiree healthcare eligibility, up from the current 5 years.

The incremental cost (over the base budget) is $2.4M/year. This increase would cover current costs for retirees, plus continuing to fund a reserve that would fully fund (after 30 years) future retiree health costs on an actuarial basis. We support the healthcare provisions of the Manager's proposal. In effect, funding retiree healthcare on an actuarial basis (as compared to the current PAYG system) is a matter in inter-generational equity – current taxpayers should bear the cost of the retirement benefits for current employees.

On retirement benefits, the Manager is proposing certain enhancements to make us "more competitive with our neighbors" and to "offset to changes in health care," as described at the 3/20 work session mentioned earlier.

Again, in broad brush, the Manager's proposal would increase the "multiplier" (the percentage of annual pay received in retirement, per year of employment) from 1.5 to 1.7 for general employees, and from a tiered 1.5/1.7/2.0 to 2.2 for public safety employees. Overtime pay would be excluded from the calculation of retirement pay. On an actuarial basis, the incremental cost of these changes has been calculated at $7M a year. As the Manager stated on 3/25, these retirement proposals are a "work in process." Many of the details have only been available for a few weeks.

In light of those facts, at this time we do not support the inclusion of $7M in the base budget for incremental employer retirement contributions. The proposed multiplier increases the defined benefit for retirement, the exact opposite of what the Manager is attempting to do in capping health care benefits. Most private industry is getting away from defined benefits and the Federal government is also cutting back on them. The increase in multiplier should be avoided until more analysis is completed. It is too big of an issue to not have good data for a decision that future generations will be forced to live with. While we have concerns that our package for public safety employees may be lagging when compared to neighboring jurisdictions, we also seriously question the expansion of retirement obligations under which the County (i.e., the taxpayers) bear the entire investment risk of a defined benefit plan. In fact, we feel that a defined contribution plan, perhaps as a portion of the retirement package, might be more attractive for younger employees, as it would give them some portability and more control over investment alternatives.

Therefore, we have provided $3.4M in our budget proposal as a "retirement enhancement reserve." We urge the County Board to appoint a task force of qualified citizens to review (in conjunction with outside consultants) the overall competitiveness, both against neighboring governments and the private sector, of the County's compensation package, with a final report due by year-end. The Board could then review the findings and make any retirement changes effective 1/1/09. Last year, the County commissioned a 'Compensation Study', which was only released after last year's R&E Committee report... Unfortunately, the study was primarily a survey of employee opinion on compensation matters, and did not examine the overall issue of competitiveness in the Washington, DC area. Hopefully, the Board will see fit to commission an independent and expert study so all parties (employer, employees and taxpayers) will have a reliable and common base of reference
As we mentioned above, the Manager's proposed budget does not contain a provision for any MPA. A 1% MPA would cost $2.8M. We do not support a MPA this year, as we feel a built-in increase that would carry forward to future year base budgets is unwarranted, in light of a slowdown of revenue growth and the other additional compensation costs being incurred for FY09. If funds become available from the Manager's 3rd quarter FY08 review (as has usually been the case), we recommend consideration of a one-time, flat equal amount bonus for County employees. Paying such a bonus in this fashion would give employees on the lower-end of the

pay scales a higher percentage increase, which we feel is the proper thing to do in light of current pressures of energy and food prices.

D. Transportation

Transportation is one of the largest components of the County budget as a source of revenue as well as expenditures on transportation. As shown in the table below, revenue from transportation-related sources broadly defined are expected to bring in $116 million in FY2009. The largest sources are the car tax of $34 million, the state car tax reimbursements of $31 million, and state highway aid of $16 million. If the transportation funding program is re-passed by the legislature, Arlington's allocation would provide an additional $12.4 million in revenue.

Transportation-Related Revenues	FY2006	FY2007	FY2008	FY2009
Car tax (individuals & business)	23,488	34,996	32,967	33,876
State car tax reimbursements	31,280	31,466	31,252	31,252
Decal fees	3,482	3,441	3,500	3,500
Parking meters	3,948	4,205	4,972	5,471
Parking tickets	6,676	6,631	6,200	7,386
Fines	2,185	1,684	2,095	1,653
Highway aid	15,265	15,198	15,198	16,276
State traffic signal funds	943	1,164	868	999
NVTA transportation allocation ($12.4 million in FY09 if passed)				
State transit aid	175	1,103	1,128	1,128
Commuter assistance grants	3,384	3,850	3,160	3,020
Highway safety grants	12	1		
State transportation capital grants	22	607		
VA DOT capital grants	341	2,670		
Developer street lights	292	628		
ART transit revenues	743	974	1,061	1,370
Paid parking at County Bldgs	681	1,309	1,040	1,391
Car rental tax	5,417	4,765	4,600	4,950
Ballston garage parking revenue	3,587	3,691	3,791	3,869
Impounded vehicles storage fee	45	45	50	50
Total Revenue from Transportation	101,966	118,428	111,883	116,191

Note: County revenue from property taxes on garages and driveways in private residences and townhouses and parking spaces in apartment and commercial buildings provide several million dollars of additional transportation-related revenue.

By comparison, County spending on transportation was only about $54 million in FY2007 and budgeted for $56 million in FY 2009. The largest transportation expenditures are the net contributions to WMATA for Metro and Metrobus services, with $17 million budgeted for FY07 and $20 million for FY09. The total budget for ART and STAR is $7.0 million in FY07 and $7.8 million for FY09, about 19% of which is offset by fares and grants. Note that total transportation spending is slightly understated as enforcement expenses are not included, but this is the best estimate available.

