ACCF R&E REPORT TO THE MEMBERSHIP ON THE COUNTY MANAGER'S FISCAL YEAR 2007 PROPOSED BUDGET

I. Executive Summary and Table of Contents

SUMMARY OF FISCAL RECOMMENDATIONS
(in millions of dollars with rounding)

REVENUES:

A. County Manager's BASE BUDGET……………………………………………$833.1
B. FY'05 Carryover…………………………………………………….………... +4.2
D. FY'06 Revenue Re-estimations…………………………………...……... +1.4
E. FY07 Assessments Adjustment………………………………………………+6.9
F. Manager's Reserve for to Real Estate Tax Relief/Other……………………… .(26.1)

TOTAL..……….$819.5

EXPENDITURES:

1. County Manager's BASE BUDGET (County Services and Debt Service)………………………..………………….…………………………..…$497.2
2. Transfer to the Schools (Manager's Base Budget)…………...……….309.8
Less: Additional $0.04 cut in tax rate…………………………… (9.8)
Add back: FY07 Assessments Adjustment………………………..3.4
Net School Transfer:……………………………………………303.4
3. Public Safety………………………………………………………………… .0.74
4. Pay-as-You-Go Capital (Street Repair and Maintenance) …………………..……..1.1
5. Consolidation of Reserve Allocations……………………………………………..(3.5)
6. Manager's 'Efficiency Rebate' (1% of Operating Costs)……………………..…...(4.3)

TOTAL………$794.6

Surplus of Revenues over Expenditures………………………………………………………………………..24.9

NET Committee Balancing Recommendations……………………………………..…**24.9**
(Additional $0.04 cut in tax rate = $20.1 million + $5 million to cover estimation variables, contingencies or additional tax cut relief, at the Board and Manager's discretion.)

Comment

The committee's efforts focused on two areas: the proposed tax cut, and expenditures. We are recommending a cut in the real estate tax rate of $0.09, only $0.04 over what the Manager has already provided, and $0.02 less than the cut recommended last year. This will still result in an increase of $246 in the average real estate tax payment over CY 2006, but we believe it is achievable and desirable.

We also note that the Board has advertised a potential increase in the personal property tax rate from $4.40 to $5.00 per $100 of assessed value, estimated to raise an additional $9.5 million in revenues. As this increase was not provided for nor requested in the Manager's base budget, we see no compelling reason to support it.

We really hoped that our analysis would be able to identify large and obvious cuts that everyone could agree to. That was unrealistic. Likewise, we considered suggested increases in the budget, but could find few compelling reasons to add to what the Manager had already proposed, other than an increase of $740,000 for the Police Department and $1.1 million to fund basic repairs and maintenance of Arlington streets.

A very important part of our recommendations has been to ask the Manager to start focusing on savings and cost-controls, something recent budgets have largely neglected. Sustainability concerns suggest that the County can no longer simply rely on increased assessments and 'other sources of revenue', but must balance that approach with a serious and immediate effort to control expenditures. To date, the Manager has been diligent in warning about cost increases and 'sustainability', but has offered very little in the way of controlling or reducing these costs. The Manager and his staff are in the best position by far to recommend cost controls and/or reductions, and we should expect them to do so. The committees' recommendation of a $4.3 million 'efficiency rebate' (approximately 1% of operating costs) is intended to draw the Board's and the Manager's attention to this need.

We view this report as a 'work in progress'. We know we have to engage other ACCF committees more proactively, and we know we have to develop expertise within the R&E Committee at least to the level of the Fiscal Affairs Advisory Commission. We have already begun to recruit new committee members with specific expertise, and will constitute the committee on a 12-month basis, reporting and informing the ACCF membership on a regular basis.

Table of Contents

Executive Summary and Table of Contents 1-2

Overview and Committee Review Process 3-4

Arlington Profile and Statistics FY2001-FY2006 4-5

Reviewed Program Areas

- Transportation 5-8
- Utilities 8-10
- Fund Balances and Reserves 10-11
- Affordable Housing 11-14
- Arlington County Police Department Staffing (ACCF Resolution of 2/1/05) 14
- Other cost categories as a group 14-15
- Schools Committee Report 15-22

Committee Recommendations (Resolutions to be Adopted) 23-26

II. Overview and Committee Review Process

Overview

This year represents a 'changing of the guard' for the R&E Committee. After having served the Civic Federation and the community for many years as keen budget observers and analysts, Bob Atkins and Randy Swart have handed off to a new team. The change requires a different approach and will result in a report different in structure and format than the ACCF membership may be accustomed to. Our report focuses on three areas:

- Macro and comparative factors
- Main Budget Drivers and Cost Centers
- County Policies and Procedures

Given the recent increase in assessments and its disproportionate impact on residential homeowners, we also wanted to try, to the extent possible, to find ways to cut the tax rate and decrease the tax burden on the residential homeowner.

It has explicitly not been our intention to provide an alternative budget. Rather the effort has been to inquire, analyze and report on areas of major growth in costs, hopefully with the result of identifying areas where improvements and efficiencies can be made. As in the past, we have arrived at a suggested cut in the tax rate (but unfortunately, not in anyone's taxes) that we believe is achievable and desirable.

Committee Review Process

- We wanted to take a look at the budget in terms of 'macro' and comparative factors including economic and demographic trends, inflation, previous year's budgets and comparisons with neighboring jurisdictions.
- Given the newness of the committee and its limited resources, we believed it prudent to focus on major 'expense pressures' as identified by the Manager in his report to the Board of November 7, 2005, and other areas where costs were rapidly increasing. This year, the Financial Affairs Advisory Committee (FAAC) also shifted from a departmental approach to a focus on the 'Policy Decision Points' identified by the Manager at his report to the Commissions on January 5, 2006. Consequently, our report will not include the level of detail as in previous years.
- The review process focused on the a number 'budget drivers' identified in the Manager's Proposed Budget for FY 2007, i.e., transportation, utilities, operating expenses, capital expenditures and debt service, cash balances and reserves, personnel and affordable housing. These are budget categories that either compose a large part of the budget or have experienced significant increases in recent years. Not all of these areas have been addressed to the extent we had hoped for due to the competing responsibilities of several committee members.
- We asked committee members to first conduct a detailed analysis comparing year-to-year changes, as well as comparisons with county population, inflation and nearby

jurisdictions. The intent was to take a clear hard look at both revenues and expenditures. The suggested analysis was posted on the ACCF web site.

- The Schools funding level would follow the newly revised Revenue Sharing Agreement between the County Manager and the School Superintendent, presently set at 47.7% of local tax revenues (as defined);
- At the initial meeting of the new R&E Committee with the Department of Management and Finance (DMF) staff, it was clear that DMF had a particularly heavy workload at this time of year, and worked mainly with the Board-appointed Financial Affairs Advisory Committee (FAAC) to obtain the County's principal input on budget matters. Given the R&E's information needs and DMF staff limitations, we thought a reasonable solution would be to 'piggy back' as much as possible on FAAC meetings and information. R&E Committee members have attended all the regularly scheduled meetings of the FAAC with county staff in recent weeks.
- We believe that constituting the R&E committee for the few months of the budget season really does not give committee members sufficient time to delve into the complexities of the budget and the other financial reports (e.g., Comprehensive Annual Financial Report (CAFR), the 'audited' financial statements of the county; and the bi-annual Capital Improvement Program (CIP). As a result, it was decided that the Committee would meet monthly to the extent possible and provide regular reports to the membership.
- Following information gathering and analysis, the Committee would recommend a real estate tax rate and/or other rate changes that would balance the resulting budget. This is our standard procedure with the focus on taxing the amount required to fund County operations, regardless of changes in real estate assessments.

