ACCF R&E REPORT TO THE MEMBERSHIP ON THE COUNTY MANAGER'S FISCAL YEAR 2008 PROPOSED BUDGET

I. Executive Summary and Table of Contents

SUMARY OF FISCAL RECOMENDATIONS
(in millions of dollars with rounding)

REVENUES:
A. County Manager's BASE BUDGET……………………………………………$866.6
B. FY07 Carryover/Fund Balance ……………………………………….………..   +8.3
C. CY'07 Assessment Adjustment……………………………………..……… +1.9
D. CY08 Assessments Re-Estimate……………………………………………   +2.2
E. Parking Meter & Permit Fees for Paving & Maintenance……………………… +1.1
F. PRCR Fees ……………………………………………………………….. +0.1

TOTAL..………. $880.2

EXPENDITURES:
1. County Manager's BASE BUDGET (County Services and Debt Service)………………………..…………………..……………………….……$543.9
2. Transfer to the Schools (Manager's Base Budget)…………..……….329.7
   Add back: CY07 Assessment Adjustment……………………… 0.9
   Add back: CY08 Assessments Re-Estimate…………………… 1.1
      Net School Transfer:……………………………………………331.7
3. AIRE Initiative………………………………………………………………… 1.0
4. Restoration LPACAP & CDBG Funds…………………. ………………..……..1.3
5. Paving 'Policy Option' Plus 15-yr Goal……………………………………………2.1
6. Stormwater 'Strategic Option' …………………………………………………..3.0
7. PRCR Field Maintenance ……………………………………………………..0.1
8. OPEB Reserve ……………………………………………………………...1.7
9. Manager's 'Efficiency Rebate' (1% of Operating Costs)……………………..….. (4.6)

TOTAL………$880.2

Comment

Fortuitously, the decline in assessed value of residential properties combined with an advertised rate of $0.818 per $100 of assessed value (the same as last year) will mean the first the decline in the average homeowner's tax bill (est. $35.00) since 1988. Since the adopted real estate tax rate cannot exceed the advertised rate, and since there appear to be a number of competing interests for projected revenues, the Committee is not recommending a further reduction in the rate for CY07.

To balance these glad tidings, we would note that only a substantial increase in commercial assessments (especially apartment buildings whose assessments increased by 25.6% in CY07) permitted a sufficient increase in County revenues to avoid the necessity for a rate increase. Whether assessments can keep pace with the County's rate of spending in future years is something that needs to be considered. Another offsetting factor is the myriad of new taxes and fees recommended by the Manager. If adopted, they will reduce the benefit of lower real estate taxes. And, unfortunately, they will contribute to the increasing affordability burden which is shared unevenly by homeowners and lower income residents. We will examine those recommended increases in this report, particularly as they relate to the cumulative affordability burden for many County residents.

Of particular note is that by the Committee's calculations, <u>all</u> of the new policy and strategic 'options' offered for consideration by the Manager <u>can be funded from current and adjusted revenues, without a single increase in new taxes or fees</u>. While we do not yet have the benefit of either the 'Mid-Year Report (the County's financial review as of 12/31/06) or the FY07 closeout, we suspect that additional funds may be identified in these reports, as has been the case in past years.

We also note that the Board has advertised a change in the method for allocating personal property taxes that will affect all who own a vehicle assessed from $3,000 - $20,000. The change is presumably intended to be an incentive for those who purchase 'clean fuel' vehicles, but since it is being offered to the some 922 <u>current owners</u> its utility as an incentive is largely diluted. Furthermore, these vehicles contribute to congestion and road wear just like others, and there is no substantiation of any benefit in reduction of emissions that would result from this change, particularly given that the vast majority of all traffic (and emissions) in Arlington comes from vehicles passing through from other jurisdictions. Since most purchasers of 'clean fuel' vehicles are likely to have above average incomes, the effect of this seemingly well-intentioned benefit is to take from the used Chevy driver and give to the new Prius buyer -- a textbook example of regressive taxation. A 're-think' of this proposed change would seem to be in order.