Transportation Expenditures ($1,000s)	FY07	FY08rev	FY09
All Transit			

Arlington transit expenditures (ART & STAR)	7,001	7,799	7,775
ART net county subsidy (differs from budget)	2,863		
STAR	2,958		
Metro (net tax support)	14,700	17,400	20,000
Commuter Services Program	5,094	4,375	4,390
Transit planning	283	352	339
Streets			
Street sweeping	732	887	911
Street & sidewalk maintenance (operating)	2,885	3,180	3,185
Paving program (PAYGO)	2,454	3,611	3,936
Wilson Blvd project - in PAYGO	480		
Arterials program	3,688	0	0
Traffic calming	852	500	300
Transportation planning (except transit)	1,716	1,767	1,833
Transportation engineering (before fees & grants)	6,869	7,792	8,226
Ballston garage expenses	4,123	9,196	4,619
Sidewalk Programs			
Pedestrian systems (capital)	1,517	1,600	300
NC Residential sidewalk projects	1,993		
Total	**54,388**	**58,459**	**55,814**

Major Transportation Budget Items

A maintenance program meeting the county's stated goal of a 15-year cycle would require would require repaving about 64 lane miles per year, and would need to be accompanied by a similar amount of slurry application. Under such a program, major streets such as Wilson and Clarendon would be repaved after 7-10 years, neighborhood principal streets every 15-20 years, and low-travel streets 25-30 years, with a coating of slurry seal 7-8 years after a repaving. To extend the repaving cycle, the County last year applied coatings of a latex/micro surface to certain arterials. This was viewed as successful and a larger amount is planned for this season. The Tier 1 level for PayGo includes funding for about 28 lane miles of repaving (about 5 fewer than last year), 35 lane miles of slurry and 10.5 miles of latex/micro, which is said to reflect a 24 or 26 year cycle. The repaving portion includes 2.3 lane miles (about 7 blocks) for repaving streets that previously went unrepaired because they lacked curb and gutter. This reflects the reversal of the prior policy to not repave such streets, but may have been netted against the required paving rather than being a makeup for past deferrals. Tier 2 would provide an additional $2.1 million for additional paving and slurry. While the Manager's budget states that Tier 1 and Tier 2 would represent 24 or 26 year and 15 year cycles, respectively, this is inconsistent with other statements that full funding of a 15 year cycle would require 64 lane miles of repaving and a similar amount of slurry application. Further, Tier 1 represents a reduction of repaving as compared to 2007 and the lowest since 2000 except for the very low level in 2006. What is the appropriate level of maintenance? The Fiscal Affairs Advisory Commission (FAAC) recommended funding both Tier 1 and Tier 2 maintenance. The idea of meeting specific street quality standards rather than an arbitrary cycle was discussed at a County Board work session. It is likely that some combination of a regular cycle plus regular monitoring of street conditions is desirable. A planned regular cycle can reduce the likelihood of many streets falling to low levels all at once and requiring a major infusion of funds. If a long paving cycle such as 24-26 years is chosen, additional slurry applications and more monitoring would be required so that street conditions do not drop to a level where costly repaving is required rather than less costly slurry. Furthermore, the proposed amounts of repaving seem to fall short of even a 24 year average cycle, which would require 40 lane miles of repaving. Finally, the deficit from the very low maintenance in 2006 has not been made up.

The R&E Committee therefore recommends that funding for the repaving/slurry program be increased to $200,000 above that included in Tier 1. This could be allocated by staff to the highest priority repaving or slurry projects beyond those in Tier 1. $200,000 would fund about 2 lane miles of paying (8 blocks) or 29 lane miles of slurry, additional latex/micro surfacing or some combination of these. While the high level of taxes on transportation relative to transportation spending could easily justify funding at least half of Tier 2, some of the funding could come from eliminating the proposed Arlington subsidy for increased service on the 38B Route from Farragut Square to Ballston. This route duplicates the Orange Line and takes 39 minutes, which means that it is useful mainly when there are long Orange Line delays. Other funding could come from reducing or eliminating parking subsidies to the commercial car-sharing businesses (Zipcar), which were provided with temporary free on-street parking as a startup incentive and now may cost the County up to $100,000 in lost parking meter revenue.

Lane Miles of Street Maintenance, Calendar Years 2000-2008

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008-Tier 1**	**2008-Tier 2**
Paving	**45**	**60**	**66**	**35**	**36**	**37**	**22**	**30.3**	**25.6**	**16**
PaveNC								**2.3**	**2.3**	
Slurry	**40**	**40**	**40**	**40**	**36**	**24**	**24**	**29.3**	**35**	**22**
Latex								**7**	**10.5**	
Rebuild								**.65**	**.88**	**1**
Cycle	**21**	**16**	**15**	**27**	**27**	**26**	**44**	**32**	**34?**	

Notes: Pave NC refers to paving streets previously left unpaved because of prior policy to not maintain streets lacking curb and gutter. Latex/micro surface is a longer lasting coating than slurry used only on arterials. Cycle years are estimated based on paving for 958 lane miles. The budget states that Tier 1 would reflect a 24 or 26 year cycle and Tier 2 would be a 15 year cycle.

The largest component of transportation spending is the $20 million Metro contribution. Arlington's net tax support for Metro, Metrobus and Metro Access operations has increased substantially in recent years, up from $11.8 million in FY 2005. The FY09 increase is $2.6 million or 1.9% after a $2.7 million or 18% increase in FY08. Much of the increase over this period is for Metrobus contributions, which have accounted for $7.5 million of the $8.2 million increase since 2005. In addition to rising fuel and operating costs, the increase in the Metrobus subsidy reflects increased bus service requested and paid for by Arlington, as following table illustrates:

Metro Contributions ($1,000s)	FY07	FY08	FY09
Metrobus	19,091	20,956	22,583
Metrorail	11,394	12,529	12,458
Reimbursable projects	285	182	96
MetroAccess	460	686	733
Other Metro expenses/shortfall	150	150	921

- State transit aid	-12,887	-14,225	-13,000
- Regional gas tax	-3,393	-2,465	-2,500
- Other	-115	0	0
Other sources	-285	-413	-1,291
Net tax support	14,700	17,400	20,000