III. Arlington Profile and Statistics FY2001-FY2006

A. Statistical – selected indicators

Fiscal Years	2001	2002	2003	2004	2005	2006 (est.)
Population	189,983	193,754	196,925	198,739	198,267	200,226
County government expenditures ($millions)	$664.9	$730.6	$793.9	$834.4	$908.9	$917.3
Expenditures per capita	$3,499	$3,768	$4,030	$4,193	$4,590	$4,585
Increase in average property taxes	$222	$380	$414	$451	$482	$734

Source: Population - CAFR for Year Ending June 30, 2005, Table XIV

B. What's Distinct About Arlington

1. Proximity to the Nation's Capital (approximately 28% of Arlington jobs are with federal, state and local government agencies.)
2. Relative Affluence (per capita income of $60,000+, highest in Virginia)
3. Strong Commercial Base (Crystal City, Rosslyn and Ballston corridors)
4. Static or Declining Population (recent non-County figures show an actual decline in population.)
5. Huge Daytime Population (At place employment = 199,371, almost equal to the residential population.)

6. Twenty-one percent (21%) of Arlington workers live in Arlington; thirty-one percent (31%) live in Fairfax County.
7. Very low unemployment (2.6%)
8. Declining School Population
9. Expensive Housing (average home = $541,800 in 2006)
10. Small & mature; most public infrastructure in place (only 26 sq mi)
11. Government Ownership – Overall the federal government owns 17% of the land in Arlington County. Therefore, the direct and indirect impact of the federal presence on the Arlington real estate market is estimated at 26.8 million square feet or two-thirds of all office space.
 (Source: The Federal Presence in the Urban Village, Arlington Economic Development, Issue Paper #3, December 2003)

IV. Reviewed Program Areas

As previously noted, the committee chose this year to focus on 'principal budget drivers' as identified by the Manager, as well as areas that have experienced substantial increases in recent years. We are indebted to committee members Gerry Auten, Frank Emerson, Roger Morton, and Tim Wise for their reports on the topics of transportation, utilities, reserves and balances and affordable housing respectively. Given continuity and hopefully additions to the committee, we would like to expand and improve these reports in future years.

A. Transportation

While most transportation projects are the responsibility of the Department of Environmental Services (DES), many projects are funded and managed by other programs. Within DES, most transportation projects are handled by four bureaus in the Transportation Division (Planning, Transit, Commuter Services, and Transportation Planning and Operations). Some transportation projects, however, are managed by the Water, Sewer and Streets Bureau and the Solid Waste Bureau in the Utilities and Environmental Policy Division. This structure is the result of a recent reorganization that placed transportation in DES. As a result of the division of responsibilities, it is difficult to determine the overall budget for transportation and even more difficult to ascertain longer term trends from budget documents.

Major Transportation Budget Items

Transportation (estimated)	FY05 actual	FY06 adopted	FY07 proposed	% Change from FY06
Transportation Division	11.1	9.9	11.8	19.1
Metro Contributions	11.8	13.0	14.7	13.0
Automotive Equipment Fund	14.2	12.6	13.7	8.7
Pay-go transportation	4.0	1.5	1.1**	Neg.
Neighborhood Conservation *	2.2	5.5	***	
Traffic Calming	2.3	***	***	
Pedestrian System	1.4	***	***	
Other Street Improvements	0.4	***	***	
Total transportation	47.4	42.5	41.3	

*Estimated portion of NCAC projects that are transportation related, including traffic calming and sidewalks.
**Pay-go transportation maintenance is an unfunded project for consideration in FY07.

**Not known as primarily from CIP budget, which is not yet available. Totals for FY06 and FY07 are not comparable because the CIP items are not included.

The most important budget issues seem to be street maintenance, contributions to Metro and WMATA, and major projects such as the Ballston Metro Stop, arterials projects and possible introduction of streetcars on Columbia Pike. The county has contracted consultants to draft a new Master Transportation Plan under the supervision of county staff and with the advice of a citizen advisory committee. Recommendations in this study may have future budget implications. The budget states that the top DES priority is to "*encourage and support the shift away from an automobile based network by improving other modes of transportation and making Arlington pedestrian friendly*." Decreased funding for street maintenance could be viewed as supporting this goal.

Funding for maintenance of the county's 958 lane miles of streets has been a problem for a number of years. While the budget states that the goal is to keep the county streets in "good" condition, many county streets are in relatively poor condition and in need of maintenance.[1] A basic maintenance program would include a coating of slurry seal after about 7 years and resurfacing after about 15-20 years (with some variation depending on vehicle loads). Such a program would require maintenance on about 1/7 of county streets each year, about 137 lane miles. The manager's FY07 budget includes no funding for maintenance, including street maintenance. While maintenance is one of the manager's "unfunded requests," the unfunded amount of $1.1 million for street maintenance would represent a 73% reduction from the FY05 budget even before allowing for substantial materials cost increases due to higher oil prices. There is a risk that some county streets are falling below acceptable conditions and may deteriorate to the point where complete rebuilding would be required at a 5-6 times higher cost.

It is recommended that at a minimum, maintenance be funded to achieve FY05 levels of 61.5 lane miles (see Performance Measures table below). In addition, the county needs to inventory the OCI rating of streets and develop a maintenance plan and a plan for funding necessary maintenance. Some maintenance can be funded in the capital budget, but some should be funded through pay-go capital to reduce costs and because the expected life of slurry seal is less than the 10 year standard for capital items. Thus, pay-go funding should be at least as high as FY05 levels and additional funds will be needed in the CIP budget.

As shown below, Arlington's net tax support for Metro, Metrobus and Metro Access operations will increase by $1.7 million or 13.1%. Based on ridership data and Arlington's contributions, the subsidy per trip is $0.19 for Metrorail and $1.36 for Metrobus. More than half of Arlington's share of the total subsidy is offset by the regional gas tax and state aid, which, in turn, is paid for by other taxes.   Since the county's payments determined by formulas, Arlington has little direct influence. In addition, the county is obligated to contribute $79.6 million over 6 years for capital improvements and plans to use bond funding and state grants for this purpose.

[1] The pavement condition rate decreased from 71 to 70 after 2004 on a scale of 1-100, with 70-75 considered "good". The stated goal is to keep this in the mid-70s. While the budget shows the condition staying at 70, the lack of maintenance means that street conditions will probably decline into the 60s by FY07.