As reported last year, 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. Again, this year, we see relatively little attention being paid to the expenditure side of the budget, with more attention being paid to new ways to generate revenues (i.e., increase taxes and fees.) Some will ask why the Committee does not recommend ways to reduce costs, and we have begun to do so in this report in a very modest way. But it is the Manager and his staff that are in the best position by far to recommend cost controls and/or reductions, and we should expect them to do so. Therefore, absent a serious and continuing effort to reduce costs, the Committee again suggests the need for a $4.6 million 'efficiency rebate', representing 1% of the costs of County services, but excluding Metro, the Schools budget and debt service.

We continue to question the necessity of the County rolling over large surpluses from year to year, in the form of 'Unreserved Reserves'. It's prudent to have a cushion, but when the annual 'Fund Balance' (see FY06 CAFR, pp. 96-97) reaches $100 million, you have to wonder just how much enough is. Even after giving effect to legally reserved amounts, self insurance, a 2% operating reserve, transfers to the School budget, and carryover to the FY07 budget, the 'unreserved' and unappropriated <u>surplus</u> is in excess of $40 million, by our calculations. We have made an effort to 'get educated' on how these surpluses are calculated, and subsequently used, and we remain open to further education. But this is a very substantial amount of money that could be productively used for other purposes, and might preclude the need for new taxes and fees.

As noted last year, this report is a 'work in progress'. We hope we have better engaged ACCF committees that have a direct interest in the budget, but realize that more needs to be done. Many times we don't disagree on programs or projects, only the best way to achieve our goals, and how to best fund them. As the County frequently reports on fiscal matters (the proposed budget, the fiscal year closeout, the guidance to the Manager, the CAFR, the CIP, etc.), we will try our best to keep the membership informed and provide useful analysis. We sincerely solicit your suggestions for improvement, both in our report and for ways to improve the fiscal health of the County and its residents.

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II. Overview and Committee Review Process

Overview

This year's team is little changed from last year, with one important exception….Wayne Kubicki has joined the R&E Committee and has greatly assisted our efforts and analysis. This year, our report focuses on three areas:

- Affordability Indicators and the Cumulative Impact of Taxes and Fees
- Main Budget Drivers and Cost Centers (Transportation, Personnel)
- County Policies and Procedures (esp. User Fees, Cost Recovery, One-time budget items)

A few words on the R&E Committee's composition and role might be useful. Most of the members of this committee are long time civic activists and observers of the local scene. Four of the members have served or currently serve on the Fiscal Affairs Advisory Commission, a

County Commission. Two serve on the Schools Committee. One is the Chair of the Transportation Committee. To the extent possible, we try to be 'analysis-driven'. We see the Committee as providing independent, community-based oversight and analysis of the County's fiscal affairs. One staffer recently commented that this external perspective was useful, given the time constraints and process focus that absorbs so much of their time.

One aspect of our work that deserves mention is the responsiveness and competence of the County employees we deal with, particularly in the Department of Management and Finance. If there are more knowledgeable or hard-working employees in any other jurisdiction, we are not aware of them. We do note, however, that several key employees are approaching retirement, and that this will leave a large gap in the experience and knowledge base of the County.

Committee Review Process

- Reviewed the need for new taxes and fees.
- Worked more closely with other ACCF committees.
- Attended most of the meetings of the Fiscal Affairs Advisory Commission (R&E member Frank Emerson is also a member of FAAC).
- Attended most of the 'budget work sessions'. These are meetings between County Board members and County Departments that provide useful details and insights on departmental budgets, as well as Board concerns.
- Reviewed the practice of designating 'policy and strategic options' outside the base budget.
- Examined the policies and practices for imposing user fees, particularly in DPRCR.
- Suggested opportunities for cost savings.