The ART bus system operates as a complement to Metrobus routes. The County purchases buses, but contracts operations out to a private firm that shares the maintenance costs with the county. Ridership increased 13% in FY07 and the county hopes for 16% increases in FY08 and FY09. The most recent data show that weekday fares cover about 17% of operating costs, with the county covering most of the rest though some is accounted for by state aid and business contributions. Subsidies for weekend service are likely higher because of much lower ridership. Riders per service hour have increased from 19 in FY05 to 25 (preliminary) in FY07 with a goal of 26 riders per service hour in FY08. However, ART seems be suffering from two problems: even the higher ridership level of 25 passengers per hour is well short of the county goal of 35 riders per service hour and represents only about half the transit ridership standard commonly used of an 8.7 to 9 average passenger load (This is based on assuming an average ride of 10 minutes). Since the ART buses get only 2.2 to 3.5 miles per gallon, the low ridership on some routes means that these routes are bad for the global warming as they get fewer miles per gallon per passenger than even low mileage SUV's. The wide variation in ridership and low ridership on some routes suggests that the county should examine whether several routes with low ridership should eliminated or combined so as to reduce the operating subsidies. The other problem is that the heavy ridership on a few routes results in greater use than some of the older buses were designed to handle. Thus, several of the 28 foot (middle size) buses need to be replaced with larger heavier duty buses. A reasonable solution would be to use any savings from route consolidation and rationalization for the acquisition of new buses.

The proposed budget includes charging $3 for parking evenings and weekends at 3033 Wilson Blvd. This fee will generate significant controversy from Clarendon patrons reluctant to pay the fee, neighborhood residents concerned about the likely increase in non-resident parked cars on nearby streets, and area businesses concerned about adverse effects on their businesses at the same time they are asked to pay higher property taxes. The proposal is also inconsistent with the County's position that offering free parking here was a key part of its parking program. To the extent that fewer people patronize businesses in this area, the County may suffer some reduction in sales tax and other revenues. As a result of these issues, the anticipated $122,286 in net revenue is likely to be overly optimistic. The R&E Committee proposed budget drops this proposal.

The final major transportation issue this year is the proposed 12.5 cent commercial property tax to fund transportation projects. This proposal is problematic on both the revenue and expenditure sides. Combined with significant increases in assessed values of commercial property, the 12.5 additional cents would result in substantial increases in the total tax bills of many businesses. While large national businesses and large developers may be able to absorb or pass along these additional tax costs, such large tax increases could further undermine the economic situation of Arlington's smaller and family-owned businesses and restaurants. The tax would be imposed on many businesses that would receive no benefit from the proposed projects. Over time, this will drive businesses out of Arlington. Further, some of the proposed projects do not seem to be wise investments when a closer look is taken at the small number of users compared to relatively high costs. Therefore, the R&E Committee recommends that the Board consider only a much smaller increase in the commercial property tax, and then choose among the projects only those with the greatest priority and highest benefit-cost ratios.

E. Environmental Initiative (AIRE)

The Committee reviewed the performance of the Arlington Initiative to Reduce Emissions (AIRE), which was funded by the imposition of a new residential utility tax in FY08. As we noted in our report last year, there were elements of the program that we believed to be desirable, but we did not see the need to impose a $1.5 million annual tax to achieve a reduction in emissions. Moreover, we believed the tax to be regressive and impacting only residential users. As best we can determine, the County has achieved little no net reductions in emissions associated with operations under its control. Therefore we are recommending recision of the residential utility tax, while retaining base budget funding for $1 million in energy efficiency improvements to County facilities.

F. Fees and Taxes

Last year, we examined extensively the menu of tax and fee increases proposed by the Manager. We noted the propensity to propose a tax or a fee for a stated purpose, only to have that so-called 'dedicated funding' disappear into the general fund in future years. We also inquired as to the County's policies on 'cost recovery'. As it turned out, only DPRCR was using a systematic approach, even if you didn't agree with their assumptions. This year, fees are again rising, sometimes much faster than taxes, and maybe costs. We don't know. We do trust that County departments know the difference between a cost center and a profit center, and are not arbitrarily raising fees just to generate additional funding. In any case, the whole issue of user fees (and their assumed cost basis) would seem to be an area for suitable inquiry, either as part of the County's Performance Reviews, or on a test or sampling basis for the next auditor's report. Shown on the next few pages is a comprehensive list of taxes and fees that will be imposed in FY 09. We know ACCF members will focus on their areas of interest and ask the appropriate questions.

Tax and/or Fee	**FY07**	**FY08**	**Proposed FY09**	**Target Taxpayer**	**Remarks**

Real estate Tax	\$0.818/\$100	\$0.818/\$100	\$0.838/\$100	Residential + Commercial	Revenues would increase %5.7 million in FY2008 and \$11.8 million in FY2009. Effective rate increase of 6.2%**.**
Chain Bridge Svc District	\$0.0534	\$0.053/\$100	\$0.056/\$100	Residents in Chain Bridge Service District	Annual repayment for design and construction of sewer line extension. 23 parcels involved (22 last year).
2nd Road North Svc District	\$0.223	\$0.147/\$100	\$0.144/\$100	Residents in 2nd Road North Service District	6th year of 10-year repayment plan to pay for the construction of \$45,000 sewer line extension.
Rosslyn BID Service District	\$0.078	\$0.082	\$0.082	Commercial Properties in Designated Areas of Rosslyn	107 commercial parcels in the Rosslyn "core" comprising about 20 blocks.
Crystal City BID Service District	\$0.045	\$0.450	\$0.043	Commercial Properties in Certain Areas of Crystal City	An ad valorem property tax for 138 parcels in Crystal City. County gets 1% to offset admin costs.
Transportation Infrastructure	N/A	\$0	\$0.125/\$100	Properties used for or zoned commercial or industrial.	Enabled by passage of HB3202 in 2007 General Assembly. Max rate of \$0.25.
Personal Property Tax	\$5.00/\$100	\$5.00/\$100	\$5.00/\$100	Vehicles + tangible personal property + machinery & tools	Staff recommends another change in allocation of State funds, reducing subsidy for conventional fuel cars from 33% to 30% to enable continuing subsidy for greater number of "clean fuel" cars.
Household Solid Waste Fee	\$260.36	\$295.80	\$306.56	Households	Increase would be 3.6%, and produce \$9.86 million. Continues practice of 100% cost recovery.
Water and Sewer Rates	\$3.21 (water) \$4.79 (sewer)	\$3.34 (water) \$5.86 (sewer)	\$3.35 (water) \$7.19 (sewer)	All users	14.6% increase for combined. Average residential bill would increase by \$94/year. Funds Utilities Fund.