WMATA contributions in $millions.	FY05 Actual	FY06 Adopted	FY07 proposed	FY07 increase	FY07 % increase
Metrorail	11.4	13.4	12.9	-0.6	-4.3%
Metrobus	15.1	16.4	18.3	1.9	+11.6%
Metro Access	.6	.5	.5	*	+0.5%
Total subsidy	27.2	30.7	32.0	+1.3	+4.2%
Less state aid	-13.0	-14.2	-14.2	0	0
Less regional gas tax	-2.1	-2.5	-2.5	0	0
Net tax support	11.8	13.0	14.7	+1.7	+13.1%

Arlington operates its own bus system ("ART") as a complement to Metrobus routes. The County purchases buses, but operations are contracted out to a private firm that shares the maintenance costs with the county. Ridership has been increasing (17% in FY05) as the system expanded and is expected to increase by about 2% in FY07. Total expenditures for FY07 are expected to be $4.251 million, an increase of 10.2%. Fares will cover 10.2% of expenditures, developer contributions 2.1% and state aid 6.2%. The remaining 81.4% of operating costs are subsidized from county general fund revenues. While the share covered by fares increased from 9.2% in FY06 and 5.0% in FY05, they still fall well short of the county's goal of 20% of costs or Metro's 35% of costs. Developer contributions (including the hospital's contribution) have fallen from $249,000 in FY05 to $90,000 in the FY07 budget. The County apparently is not planning on expanding the system, and the declining developer contributions and the low percentage of costs covered by fares suggests that the county should re-examine whether some low ridership routes should be cut back or re-organized.

As an alternative to Metro Access, Arlington provides its own subsidized ride program for ADA qualified residents. In recent years the number of eligible riders has been stable at about 1,100, but the number of trips has increased dramatically from 90,000 in FY04 to an expected 119,600 in FY07. Some of this increase may reflect a small number of users who benefit from 40-50 trips per month to Maryland destinations outside the Beltway, which can cost $20,000 a year or more for a few recipients. Currently, Paratransit fares are $2.00 per trip regardless of the destination. The budget proposes increasing fares to $2.50 for trips within Arlington (73% of trips), $3.00 for trips inside the Beltway in Virginia and DC (17% of trips), and $7.00 for other trips. This would increase revenue by $125,000 and may discourage overuse of the privilege for long trips. The county could consider limiting STAR trips to those inside Arlington or inside the Beltway in Virginia and DC. Those eligible for the program would then shift to the Metro Access program to which the county contributes, but which may be less costly for participants. Other jurisdictions generally rely on Metro Access to provide service outside their borders. In addition, to the STAR program, the county also has a subsidized Senior Transportation Program budgeted at $87,000.

As part of the new Master Transportation Plan and other development projects, County staff are examining an ambitious program of transportation projects including a new Ballston Metro Entrance ($50 million), a Columbia Pike streetcar system ($110-120 million), reconstruction of arterials and other county streets into "complete streets", a new parking administration, and major expansions of ART bus service into all neighborhoods. While some of these can obtain state or federal funding, they are likely to have significant future budget implications through additional bond issuance, debt service on the bonds, maintenance costs, and future staff requirements.

Transportation Performance Measures

Performance Measures	FY02	FY03	FY04	FY05	FY06 (adptd)	FY07 (prop)
Paving lane miles	66	35	36	37	15-23	17*
Slurry lane miles	40	40	36	24	30	
Tons of asphalt paving	50,600	28,622	34,809	38,876	20,000	40,000
Pavement condition (70-75=good)	71	71	71	70	70**	70**
Annual Metrorail trips (m)	56.278	59.655	61.146	63.592	64.864	66.162
Annual Metrobus trips (m)	11.614	12.195	12.463	12.961	13.221	13.491
Annual VRE trips (m)	0.759	0.865	0.969	0.983	0.993	1.003
Annual ART trips (m)	0.252	0.397	.675	0.789	0.892	0.911
Annual Metro Access trips	10,418	11,804	10,689	11,430	11,544	11,775
Annual STAR trips	59,485	74,829	89,649	108,809	114,249	119,690
ADA certified residents	1,257	1,267	1,060	1,052	1,100	1,200
Subsidy per STAR trip	$25.55	$26.99	$26.87	$26.14	$25.78	$27.00

*An unfunded request.
**May drop below 70 if maintenance funding is not increased.

.

B. Utilities

Water and Sanitary Sewers: water/sewer rates.

Water and sanitary sewer services are funded by user fees paid to the self-supporting Utilities Fund that is managed under the Department of Environmental Services (DES). (Storm sewers are a general fund program under the Water, Sewer and Streets Bureau.)

The County Manager’s report to the Board of March 10, 2006 (the “Report”) proposes a FY07 combined water and sewer rate of $8.00 per thousand gallons. This would be a 12.2% increase over the $7.13 rate for FY 06 and follows a 15% increase from FY 05 to FY 06.

A table of Estimated Annual Household Water/Sewer Cost (See Exhibit I) included in the Report indicates that annual household charges in Arlington are in the mid-range of those in the region. However, clear comparisons with other jurisdictions are difficult because Arlington’s charges are based simply on total water flow, whereas other jurisdictions use other formulas. Falls Church, for example (which is shown in the table as having the highest typical water-sewer charges) includes a fixed charge based on water meter size and a separate charge based on peak usage.

Language contained in the Report indicates, “Additional rate increases are projected to continue for the next five to 10 years at a rate of up to 15% due to several ongoing projects funded by the Utilities Fund.” (This implies a potential quadrupling of water / sewer rates over the next 10 years.) The projects to be funded with the additional revenues are mostly for wastewater treatment. According to the Capital Improvement Program (CIP) for FY 2005 to 2010 (and Water Pollution Control Plant (WPCP) Master Plan 2001 Update), about $234 million is to be spent, mostly for WPCP expansion capital, over the 2005 – 2010 period. An informal communication indicated that the largest share of this expenditure, which was projected in the CIP to take place in FY 2006, has not started and that the recently received bid for the work is significantly larger than estimated in the CIP. This matter was not discussed at the County Board's March 29 budget working session with DES. The major source of financing for the expansion is expected to be Commonwealth of Virginia Loan Funds.

In view of the recent and projected double-digit increases in rates, and the potential for a significant cost escalation of major capital projects, this area requires continuous monitoring by the County, and this committee will assist in the effort.

Utilities -- Average Annual Fees per Household (Source: CMFY07PB)							Average Annual % Increase	Average Annual % Increase	% Increase
	2002	2003/d	2004	2005	2006/a	Proposed 2007/a	2001-2006	2003-2006	2006-2007
Water/Sewer									
Arlington /b	366.40	376.00	424.00	496.00	570.40	640.00	9.26	14.90	12.20
Alexandria		579.00			673.00	687.00		5.14	2.08
Fairfax		362.00			400.00	418.00		3.38	4.50
Fairfax City		452.00			472.00	485.00		1.45	2.75
Falls Church		465.00			745.00	757.00		17.01	1.61
Loudoun		481.00			481.00	481.00		0.00	0.00
Prince William		548.00			681.00	699.00		7.51	2.64

a/ Source: County Board Agenda Item re: water/sewer rate increase, March 10, 2006

b/ Source: for FY 2000 thru 2005: FY 2006 Adopted Budget, p. 64

d/ Source: Proposed Budget FY 2004, p. 25. CY 2005 data are shown above as FY 2003

Solid Waste Management: refuse charges

The County's solid waste management program is under the Solid Waste Bureau (SWB) (p. F-18 ff. in the Proposed Budget). The SWB has a proposed $11.7 million budget funded mainly by more than $8 million in household refuse/recycling fees. A proposed increase in revenues for this program is the result of a 4.7% increase in the household refuse/recycling fee to a new annual rate of $260.36. A table on p. B-34 of the Proposed Budget suggests that, in CY 2005, Arlington's Solid-Waste/Recycling fee per household was the second lowest among the fees shown for 5 regional jurisdictions. However, straightforward comparisons with other jurisdictions are difficult: Not all local jurisdictions offer refuse service, and pickup costs can be expected to be higher in areas where the population is less dense than in Arlington. In addition, there are anecdotes of trash collection (including recycling) service being provided in a nearby jurisdiction for a price comparable to that charged in Arlington – but which includes two regular trash pickups per week.