Water Service Connection Charges	See schedule in Board report.	Reference fee schedule in Board report.	Reference fee schedule in Board report.	Any private property water users	For installation/discontinuance of water services, e.g., meter relocation or fire line installation, to private properties. Most fees had not been increased for 10-20 years. Staff study performed. Project $300,000 in additional revenue, which goes to Utilities Fund.
Signs, Rezoning, and Various Permits	See schedule in Board report.	Reference schedule in Board report.	Reference schedule in Board report.	Developers.	Fee increases for building permits, rezoning, etc. to support the Enterprise Fund
PRCR Fees	See schedule in Board report.	See schedule in Board report.	See schedule in Board report.	Residents + non-resident users.	Some adult fees will increase 15%, preschool fees 8%. Fitness center fee goes from $145 to $170. Produces additional $125,000. Goal is “closer to cost recovery.”
Inspection Fee for Witnessing Fire System Tests	N/A	$85/hour	$130/hour	See Fire Prevention ordinance.	Will use hourly rate to ensure “maximum cost recovery.”
Taxicab application renewal, retest, license and inspection fees	N/A	See schedule in Board report.	See schedule in Board report.	Taxicab industry.	Will generate about $72,000 annually.
False Alarm Responses	N/A	$50 for third response, with $50 increments.	$100 for third response, with $50 increments.	Anyone with a security alarm system.	Will generate about $88,000 annually. A small number of users report an excessive number of false alarms
Ambulance Transport Fee	N/A	For BLS $300 and for ALS-1 $400. Mileage is $7.50/mile.	For BLS $400 and for ALS-1 $500. Mileage is $10.00/mile.	N/A	Present fees are “below allowable charges by Medicare . . . county was losing significant amount of revenue.” Will generate about $380,000.
Additions and Increases in ART Fees	N/A	Various, but one-way base fare is $1.25	Various, but one-way base fare is $1.35	ART bus users.	Additional revenues increase by about $20,000.

Penalty for impairing "public rights-of-way"	N/A	Fine not less than $10 nor more than $50.	Fine of not more than $250	Developers	Penalty would be a class-four misdemeanor. Projected revenue of $50,000.
Building, Electrical, and Plumbing/Gas Inspection Fees	See schedule in Board report.	See schedule in Board report.	See schedule in Board report.	Developers	Expected to raise $400,000 for the construction and building permits enterprise fund.
Stormwater/Sewer Infrastructure Tax	N/A	None	$0.14/$100	Countywide	County Board expected to choose this option in lieu of funding stormwater sewer improvements from the general fund after about five years of study.
Fire Prevention Inspection Fee	N/A	There is 'no charge' for inspections prior to issuing permit	$130/hour with minimum of $65, then in $32.50 increments	Permitted buildings	Expected to raise $379,000.

F. Fund Balances & Reserves

As noted previously, the Manager now appears more inclined to support the Committee's position on 'unreserved reserves' as shown in the following statements:

> From the FY 07 CAFR: "As of the end of the current fiscal year (2007), the County's governmental funds reported combined ending fund balances of $267.9MM, an increase of $20.6MM in comparison with the prior year. Approximately, 44.9% of this total amount ($120.3MM) constitutes *unreserved fund balance, which is available for spending at the government's discretion* (emphasis added). The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period ($36.9MM), 2) to build facilities from general obligation bond proceeds and PAYGO monies ($110.6MM).
>
> The general fund is the major governmental fund of the County. At the end of the current fiscal year (20O7), unreserved fund balance of the general fund was $110.4MM while total fund balance reached $115.5MM"

The Manager's Proposed Budget states the following:

> "An Operating Reserve will be maintained at no less than three percent of the County's General Fund Budget, with a goal of increasing the reserve or *reserve equivalent*

> (emphasis added) to five percent of the General Fund budget. Appropriations from the Operating Reserve may only be made by a vote of the County Board to meet a critical, unpredictable financial need. A "reserve equivalent" *may consist of discretionary funds which have been designated by the County for a non-essential purpose and which the County Board could reallocate for the same purposes as the General Fund Operating Reserve"* (emphasis added).

The significance of these statements should not be underestimated. Since 'unreserved reserves' are not legally obligated for other purposes, they can and should be counted by rating agencies as part of the County's operating reserves, and the County has acknowledged this possibility. However, in response to the 'suggestion' of one rating agency, the County has decided to add an additional $9 million to its operating reserve to bring it up to 3% of the operating budget., with plans to increase it to 5%. Consider that after the $9 million addition, the County's operating reserve (including its self-insurance reserve) will be on the order of $30 million.

The second issue that should be considered is the discretionary nature of these reserves. As the CAFR states, *"unreserved fund balance, which is available for spending at the government's discretion."* If they chose to, the Board could fund practically all of its Stormwater requirements with these funds, or make a substantial dent in the County's OPEB liability. Either of those steps could reduce or eliminate the need for a tax rate increase.

<u>G. Opportunities for Cost Savings</u>

As in years past, the Committee has suggested a 1% cost-savings be applied to the budget to draw to the attention of the Board and the Manager the need to become more cost-conscious. Last year, we offered the following opportunities:

1. Continue and amplify external 'performance reviews', particularly for high growth and major cost areas.
2. Review the necessity of maintaining and operating all of the 70 individual buildings the County owns, and the 21 leased facilities. Any consolidation would likely decrease both costs and emissions.
3. As a non-fiscal employee incentive, and as a way to reduce emissions, permit and encourage County employees to utilize ART transportation during working hours or on official business simply by showing their County ID cards. This would reduce the use of County vehicles, at a minimum.

As far as we know, none of these suggestions have been implemented, or even seriously considered. But maybe they weren't very good suggestions.

So this year we offer the following plusses and minuses in the event these 'opportunities' were overlooked in the rush to pull the budget together.

1. Reduce FTEs by an additional 48 positions, all of which have been vacant for a year or more. Cost savings: Est. $4 million.