Proposed FY 07 net tax support for the SWB is $2.9 million (approximately 25% of costs), a 7% increase. This is explained in part by the number of activities other than household refuse collection carried out by the SWB. These include leaf collection, sweeping and litter control, an earth products yard, and "customer service support" for Traffic Engineering programs including traffic signals and signs, streetlights, and parking meters. Net tax support increased 77 % from FY 05 "Actual" to FY 06 Adopted budgets, when expenditures increased 9.7% (and personnel costs rose 18.3%).

The recent and projected increases in the water and sewer fees are disturbing, especially in view of the conflicting CIP and budget information referred to above. The County's budget presentation would be more comprehensible if operating budgets, capital budgets and associated debt service for particular operations or projects were presented in a single chapter or section. For instance, the water/sewer operating budget is in Tab N, the related Paygo budget is in Tab O, and related major capital expenditures are in the CIP, a separate document. Yet all will affect the rates charged. It would be helpful if the County would spell out in its budget documents just how much of the proposed increases are for operating expenses, and how much is for debt service to pay for the new facilities.

C. Fund Balances & Reserves

The R&E Committee in last year's report and in its resolution adopted March 2006, noted that the County has been generating substantial 'fund balances', 'surpluses' and/or 'unrestricted reserves' for the past five years. Much of this has resulted from the County underestimating the increase in real estate assessments. These 'surpluses' are temporarily parked in certain reserve categories, and are 'distributed' during the annual 'closeout' exercise. The following table shows the level of these reserves in recent years.

	2001	**2002**	**2003**	**2004**	**2005**
'Unreserved' Reserves ($000)					
Self insurance	3,500	3,500	3,500	3,500	3,500
Operating reserves	12,500	12,600	13,400	14,400	15,200
Subsequent years	15,746	15,839	17,041	24,240	29,109
Supplemental					
Incomplete projects	29,149	27,024	21,241	15,497	16,466
TOTAL (Less Insurance & Operating Reserves)	44,895	42,863	38,282	39,737	45,575

In the June 30, 2005 CAFR, there was approximately $45 million in reserves, in two unrestricted categories, 'Designated for Subsequent Years Budget' and 'Designated for Incomplete Projects'. When the committee first saw those balances, we saw an opportunity to easily reduce the tax rate by the equivalent of $0.08 without any impact on revenues or expenditures. Alas, it was not to be. All but approximately $4.2 million had disappeared through the annual exercise known as 'closeout' (See Manager's report dated November 8, 2005, and entitled "Fiscal Year (FY) 2005 Closeout and Reappropriation into FY 2006". For FY06, the Manager notes that an increase of $22.4 million may result, as actual assessments are substantially higher than the County's original estimate. The County's estimate for growth in the assessment base for Calendar year 2007 is 5%, which is conservative but will likely also result in greater real estate revenues than are being forecast.

The reserves and surpluses referred to above are in addition to reserves of approximately $18,700,000 set aside annually for Operating Reserves and Self Insurance Reserves. These reserves have never been used.

Given that any budget process is an 'estimate', there is some justification for building in a cushion for contingencies or emergencies, and it's certainly better to have a surplus than an unexpected deficit. However, to the extent possible these contingencies should be accounted for up front and in the base budget, rather than serve as a 'discretionary' fund not subject to the rigors and transparency of a formal budget process.

We believe this process has been 'abused' to the point where stricter accounting of surpluses is desirable, and 'recapture' of surpluses is a simple matter of equity and fairness to taxpayers. Put in everyday terms, the situation is roughly equivalent to paying a contractor $300,000 for a house, only to find out later that the actual cost was $270,000 and the contractor has kept the surplus.

While Operating Reserves remain about 2% of County expenditures to allow for unforeseen circumstances and to keep the bond rating up, the categories of "Future years" and "Incomplete projects" are very troubling. First, "Future Years" reserves represent a prepayment by the current taxpayers of services to be received sometime in the future; a position contrary to the concept of an annual budget. Taxpayers should be paying for current services, while future taxpayers should pay for the services that they use in the future. Second, the "Incomplete Projects" classification is funding that the County Board has earmarked for projects and has not committed. If the tax rate were reduced for the May/June payment to offset the rise in assessments there would be no revenue windfall and it is questionable if there would be sufficient funding to continue this category at such high levels.

Reserves, surpluses or cost savings generated in any fiscal year should not be used as a 'supplemental' appropriation. They should instead be used to reduce the tax rate for the second payment in any fiscal year (as suggested in the ACCF Resolution of March 2006), subject to a 'recapture' or 'lockbox' provision, or rebated as a credit to taxpayers.

D. Affordable Housing (We are grateful to Tim Wise for allowing us to use some of the information contained in his report to the Financial Affairs Advisory Committee**.)**

This was a review of affordable housing as a program area, defined as the multi-departmental housing programs listed on page 14, Tab A. They include programs in CPHD, DHS, and CMO. They include planned expenditures of $38.4 million, which includes $21 million in housing subsidies. The delivery requires a total of 57.4 FTE's.

The county used a total of $129.4 million from federal, state, local funds as well as private financing to provide a range of affordable housing services in FY 2005 as detailed in the "Summary of Resources from the Fiscal Year 2005 Comprehensive Annual Performance Evaluation Report" ("CAPER"), the most recent. The report, submitted to the U.S. Department of Housing and Urban Development, documents the county's accomplishments in fighting for fair housing; increasing affordable housing and home ownership, including developing affordable units, providing housing subsidies, revitalizing housing, and meeting special needs; reducing homelessness; promoting jobs and economic opportunity; empowering people; and, restoring public trust.

It is difficult to determine whether the level or effort of a community's commitment in providing affordable housing is too little, too much, or about appropriate. A review of several communities CAPERs confirmed this difficulty. As a result, we developed a measure of relative effort based on MWCOG's 2003 housing data survey, the latest available data.

Community	Est. 2003 Population	Rental + Public Housing Units	Owner Units	Effort per 1,000 Population
Alexandria	135,000	3,264	652	29.01
Arlington	196,925	5,138	420	28.23
District of Columbia	575,000	20,552	568	36.73
Fairfax County	1,012,100	12,119	143	12.12
Falls Church	10,511	135	0	12.86
Loudoun	221,746	2,845	922	16.99
Montgomery	914,900	12,500	8,109	22.53
Prince George’s	844,190	5,510	53	6.60
Prince William	321,570	2,305	44	7.30

This table shows that Arlington commits a great deal of resources to affordable housing. Only Alexandria and the District of Columbia have a higher level of ‘effort’.