2. Eliminate the additional Metro subsidy for increasing service frequency on one individual bus line – Rt. 38B, which runs from Farragut Square in DC to Ballston. County staff has not provided us with any back-up explaining this increase, which by itself represents over 2% of the total Metro subsidy. As discussed in the Transportation Section of this report, we do not

see the justification for this increase, especially on a bus route that essentially parallels the Orange Line. Cost savings: est. $420K.

3. For Information Technology the Manager has proposed $2M, for four described projects. This $2M represents a 186% increase in this budget line item over FY08. We propose reducing the Manager's proposal by $500K (down to $1.5M – still an increase of more than 100% over FY08). Cost savings: $500K

4. For Neighborhood Conservation ("NC"), we propose eliminating the PAYG funding. This $500K made its way into the annual General Fund budget several years ago as an initiative from the Fiscal Affairs Advisory Commission, and was initially proposed as a one-time supplemental funding for NC, over and above regular bond issue funding, in a non-bond fiscal year that did not have the same constraints the FY09 budget has. The biannual 2004 bond referendum for NC was $10M. We propose to return to prior County practice of only bonding NC expenditures, beginning in the upcoming FY09-14 Capital Improvement Program. Cost savings (from the base budget): $500K

5. The Commissioner of Revenue was given authority by the County Board to begin charging a fee to those out-of-state vehicles that do not obtain license plates within the allotted time. Enforcement, for not having Virginia plates, began in March 2008 by charging an estimated 4,000 vehicles $100.00. The revenue estimate reflects that some individuals will elect to obtain Virginia vehicle registration. There are also an estimated additional 1,000 vehicles with out-of-state plates that are not yet being assessed Arlington personal property tax. If only half of these vehicles are identified and taxed, it would provide additional $200K revenue to the County. Estimated Revenue Increase: $200K.

6. As mentioned last year, the County has appeared to let its Performance Review initiative become moribund. Perhaps it was originally intended only as a 'Chairman's Prerogative', but it did produce some useful and detailed analysis of County operations at the jail and the permitting process. This initiative should be invigorated this year, and the following 'candidates' are offered for review:

A. Street Paving and Facilities Maintenance
B. Employee Compensation and Competitiveness
C. Accumulation and Application of 'Unreserved' Reserves
D. Building Consolidation
E. Fire and Sheriff Overtime Costs, which exceeded $2.9 million in FY

Estimated Savings: TBD

7. Update assessments for additions, remodeling, etc. We noted last year that testimony to the Board revealed a 'substantial' backlog in the assessor's office of properties whose assessments had not been updated to reflect improvements and additions to the property. We are advised that while this backlog has been reduced, 'a significant number still remain'. While we are assured that the backlog is being reduced, and that major improvements are reviewed as a priority, the fact remains that the two vacancies authorized for additional assessors have not been filled (although interns have been assigned to help with the backlog.) As a matter of equity and everyone paying their fair share and with property tax rates due to rise, this backlog needs to be reduced as a priority. Estimated Revenue Increase: TBD

H. Report of Civic Federation Schools Committee on the Arlington Public Schools Proposed FY2009 Budget

INTRODUCTION/SUMMARY

The Arlington Public Schools FY2009 proposed budget that will be presented to the School Board and the public as an information item on April 3, 2008, includes projected increases in revenues and expenditures of 4.3% over the FY2008 adopted budget, from $411 M to $430 M, for an estimated cost of $19,195 per student, up from last year's adopted budget of $18,563/student. It includes $21 M spread over 40 "Focused Improvements" (i.e., new programs and/or new expansions of existing programs) to be funded from a combination of reallocated one-time items from last year's budget and new funds. It also includes $700,000 in budget reductions that are yet to be determined, in order to bring it into balance.

Most significantly in this budget, we note that the Superintendent has not proceeded as aggressively as the County Manager in dealing with the need to meet the actuarial deficit in the financing of retired employee health benefits (commonly called "OPEB," for Other Post-Employment Benefits). This deficit is currently estimated at an annual unfunded liability of $13.6 M. It is our understanding that a plan to meet this need will be proposed as part of the FY2010 budget. Given the large size of the required additional annual contribution, we believe that it is prudent to put aside a much larger amount than is proposed as an addition to the current reserve for this purpose.

Consequently, we recommend funding $14.6 M of the proposed $20.9 M in Focused Improvements, and reserving the remaining $6.3 M for OPEB. The "improvements" we recommend funding can be generally summarized as follows:

- ✓ The proposed 2.2% across-the-board salary adjustment and increasing the retirement match for all employees from 1.7% to 2.0% (cost: $7 M).

- ✓ The proposals regarding HVAC systems, cafeteria equipment maintenance, the capital reserve and completion of Washington-Lee High School (cost: $5.2 M).

- ✓ About a dozen other of the 40 proposals that appear to either be legally required or necessary continuations of programs already underway (cost: $2.4 M)

For the most part, we consider the other proposals for focused improvements, regardless of their intrinsic merit, to be less important than making significant progress on meeting our obligation to fully fund the actuarial requirement of our retiree health benefits on an annual basis. Our recommendation would provide $6.3 M for this purpose. When added to the current reserve of $3.8 M and the proposed additional contribution of $0.45 M in the current budget, our recommendations would produce an OPEB reserve fund of $10.6 M, or about 78% of the $13.6 M unfunded liability for one year. We look forward to proposals next year to reduce this pressure on the school system's operating budget.

We also have qualms about the budget's justification of new proposals by attributing them to various parts of the Strategic Plan, such as "Rising Achievement," "Responsive Education," "Effective Relationships" and "Essential Support." These categories are so general that they can seem to justify almost anything. This year's 40 separate new proposals are not so easily justified simply by attributing such labels to them.

Budget requests for additional funds should: (1) identify a problem, (2) describe its extent and seriousness, (3) describe how the requested funds are to be used to address the problem, and (4) describe the anticipated results from the use of the additional resources requested.

ALL FUNDS SUMMARY OF RECOMMENDATIONS A basic summary of the elements of our recommendations is as follows:

Revenues

$348,723,944	County Transfer
$ 1,310,916	Re-Estimated County Revenue (APS Share)
$ 2,500,000	Carry Forward/Budget Savings
$ 51,041,432	Estimated State Revenues - sales tax & other
$ 14,191,898	Estimated Federal Revenue
$ 11,994,890	Estimated Other Revenue
$429,763,080	TOTAL

Expenditures

$342,896,272	(Operating fund) (APS proposed budget is $6 M more)
$ 13,624,437	(Community activities) (APS proposed budget is $ 15,400 more)
$ 6,033,593	(Cafeteria fund) (APS proposed budget is $ 5,200 more)
$ 8,852,517	(Capital projects) (APS proposed budget is $347,000 more)
$ 3,650,000	(Comprehensive services)
$ 14,970,163	(Grants & restricted programs)
$ 33,374,607	(Debt service)
$ 0	(Capital reserve)
$ 6,361,492	(Schools Committee savings to be contributed to OPEB reserve)
$429,763,080	TOTAL

Reserves (not counted elsewhere)

$ 2,000,000	(reserve fund)
$ 10,561,492	(OPEB set-aside) (APS proposes $ 6.3 M less)
$ 12,561,492	TOTAL RESERVES

SPECIFIC RECOMMENDATIONS

The table below lists each of the Superintendent's new "focused improvements" and our recommendation concerning it. A "Y" indicates we recommend full funding, an "N" indicates we recommend not funding it this year, and a dollar figure indicates a lower level of funding we recommend. Following the table is a brief discussion of our reasoning, and our recommendations regarding how the budget is presented.

Proposed Initiative	**Cost**	**Recommend**	**Comment**

Proposed Initiative	**Cost**	**Recommend**	**Comment**
Compensation Adjustment	**$ 8,328,781**		
2.2% COLA	$ 6,256,842	Y	
Delete Longevity, Compress A, C & X Scales	$ 260,000	N	
Increase retirement match from 1.7% to 2.3% of salary	$ 1,501,939	$ 750,970	Increase match to 2.0%, not 2.3%
Retention bonuses/ hard-to-fill jobs	$ 40,000	Y	
School psychology interns	$ 16,000	N	
CAP, extend pay bonus to non-teaching staff	$ 254,000	N	Limit to teachers, not central staff
World Languages	**$ 1,803,000**		
Chinese & Arabic Classes	$ 175,000	Y	
FLES @ 4 more elementary schools	$ 1,466,000	N	
Middle School Electives (more)	$ 162,000	N	
Achievement Gap	**$ 219,925**		
Even Start Literacy Program	$ 100,000	N	
1 new VPI Class	$ 119,925	Y	
Internet Safety Training	$ 14,000	N	
Cultrl Competence Training	**$ 126,000**	N	

Proposed Initiative	**Cost**	**Recommend**	**Comment**
HVAC Needs	**$ 2,750,000**		
System-wide needs	$ 2,600,000	Y	
HVAC techs/ contract svcs	$ 150,000	Y	
Facilities	**$ 3,540,551**		
Cafeteria equip repair & maint	$ 100,000	Y	
Capital Reserve	$ 1,473,551	Y	
2nd Shift Maintenance Suprvsrs	$ 0	Y	
Planetarium Review	$ 17,000	N	Should be done with existing funds
Remaining funds for W-L	$ 500,000	Y	
Arlington Mill lease/bld-out	$ 1,000,000	N	Too late to be used this year; consider in next year's budget.
Security/vistr mgmt system	$ 450,000	Y	
Environment	**$ 256,140**		
Recycling Services	$ 50,000	N	
Transportation Demand Mgmt	$ 206,140	N	

Technology	**$ 2,037,842**		
Assistive services & devices	$ 38,000	Y	
EZ Communicator/Dialer	$ 97,725	N	
STARS support	$ 602,142	Y	
Systemic Computr replcmnt cycle (1st yr of 3yr lease)	$ 1,249,975	$625,000	Use 4 or 5 year cycle instead of 3 years
Web-based grade book	$ 50,000	N	
Other	**$ 1,315,000**		
Athletic trainer stipends	$ 13,350	Y	
Career Cntr IEP counseling needs	$ 17,200	N	
Exemplary projects enhancements	$ 0	Y	
High School Assistant registrars	$ 54,000	N	
Additional 4.5 MIRTs	$ 387,000	N	
Add'l 2.5 Gftd/Talent Resource teachers	$ 215,000	N	
Humanities project	$ 5,000	N	
CPI for materials & supplies (4.5%)	$ 233,000	Y	
Ad'l Art Supplies (elem schls)	$ 98,720	N	
OPEB reserve	$ 450,000	Y	
Services for homeless students	$ 43,000	N	
Proposed Initiative	**Cost**	**Recommend**	**Comment**
Capital Reserve	**$ 347,000**	N	
TOTAL	**$20,938,765**	$14,577,274	Savings: $6,361,491

Discussion of Reasoning for Recommendations

1. Compensation.

We believe a 2.2% across-the-board salary adjustment (formerly known as a COLA) is appropriate this year, as starting salaries for teacher pay scales have begun to fall below 2nd or 3rd in the region. Similarly, we trust improving the retirement match to 2% (from 1.7%) will help us remain competitive in this area. In order to save as much money as possible for the OPEB reserve, we do not recommend the School Board's last-minute effort to raise the match to 2.3%. Bonuses for hard-to-fill positions seem necessary to solve the problem of frequent vacancies in highly skilled trades.

2. HVAC/Facilities/Capital Reserve and Projects Underway

We believe repair and maintenance of HVAC systems, particularly in schools whose rebuilding has been delayed, is a necessary infrastructure investment to keep the schools operating. Similarly, repair and maintenance of cafeteria equipment is necessary due to the move to on-site lunch preparation at each school. The completion of Washington-Lee High School should not be delayed, and continued funding of the capital reserve is prudent in light of the likely necessity of delaying the rebuilding of facilities previously expected to begin in the next few years.

3. Other Improvements

We recommend funding the proposal for the Chinese and Arabic language programs because they move our schools in the direction of modern trends in world commerce and politics; therefore, they should be supported in their fledgling, second year.