Many consider that there is an affordable housing crisis. In the citizen summary of the county’s FY 2006-2010 Consolidated Plan, the Plan notes that in 2000, “roughly 19,700 units were affordable to households with incomes at 60% of median income . . . (but by) “2005, almost 9,900, which represents about 23% of the multi-family rental stock” became unaffordable. The Plan also shows there were 5,877 Committed Affordable units (CAF), including 5,343 rental and 534 owner units. Rental CAFs typically serve those earning less than 60% of the area median income.

There are 25 outstanding AHIF loans with a balance of $59.7 million. Five of those loans, amounting to $15.6 million, have not yet been disbursed. Over the past 10 years, one loan was restructured in 1999 with the county forgiving seven years of interest and reducing the interest rate from 7.25% compound to 4.79% simple. A second loan was restructured, but has now been repaid. A loan of $500,000 is in default; the county received $266,939 from the sale of the property, and the outstanding balance is $170,698, which remains uncollected. The $10 million credit facility to fund the purchase of the Gates of Arlington with Fannie Mae was repaid on June 16, 2005, when AHC refinanced the complex. The county then used its new AHIF PLUS to help AHC refinance and pay off Fannie Mae.

<u>Homeowner’s Grant Program</u>

The Homeowners Grants Program was introduced in FY 2006, despite pleas that the benefit could be more broadly shared by decreasing the overall tax rate. The program was based largely on concerns about the impact large increases in the assessed values of residential real estate, particularly on lower income residents. The budget set aside almost $2.2 million for an estimated 3,000 to 3,500 grants. Grants were to be $500 plus $50 for additional exemptions. The results of the program to date are: 2,025 grants (of an estimated 8,000 eligible) have been made for a total of a little over $1 million. After an extensive 'marketing campaign', 73% of the grants went to condo owners; the average income of recipients was $46,200; average household assets were

$38,819; the average assessed value of the homes was $312,300; and 78% of the recipients were single. No information was available on the age of the recipients.

It is not clear that the results achieve the desired result for the intended target group, and the Board should state whether their objectives were met once full statistics become available. Certainly the program is expensive and complicated to administer, and grants were made to only 25% of those thought eligible. But this may simply be due to its inaugural status. We explored with several other committees (Public Services and Housing) about the feasibility of re-directing some of the resources of this program to other priority areas, but as there was little or no support for this, the idea was dropped.

Last year, Federation support for the proposed program was marginal (29 for 28 against 3 abstentions), albeit at a more generous recommended level of support (which was NOT adopted by the County.)

This committee has reservations about the efficacy and cost of the program, and believes, as do others that tax relief can be more effectively and broadly delivered by a general decrease in the tax rate. However, we reserve final judgment and any recommendation until more adequate data is available, and the Board offers its opinion of the efficacy of the program.

We were also asked by the Housing Committee to consider recommendations passed by their committee on 9/5/2005:

> 1. Adopt the policy of budgeting sufficient funds each year to ensure that a waiting list need not exist for the Housing Grants Program. Remove the current freeze on the enrollment of eligible tenants in the Housing Grants program; in particular make the Housing Grants Program once again available to needy working families with children. Budget at least $5 million for the Housing Grants Program in FY 2007.
>
> 2. Add money to the Transitional Housing Grants Program to move homeless families with children out of shelters and into permanent housing. Budget sufficient funds to provide permanent housing for 95% of sheltered homeless families with children in FY 2007.
>
> 3. Add inspections staff, autos, etc., to increase inspections of - and improve code enforcement in - older garden apartment complexes in FY 2007.
>
> 4. Adopt a County policy of budgeting at least $12 million per year for the Affordable Housing Investment Fund (the equivalent of approximately 3 cents on the real estate tax rate). Budget $12 million for the Affordable Housing Investment Fund in FY 2007.

In addition to the above analysis of affordable housing in Arlington, the Manager's proposed budget for FY2007 includes an increase Housing grants of $431,000 for a total of $4.3 million; and increase in the affordable housing investment fund of $131,000 to $5.8 million; and that CPHD plans to increase the number of units inspected under the Full Code program by 30% to 1,300 in FY07. As approved by the County Board, the Inspection Services Division will expand by 3 FTEs in FY07.

We agree that affordable housing is an ongoing concern in Arlington, as well as the region and would welcome the opportunity to review the required level of support for affordable housing in Arlington with the Housing Committee, measured against defined need and current levels of support.

E. Arlington County Police Department Staffing (ACCF Resolution of 2/1/05)

At first blush, it appeared that the resolution's provision ("all future budgets include funding for an additional 6 or more new FTE's each year until such time as appropriate staffing levels are achieved as well as improved compensation…") might be somewhat arbitrary. The County Manager had not recommended any increase in staff, and public safety must be considered one of his principal responsibilities. And, there is little evidence that the public safety of the County is being compromised at currently authorized levels of staffing.

On the other hand, the Financial Affairs Advisory Committee (FAAC) noted in its report that compensation, recruitment and retention continue to be a chronic problem for the department, which has been unable to staff at presently authorized levels for a number of years. They went on to say that 'it is clear that there is a need to increase the staffing levels of the Arlington Police Department.

To our thinking, absent a definitive and independent study on staffing requirements, it might have been more helpful to add or divert resources to increase compensation, and recruitment and retention incentives by way of helping the department achieve currently authorized staffing levels. However, the recent 5% raise for uniformed services apparently has not done much to decrease this gap, and it is unknown to what extent that overtime and other demands on current staff is causing attrition.

Therefore, with deference to the ACCF approved resolution on Police Department staffing of February 2005, we are including the recommendation to increase staffing by +6 FTEs, with the reservation that increased staffing is likely only a partial solution. We are also including a recommendation for a definitive staffing study at an estimated cost of $200,000, without which the debate cannot be usefully advanced.

F. Other cost categories as a group

According to the County Manager, certain 'high cost budget components are escalating at a much faster rate than normal inflation.' Personnel costs, which include salaries and fringes, account for approximately 34% of the costs in the proposed FY07 budget. There are a number of issues including compensation, competition with adjacent jurisdictions, health insurance and pension contributions. While some inquiry was made concerning the need to increase retirement contributions when considered against historically high levels of 'overfunding' of the pension fund, the Committee did not have the time or resources to go much beyond that. This cost category remains a major concern of the County Manager, and we agree with the recommendation of the FAAC that a study of all Arlington positions be conducted by an external firm.

Other major cost areas include operating expenses and debt service and capital expenses. We did not have the resources to do justice to those categories, but will continue our inquiry and analysis, recruit new members for the committee, and provide ongoing reporting to the membership.

We further urge the County Manager to make cost cutting, efficiency and savings a major focus of all departments, beginning now. The Committee is very much concerned that costs are presently, or shortly will be out of control.

G. Report Of Civic Federation Schools Committee On The Arlington Public Schools Proposed FY2007 Budget

The Schools Committee has reviewed the Superintendent's Arlington Public Schools (APS) FY2007 proposed budget for new initiatives.