We recommend funding the proposal for the STARS computer system because it is an ongoing program that must be supported and made to work. As indicated in Section 5 below, however, we have reservations about continued investment in -- and reliance on -- STARS. We recommend re-examining our computer system requirements and how to address them. Similarly, the proposal to replace computers on a system-wide basis on a 3-year cycle appears able to be stretched to 4 or 5 years, and we recommended reducing funding of this item on that basis.

We recommend funding the Superintendent's proposal to increase funding of materials and supplies by the regional CPI of 4.5% to reflect the impact of inflation on necessary items.

And for obvious reasons, we recommend funding the $0.45 M the Superintendent has proposed for the OPEB reserve (for retiree health benefits).

With respect to the two dozen other "focused improvements" that the Superintendent proposed that we do not recommend funding this year, there were different views on the relative merits of these programs, but there was unanimous agreement that they are not as important as addressing the school system's unfunded annual OPEB liability.

4. Comments on the Budget Presentation

The proposed budget is silent on what the mix of reallocated and new funds will be; this is a surprising and disappointing change from last year, when the proposed budget clearly specified what was "new" money and what "redirected" funds were being spent on. We recommend that, in future years, the Superintendent resume last year's format of clearly spelling out which new initiatives he proposes to fund with revenue increases and which will be funded with budget savings or redirection.

Also, the FY08 budget had performance measures for some departments; this year, there are no performance measures for any department. We urge that the performance measures be reinstated for next year and included for all departments. Further, staff would be well-served to solicit input from school committees such as ACI, A&E, etc. about what meaningful measures would be.

In addition, as we began to look this year at the base budget, we noticed that the Personnel Services Department budget (p. 311) proposed expenditures that are actually for certain system-wide salaries and staff development, but were listed as if they applied only to the Personnel Services Office. For future years, we recommend breaking out more clearly in the base budget what costs are for system-wide funds, and what costs are unique to specific offices or departments.

5. Comments on the Information Services Department and the Baseline Budget

Last year, the Superintendent proposed $ 0.41 M in redirected and new funds to begin creating a "data warehouse" that would integrate various system-wide data management functions (FY08 budget, p. 29). We note with dismay that this year's budget states that a priority for the Information Systems office is to "commence development of a data warehouse" (FY09 budget, p. 361). The FY09 budget book does not indicate how much funding is proposed for this project, or what progress, if any, has been made on it to date. In the meantime the state has made available a free system (Educational Information Management System) that allows school personnel to perform many of the same functions as the data warehouse. The budget should show with greater clarity what happened to the $0.41 M from the FY08 budget for this project last year; what funds, if any, will be expended on it this year; and what specifically APS needs to develop separately from what is already available from the state. Also, at an employee work session with the School Board in February, issues were raised about the STARS system's handling of basic payroll functions, such as, its apparent inability to show hourly and overtime rates on pay stubs, and difficulties correcting payroll errors. Further we understand implementation of some parts of the system has been delayed by at least 3 months. We suggest it may be time for a work session to cover lessons learned about implementation of the student information system and STARS and consider more carefully where we are going.

With the closing of the inventory/supplies warehouse last July, APS shifted to just-in-time delivery. We understand that computer equipment was delivered to at least one elementary school at the beginning of the school year and still has not been setup. This causes us to wonder if the equipment was really needed in the first place, how widespread the problem is, and if funds could have been better utilized.

Approved by the Schools Committee:

Herschel Kanter
Roye Lowry
Roger Meyer
Tim Wise
Beth Wolffe, Chairwoman

Arlington County Civic Federation FY2009 Budget Resolutions

Fiscal

1. Whereas Arlington County has advertised a real estate tax rate increase of $0.02 to $0.838 per $100 of assessed value, and if adopted would result in an average increase in property taxes of $106,

And whereas the Committee after due inquiry believes that required expenses can be funded from the Manager's proposed base budget,

Therefore, be it resolved that the Federation recommends that the Board not adopt an increase the real estate tax rate.

2. Whereas Arlington County has advertised an increase in the real estate tax rate of $0.014 to fund a new Stormwater District Tax,

And whereas the Committee believes that Stormwater costs can and should be funded from the base budget, carryover/PAYGO and bonds;

Therefore, be it resolved that the Federation does not recommend imposition of a new tax to fund Stormwater requirements.

3. Whereas the Manager proposes to continue a $1.5 million per year residential utility tax to fund reductions in emissions in Arlington County through an 'AIRE program;

And whereas the Committee after due inquiry has concluded that such a tax is unnecessary and the AIRE program to date has not achieved any net reduction in emissions,

Therefore, be it resolved that the Federation recommends recision of the residential utility tax while retaining base budget funding for approximately $1 million in energy efficiency improvements

4. Whereas the County's repaving and road maintenance has fallen well behind its normal levels per year in recent years, and whereas the Committee does not believe that amounts in the base budget and the proposed policy option are adequate to restore street maintenance to a more normal and desirable level,

Therefore be it resolved that the Federation recommends an additional $200K for the purpose of paving and street maintenance, to be funded from the base budget and/or 'unreserved' reserves;

6. Whereas the Manager has proposed a program to reduce the County's future health care liabilities resulting in a substantial reduction in current costs and future liabilities,
And whereas the Manager has proposed a net increase of $2.4 million to fund the reduced OPEB liability,
And whereas the County has previously set aside reserves for the same purpose,
And whereas the County has indicated its intention to set up a 'trust fund' for future health care liabilities,

Therefore be it resolved that the Federation agrees with and commends the Manager for dealing in an expeditious manner with this liability.

7. Whereas the Manager proposes to increase retirement benefits by approximately $7 million a year,
And whereas such action would result in a substantial current and future liability
And whereas there presently is insufficient public information available to determine if such an action is warranted,

Therefore be it resolved that the Federation recommends that the Board immediately provide for an independent and expert study of relative employee compensation and benefits in the DC Metropolitan area,

And be it further resolved further that in lieu of a $7 million expenditure this year that the base budget be increased by $3.4 million as for funding such study and as a ‘retirement enhancement reserve’
.
8. Whereas the Revenue Sharing Agreement between the County and Arlington Public Schools (APS) provides for APS to receive as its share an amount equal to 48.1% of certain defined local tax revenues, including the real estate property tax, and whereas the Schools Committee has submitted a report that is consistent with budget recommended by the R&E Committee,

Therefore, be it resolved that the Federation recommends adoption of the Schools Committee report and its recommendations.