Executive Summary

As detailed below, the Committee's initial recommendation was to fund the Superintendent's entire proposed budget, except for $4.2 million of the Superintendent's proposed $18 million in "special initiatives," or new funding proposals. The Committee's recommendations as to which initiatives should be funded, not funded or only partially funded are detailed on pp. 2-4 in Tables 1-3 below. The Appendix contains the Committee's reasoning on various proposed initiatives.

Secondarily, in order to accommodate the 9-cent tax rate reduction recommended by the Revenue & Expenditures Committee, the Schools Committee recommends one further reduction from the special initiatives: reducing funding of the proposed new capital reserve from $5.9 million to $ 2.9 million. If the County Board ultimately passes a 5-cent tax rate reduction as recommended by the County Manager and Schools Superintendent, this recommendation will not be necessary.

Revenues/Expenditure Savings From 2006

The budgets proposed by the Schools Superintendent assumed a 5-cent tax rate reduction and growth in calendar year 2007 real estate tax assessments of 5%. This led to a projected $309.8 million for the Schools from FY07 revenue. In addition, the Superintendent planned for $4.9 million in re-estimated FY06 revenues for the schools. When combined with $ 75.7 million in state, federal, other revenues and projected budget savings, the Superintendent planned for available funds of $390.4 million, and planned expenditures in the same amount, including $ 18 million in new spending initiatives.

By contrast, the budget proposed by the Revenue & Expenditures Committee assumes a 9-cent tax rate reduction and growth in 2007 real estate assessments of 8.5%. This results in $303.4 million in FY07 revenues for APS and only $1.8 million in FY06 re-estimated revenues. The Schools Committee combined those amounts with the same $75.7 million in revenues and budget savings planned for in the Superintendent's budget. In addition, the Committee relied upon additional 2006 expenditure savings of $1.9 million from debt service adjustments that have already taken place, and spring enrollment adjustments of $.4 million. This represents $383.2 million in total available funds, or $7.3 million less than projected by the Superintendent. On the expenditure side, the Schools Committee planned to recommend $4.2 million in reductions from the Superintendent's new spending initiatives in any event. To accommodate the 9-cent tax rate reduction proposed by the Revenue & Expenditures Committee, the Schools Committee recommends a $ 3 million reduction from the Superintendent's proposed $ 6 million new capital reserve initiative (see below).

The two budgets can be compared as follows:

APS Proposed (in millions)		Civ Fed Proposed (in millions)	
Revenue		**Revenue**	
309.77	County transfer	303.4	County transfer
4.88	FY06 carryover	1.8	FY06 carryover
75.74	State, Fed, other	75.7	State, Fed, other
390.39	**Total**	380.9	**Subtotal**
		1.9	Debt savings
		.4	Spring enrlmnt adj
		383.2	**Total**
Expenditures		**Expenditures**	
372.5	Base budget	372.5	Base budget
17.9	New spending	13.7	New spending
390.4	**Total**	386.2	**Subtotal**
		(3.0)	Reduce new capital reserve
		383.2	**Total**

<u>Recommendation on Revenue</u>
The Committee recommends that, if any additional APS revenue is found during FY07, it be allocated to the APS Capital Projects budget to help cover construction costs and to reduce debt service.

FY2007 SPECIAL INITIATIVES

The Superintendent recommended $17,927,956 in new spending initiatives. The Schools Committee recommends approval of $10,458,213 of those initiatives shown in Table 1 and $284,186 of the initiatives shown in Table 3, for a total of $10,742,399. Originally, the Committee recommended not funding $3,785,480 in initiatives and reducing funding of two initiatives by another $410,339, for total new spending reductions of $ 4,195,769. To accommodate the 9-cent tax rate reduction recommended by the Revenues & Expenditures Committee, the Schools Committee also recommends reducing the Superintendent's $5.9 million new capital reserve initiative by $3 million. The three tables below show the initiatives that the Committee recommends funding (Table 1), not funding (Table 2), or only partially funding (Table 3).

Table 1
New Initiatives the Committee Recommends Fully Funding

Description	**Amount**
Increase Testing Coordinators for Middle Schools	$ 91,230
Technology Upgrades/Equipment (math software)	$ 175,000
Testing for LEP Students	$ 75,000
Career/Tech Certif Tests/Latin Exam	$ 81,380
Water Polo equipment and life vests	$ 5,100
Outdoor Lab Lease	$ 89,999
New Foreign Languages	$ 37,000
Exemplary Projects, Spanish @ Glebe 3rd & 4th grades	$ 91,300
Extended Day fee schedule	$ 119,604
W-L Alternative Transportation pilot	$ 15,000
Employee 2% compensation adjustment	$4,867,358
Substitute Teacher pay increase	$ 350,192
Market rate compensation study	$ 125,000
Highly qualified assistants pay adjustment	$ 326,907
Athletic stipend revisions	$ 158,406
Supplemental Retirement Contribution Match	$ 700,000
Live-Where-You-Work/sick leave benefits changes	$ 34,737
Capital Reserve ** (includes 2nd tier cut of $3,000,000 for 9¢ tax cut)	$ 2,900,000
Convert MACs to PCs	$ 215,000
TOTAL	$ 10,458,213

Table 2
New Initiatives the Committee Recommends Not Funding

Description	**Amount**
2 Additional Pre-K Classes	$ 240,578
Extended Day for Pre-K Students	$ 321,975
Increase Planning Factors for Pre-K students	$ 340,290
Infant/Toddler Class	$ 110,100
Special Ed buses/asst’s	$ 587,852
Intake Center Summer staffing	$41,200
Bus Attendants for Pre-K	$119,948
Even Start Family Literacy/Latino Youth Conference	$ 42,650
Elem Foreign Lang/No Early Release Wednesday	$308,000
Guidance Counselor Summer Hours	$ 8,144
2 Mental Hlth Specialists, secondary academic plan mailings	$ 152,515
Newscheck design/layout & PESA materials	$ 19,000
The Citizen more often	$ 15,700
Community Satisfaction Survey	$ 55,000
Staff Development Stipend increases	$ 85,000
Recycling, indoor air quality, HS lab chemical management	$ 88,860
STARS implementation (human resources software)	$ 952,673
Teacher Excellence Pay Pilot	$ 295,945
TOTAL	$ 3,785,430

Table 3
New Initiatives the Committee Recommends Partially Funding

Description	Proposed Amount	Committee Recommended	Variance
Staff PDAs, internet portal, bus routing software, replace tech	$ 361,000	$ 191,000	-$ 170,000
Principal's assistant, Cafeteria Fund subsidy	$ 333,525	$ 93,186	- $ 240,339
TOTAL	$ 696,545	$ 284,186	- $ 410,399

RECOMMENDATIONS ON THE INITIATIVES

Second-Tier Spending Cut for R&E Committee's 9-Cent Tax Rate Cut

The tables above reflect the Schools Committee's recommendations assuming there is only a 5-cent reduction in the tax rate, as contemplated by the County Manager and Superintendent. In order to accommodate the extra 4 cents of tax rate reduction that the R&E Committee has proposed, the Schools Committee recommends reducing the Superintendent's proposed Capital Reserve initiative from $5.9 million to $2.9 million.

Publicize Priority Tiers for the Superintendent's New Funding Initiatives.
The Committee recommends that, in future years, the Superintendent resume publishing his "budget priority tiers," so that the Committee and the public can consider and comment on them during the public hearings on the School and County budgets. Last year, the Superintendent published his proposed initiatives in three tiers, so that the public could see the Superintendent's priorities, as well as his proposed spending. The Committee was disappointed that, this year, the Superintendent did not publish his priorities for the new initiatives. We understand that, somewhere, he has a budget in three tiers: one that assumes a $.05 real estate tax rate cut, one that assumes a $.06 rate cut, and one that assumes a $.07 cut (see Staff Answer to School Board Question 56, "What is the plan if the County were to reduce the tax rate to the Prince William Co. level?"). This information should be available to the public while the budget is being considered.

CONCLUSION/PROPOSED RESOLUTION

The Schools Committee recommends that the Civic Federation adopt the following resolution to accommodate the competing possibilities that the County Board may adopt either the County Manager's proposed budget and projected revenues or the Revenue and Expenditures Committee's budget proposals and projected revenues:

RESOLVED that the School Board should not fund $3,785,430 of the Superintendent's proposed new initiatives for FY2007, as detailed in Table 2 above. Further, that funding of the proposed initiatives in Table 3 above be reduced by $410,399. If necessary to accommodate the 9-cent rate reduction proposed by the Revenue and Expenditures Committee, the Civic Federation recommends reducing the Superintendent's proposed new Capital Reserve initiative from $5.9 million to $ 2.9 million. Finally, the Civic Federation recommends that any additional APS revenue found during FY07 be allocated to the APS Capital Projects budget to help cover construction costs and to reduce debt service.

Respectfully submitted,

Arlington County Civic Federation Schools Committee
William Barker
Barbara De Pauw
John De Pauw
Reid Goldstein
Herschel Kanter
Roye Lowry
Roger Meyer
James Schroeder
Timothy Wise
Beth Wolffe, Chairwoman

April 4, 2006

APPENDIX

REASONING CONCERNING THE INITIATIVES

Pre-K Initiatives (4 initiatives totaling $1 million). The Superintendent proposed $.241 million for two additional pre-kindergarten classes for students considered "at-risk" (i.e., those participating in the free/reduced school lunch program) and $ .322 million to provide after-school extended day programs for all pre-kindergarten students at 10 additional locations. The Committee supports the Virginia Preschool Initiative ("VPI") and the Head Start program as ways to level the playing field for at-risk students before they enter kindergarten. However, APS is already serving 368 students in the VPI program, and has recently raised the income definition of "at-risk" to serve more students. (See APS staff's answer to School Board work session question # 14.) In addition, there are 3 Head Start classes serving approximately 30-45 students (ages 0-3 years old), and 17 Montessori classes serving 170-255 students ages 3-6, who are not necessarily "at-risk." (See staff answer to School Board work session question #8.) It is not clear that there is a demand for more pre-kindergarten VPI classes (see APS staff's answer to School Board work session question # 14), and the case has not been made that providing extended day services for all pre-k students (rather than targeting only at-risk students) would serve the goal of leveling the playing field for at-risk children.

The Superintendent also proposed $.34 million to expand the existing "planning factor" funding formula for all pre-kindergarten students. This funding would provide art, music, gym and library assistant faculty funding for pre-kindergarten classes. The Committee is not convinced this is the best investment of tax funds. The planning factor formula applies to all students, not just those who are considered "at-risk." Also, it goes far beyond efforts aimed at the goal of leveling the field for at-risk children.

In addition, the Superintendent proposed $.11 million to provide an infant/ toddler program at Glebe Elementary School for teenage mothers. The County already offers such a program at the Career Center, and the case has not been made why, during a time of declining enrollment and declining teen pregnancy, there is a need for more infant/toddler care, or why APS should provide it.

Increases in Special Education Buses. The Superintendent proposed $.59 million to provide 4 more special needs buses, drivers and attendants to reduce the riding time for special education students. This proposal also included $.1 million for 5 hourly middle school clerical assistants to handle record-keeping and clerical work. The Superintendent has not explained how long the current ride time is, how much the additional buses would reduce the ride time, or why the IEP software purchased in previous years has not reduced the need for additional clerical support for special education students. Further, the special education population has decreased more than 6% in the last 5 years.

Intake Center Summer Staffing. The Superintendent proposed $.04 million to enable the Intake Center to remain open for extended hours in August when families register for school. The Committee recommends that that existing staff time be rotated and redistributed from less busy months to more busy months.

Even Start Family Literacy Program/Latin Youth Conference. The Superintendent proposed $.043 million to fund a position previously funded by the State for the Even Start Family Literacy program at Barcroft Elementary School, and to fund student participation in the Latino Youth Conference. The Even Start program is completing its third year, and APS has not shown the

Committee any data on its effectiveness. The Committee does not believe that APS should necessarily continue grant-funded positions when the grants expire, particularly if there is not data specifically showing that the program is effective. For similar reasons, lacking any data on the effects that Latino and other minority student conferences have on student grades, attendance, drop-out rates, graduation rates or college applications, the Committee does not feel the case has been made for funding either of these projects. Assuming, without deciding, that such conferences have social benefits for the students who attend them, the Committee recommends that APS seek out grants and private sponsorships to pay for them.

<u>Elementary Foreign Language Pilot Program</u>. The Superintendent proposed $ .3 million to develop pilot programs to implement 1.25 hours/week of foreign language instruction and discontinue early release Wednesdays in 2 or more elementary schools. Absent an overall strategic approach to foreign languages in the schools outlining the benefits, teaching evaluation, program results, and a plan to continue the instruction in middle school, the Committee felt the need for such a pilot program has not been adequately justified at this time.

<u>Guidance Counselor Summer Hours</u>. The Superintendent proposed $ .008 million to pay high school guidance counselors to work additional summer hours and coordinate summer counseling activities. The Committee saw no evidence that high school students had indicated sufficient demand for services in the summer to warrant this initiative.

<u>2 Mental Health Specialists/ Mailing Secondary Academic Plans</u>. The Superintendent proposed $ .153 million to fund 2 mental health specialists previously funded by grants, and to print and mail student secondary academic plans to parents ($ 5,000). The Committee was not convinced that there was a pressing concern in the schools that would warrant funding these positions on a permanent basis, nor one that could not be served by the County Health Department. The Committee recommends obtaining any required mental health support from the County Health Department, and finding small amounts for printing and mailing student academic plans in the base budget for student services and/or community engagement.

<u>STARS Implementation.</u> The Superintendent proposed $.953 million for leasing and implementing the new financial and human resources computer system, Strategic Transformation of Administrative Resource System (STARS). The Committee questions the overall benefit of pursuing a sole-source contract for a non-commercial system and recommends that APS and the County reexamine their needs and consider replacing this relatively expensive proprietary system with a more current commercially available system through a competitive bid. This approach would be more compatible with the approach being taken by federal agencies in moving away from proprietary legacy systems to open-source commercial systems.

<u>Differentiated Teacher Pay Pilot</u>. The Superintendent proposed $.3 million for a pilot program to increase some teacher's pay based on teacher portfolios. The stated purpose of the Teacher Differentiated Pay Plan is to financially reward those who excel at teaching. However, the proposed plan would award extra pay based not on those who meet defined teaching standards and results (if such standards and results can be defined), but rather on portfolios prepared by the teachers. While the preparation of portfolios may well be a growth experience for the teacher, the skills needed to produce a good portfolio seem very different from the skills needed to be an excellent teacher. The Committee believes APS has not demonstrated that the initiative has adequate measures for determining which teachers have achieved standards of excellence to warrant additional pay.