9. Whereas the committee believes the foregoing recommendations can be accommodated within the County’s resources and proposed budget for FY2008 and that it is important to indicate how this could be accomplished,

Therefore, be it resolved that the proposed increases or decreases in revenues and expenditures be accomplished by the following measures:

A. Adding $1.8MM to revenues from the FY08 mid-year carryover.
B. Adding $600K to revenues from the FY08 3rd and 4th quarter carryover.
C. Adding $200K to revenues from projected out of state fees
D. Decreasing revenues by $1.5 million from the elimination of the residential utility tax.
E. Decreasing revenues by $100K by the elimination of DHS parking fees
F. Using base budget, carryover and bond funds to pay for certain Stormwater costs reducing additional FY09Stormwater costs to 2.2 million
G. Funding a net OPEB contribution of $2.4 million
H. Funding a retirement enhancement reserve of $3.4 million
I. Funding a paving increase of $200K
J. Reducing NCAC base budget expenditures by $500K by using bond funding
K. Directing the Manager to allocate 1% of the operating budget to ‘savings’ of up to $4.8 million, at his discretion after considering ‘opportunities’ identified in this report.
L. Decreasing AIRE expenditures by $900K
M. Decreasing IT Maintenance Capital by $600K

Procedural

Whereas many of the recommendations of the ACCF's budget resolutions of April 5, 2005 and April 4, 2006 and April 3, 2007 have not been addressed,

And whereas we believe that these recommendations merit the serious consideration and/or adoption by staff,

1. Therefore, be it resolved that the following recommendations from the ACCF be included for consideration and/or adoption by the County:

General Fund Budget Presentation

A. Whenever a new spending proposal is presented which will require expenditures in more than one fiscal year, it should be accompanied by a "fiscal impact" analysis for future fiscal years. This would be particularly helpful for items such as OPEB and the proposed increases in the retirement multipliers
B. A new table should be added to the proposed budget to highlight changes between the adopted and revised versions of the current fiscal year budget
C. The County should include reasonable estimates of carryover when projecting revenues for future fiscal years

Budget Management

D. Rather than use increases or decreases in property values as a reference for budget growth, the County should consider and adopt budget guidelines appropriate to the County's population growth and increases or decreases in the cost of County materials and services.
E. The County Board should direct the County Manager to change the County's external auditor and the County's financial advisor at least every five years to ensure impartiality.
F. The County Board should issue bonds only on terms related to the depreciation schedule of the assets purchased, and specifically not issue bonds for a term exceeding twenty years and not issue variable rate bonds for any assets which do not have revenue streams projected to be in excess of reasonable interest rate projections.

Capital Budgets

G. Routine maintenance and operating costs for all new County facilities and major capital equipment purchases must be shown in the fiscal impact statements when these facilities and purchases are approved by the County Board and/or the voters of Arlington. They should also be routinely included in the budget presentation of each department.

Other

H. Whenever the County creates "entitlement" programs, such as the tax exemption/deferral for aged and/or disabled residents or homeowner's grants, the maximum usage effect on revenues and expenditures (including administrative 'delivery costs') should be provided as well as projected effects.

I. Immediately re-institute the ‘Greenrod’ or similar provision of prior years whereby budget proposals would identify programs where recent levels of staffing and funding may no longer be required to provide reasonable levels of service.
J. Not only identify, but recommend steps the County should take to control and/or reduce costs, especially for budget categories experiencing substantial growth over and above the inflation and population growth rates.
K. The Manager should desist from the practice of underfunding or not including essential repairs and maintenance in the Paygo category and base budget.
L. Departments should include their ‘essential’ (i.e., required in the following fiscal year) repair and maintenance requirements in their proposed departmental budgets to the Manager; longer-term requirements should be reflected in the capital budget and/or CIP.
M. The Manager should desist from including ‘unfunded initiatives’ in the budget presentation especially if they are used as justification for the imposition of permanent new taxes and fees. These items should be included in the base budget if they are deemed essential.
N. For the sake of transparency, the Manager should develop an ‘FTE equivalent’ for all contracted services and include it in the budget presentation
O. Review the high subsidy rate for ART and STAR; consider cutting back on trips or reorganizing and consolidating routes that have low load factors.
P. In its presentation of utility rate increases, the County should spell out how much of the proposed increases are for operating expenses, and how much is for debt service to pay for the new facilities.
Q. More than 20 states have either constructed or are considering implementation of searchable online grant and contract database, emulating the federal government’s effort, i.e., the Federal Funding Accountability and Transparency Act. At present, only limited data is available to citizens of how their tax dollars and fees are being spent. The R&E Committee would be pleased to work with the county’s financial staff in designing a robust database.
R. The Proposed Budget (PB) should have more detail on employee compensation – including several years of historical data in order to highlight trends in this largest of County expenditures.
S. The PB should either contain more cross references (or an index) in order to make following up on proposals for particular topics easier. For example, in order to get the full picture about what is being proposed for infrastructure maintenance, it is necessary to the County Manager’s Message, Tab F (Environmental Services), and Tab 0 (PAYGO). Cross-indexing to the CIP would also help on this topic.
T. More use should be made for performance measures that indicate <u>results</u>, e.g., the measured change stream water quality, rather than numbers of actions taken.

Respectfully submitted April 1, 2008

Revenues & Expenditures Committee, Arlington County Civic Federation

Burt Bostwick, Chair

Gerry Auten, Member (also Chair of Transportation Committee)

Frank Emerson, Member (also member of FAAC and ACCF Executive Committee)

Roye Lowry, Member (also member of Schools Committee)

Wayne Kubicki, Member (Arlington County Taxpayers Association)

Roger Morton, Member (Highland Park-Overlee Knolls Civic Association)

Tim Wise, Member (also member of the Schools Committee)