REASONING FOR PARTIAL FUNDING RECOMMENDATIONS

Staff PDAs, Internet Portal, Bus Routing Software, Replacing Technology. The Superintendent proposed $.36 million to provide PDAs to high level staff; provide an internet portal; purchase new transportation routing software; purchase Microsoft Office software; purchase software to test applicant's technology competence; purchase an energy management web update; and replace rather than repair "certain technology equipment." The Committee was not convinced that PDAs are necessary in addition to the cellular phones currently used. The Committee also questioned the bus routing software because the County is relatively small, and the Committee understands that current bus routing software is underutilized, with much of the routing apparently being performed manually. As to replacing certain technology rather than repairing it, the Committee is not opposed to replacing obsolete equipment. However, if such a purchase is justified as being less expensive than on-going maintenance, then a new spending initiative should not be necessary, the purchase should be possible out of projected savings. At the very least, the Committee feels APS should make information available concerning the projected savings. Accordingly, the Committee recommends funding only $.09 million of this initiative.

Principal's Assistants, Cafeteria Fund. The Superintendent proposed $.24 million for 5.5 elementary school principal's assistants that would otherwise not be funded this year, due to declining enrollments. These are essentially clerical positions in offices in which at least other clerical positions already exist. Considering the decline in enrollment, and the fact that APS is already spending a larger percentage of its budget on administration than some neighboring jurisdictions, the Committee was not convinced that there was a need for additional clerical positions in the schools. The Committee recommends that the schools tap into the community's volunteer spirit for any spikes in workload augmentation.

Committee Recommendations and Proposed Resolutions

Fiscal

Whereas, property assessments and associated property taxes have increased dramatically over the past six year creating an increasing burden on property owners,

1. Therefore, be it resolved that the County should cut the property tax rate by an additional $0.04 over and above the $0.05 that is available for that purpose in the Manager's Proposed budget for a total reduction of $0.09, to a rate of $0.788 for FY07.

Whereas, the Arlington County Civic Federation recommended in its resolution of February 1, 2005 that additional staffing for the Police Department be included in future budgets; and whereas and recruitment and retention continue to be chronic problems in the department; and whereas a definitive study is required to resolve appropriate staffing levels,

2. Therefore, be it resolved that the Police Department increase staffing by an additional 6 FTEs, at an approximate cost of $540,000, and an amount up to $200,000 be provided to conduct a definitive staffing study.

Whereas, the Manager's proposed budget provides no funding for "Transportation Maintenance Capital", and funding for this category has declined drastically since FY 2005 resulting in a continuing deterioration of county streets and roads, and
Whereas, an adequate program of street maintenance and repair is essential lest more extensive and expensive repairs be required,

3. Therefore, be it resolved that the County fund the basic requirements for street maintenance and repair in an amount equal to $1.11 million (Tab O, page 6 of the proposed budget.)

Whereas the proposed increase in the personal property tax from $4.40 to $5.00 per $100 assessed value is neither provided for, nor required by the Manager's proposed FY 2007 budget, and whereas the tax is regressive and may lead to retention of older and less-safe and more polluting vehicles,

4. Therefore, be it resolved that the proposed increase in Personal Property Tax should NOT be adopted; and further, if the tax is adopted, that the additional proceeds be used to further reduce the real estate property tax.

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 47.7% 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 the cut in the real estate tax recommended by the R&E Committee,

5. Therefore be it resolved that the School Board should not fund $3,785,430 of the Superintendent's proposed new initiatives for FY2007, as detailed in Table 2 in the Schools Committee Report. Further, that funding of the proposed initiatives in

Table 3 of the Schools Committee Report be reduced by $410,399. If necessary to accommodate the 9-cent rate reduction proposed by the Revenue and Expenditures Committee, the Civic Federation recommends reducing the Superintendent's proposed new Capital Reserve initiative from $5.9 million to $ 2.9 million. Finally, the Civic Federation recommends that any additional APS revenue found during FY07 be allocated to the APS Capital Projects budget to help cover construction costs and to reduce debt service.

Whereas the committee believes the foregoing recommendations can be accommodated within the County's resources and proposed budget for FY2007 and that it is important to indicate how this could be accomplished,

6. Therefore, be it resolved that the proposed tax cuts and increases to expenditures be accomplished by the following measures:
   A. Increasing FY07 projected real estate revenues from the County Manager's estimate of 5% to a still reasonably conservative projection of 8.5%, for an increase in projected revenues of $6.95 million.
   B. Reallocating the $4.2 million FY05 carryover.
   C. Using a projected $1.4 million surplus from FY06.
   D. Combining Self-Insurance Reserves with Operating Reserves as a single reserve category, a savings of $3.5 million.
   E. Directing the Manager to allocate 1% of the operating budget to 'savings' of up to $4.3 million, at his discretion.

Procedural

Whereas many of the recommendations of the ACCF's budget resolution of April 5, 2005 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 report of April 5, 2005 be carried over 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) a "fiscal impact" analysis for future fiscal years, and b) an itemization of performance/workload measures which will be used to evaluate it if it is accepted.
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 [analogous to the existing overview table in Tab A page 5 of the FY'07 Manager's proposed budget]
C. The County should include reasonable estimates of carryover when projecting revenues for future fiscal years

Budget Management

D. 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.
E. 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

F. 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.

Other

G. 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.

Whereas in the course of its review the committee identified additional procedural or other recommendations that we believe would enhance the structure and transparency of the budget,

2. Therefore be it resolved that the following recommendations be given serious consideration and/or adopted by the County:

H. Immediately re-institute the 'Greenrod' 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.
I. Reserves, surpluses or cost savings generated in any fiscal year should not be used as a 'supplemental' appropriation. They should instead be used to reduce the tax rate for the second payment in any fiscal year (as suggested in the ACCF Resolution of March 2006), be subject to a 'recapture' or 'lockbox' provision, or rebated as a credit to taxpayers, adjusting for bona fide emergencies.
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. Membership on the Financial Affairs Advisory Committee should be offered to the Arlington County Civic Federation.
L. The Manager should desist from the practice of underfunding or not including essential repairs and maintenance in the Paygo category
M. 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.

N. The Manager should desist from including ‘unfunded initiatives’ in the budget presentation. These items should be included in the base budget if they are deemed essential.
O. For the sake of transparency, the Manager should develop an ‘FTE equivalent’ for all contracted services and include it in the budget presentation
P. Review the high subsidy rate for ART; consider cutting back on trips or reorganizing and consolidating routes
Q. 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.

<u>Respectfully submitted April 4, 2006</u>

Revenues & Expenditures Committee, Arlington County Civic Federation

Burt Bostwick, Chair (Also Secretary of ACCF)

Gerry Auten, Member (also Chair of Transportation Committee)

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

Roye Lowry, Member (also member of Schools Committee)

Roger D. Meyer, Member (also member of Schools Committee)

Roger Morton

Tim Wise, Member (also member of FAAC and Schools Committee)