III. Arlington Profile and Statistics

[Source: Arlington County Profile 2007]

A. Statistical – selected indicators

AGE DISTRIBUTION (2000 and 2006 est.)						
	2000		**2005 ** γ**		**2007 ****	
Under 5	10,397	5.5%	13,654	6.8%	14,800	7.3%
5 - 19	24,016	12.7%	24,754	12.4%	24,700	12.2%
20 - 24	16,535	8.7%	12,120	6.1%	10,600	5.2%
25 - 34	47,675	25.2%	41,302	20.7%	39,000	19.2%
35 - 44	32,664	17.2%	38,496	19.3%	40,300	19.9%
45 - 64	40,404	21.3%	50,795	25.4%	54,300	26.8%
65 - 84	15,244	8.0%	15,172	7.6%	15,100	7.5%
85 and Over	2,518	1.3%	3,467	1.7%	3,900	1.9%
Total Population	**189,453**	**100.0%**	**199,761**	**100.0%**	**202,800**	**100.0%**

RACE AND HISPANIC/LATINO ORIGIN (2000 and 2006 est.)		
	2000	2005 ** γ
Non-Hispanic/Latino	154,185 81.4%	167,599 83.9%
White	114,489 60.4%	129,245 64.7%
Black/African-American	17,244 9.1%	16,980 8.5%
Asian/Pacific c Islander	16,346 8.6%	17,779 8.9%
Other/Multi-Racial	6,106 3.2%	3,596 1.8%
Hispanic/Latino	35,268 18.6%	32,162 16.1%
Total Population	**189,453 100.0%**	**199,761 100.0%**

Source: U.S. Census Bureau Census, 2000 Census of Population and Housing and Arlington Planning Division estimates.
* The 2005 population estimate had been 195,965, but was successfully challenged by the Planning Division and is now 199,761. You can access more information about the challenge at
http://www.census.gov/popest/archives/2000s/vintage_2005/05s_challenges.html.
** Figures may not sum due to rounding.
γ Ratios for age, race, and ethnicity corresponding to the original 2005 Census Population Estimate were applied to the revised population
Census challenge estimate of 199,761 (see above note).

A cursory review of these changes shows that Arlington is becoming older and whiter. The fastest growing demographic is ages 55-59. While not a great deal of analysis has been done to examine this shift, clearly 'affordability' is one important factor.

B. What's Distinct About Arlington

1. Proximity to the Nation's Capital (approximately 28.7% of Arlington jobs are with federal, state and local government agencies.)
2. Relative Affluence (per capita income of $63,500, highest in Virginia)
3. Strong Commercial Base (Crystal City, Rosslyn and Ballston corridors)
4. Low Population Growth (Less than 1% a year)
5. Huge Daytime Population (At place employment = 200,300, almost equal to the residential population.)
6. 30% of Arlington residents work in Arlington, 36.4% work in D.C.
7. Very low unemployment (1.9%)
8. Flat or Declining School Population (2007 is the exception)
9. Expensive Housing (average home = 2007 assessed value of $593,607)
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 several large budget drivers' such as Transportation and Personnel, as well a number of other areas including 'Affordability' and New Taxes and Fees'. We are indebted to committee members Jerry Auten, Frank Emerson, Roger Morton, and Wayne Kubicki for their reports on the topics of transportation, personnel, reserves and balances and certain new taxes and fees respectively. Given continuity and hopefully additions to the committee, we would like to expand and improve these reports in future years.

A. Transportation

Transportation continues to be one of the most expensive and vexing items for residents of Arlington, as well as one of the most essential. From congestion to pollution, 'getting your kicks on Route 66' has taken on a whole new meaning.

Most transportation projects are handled by four bureaus in the Department of Environmental Services (DES) 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.

Major Transportation Budget Items

Transportation (estimated)	FY05 actual	FY06 actual	FY07 estimated	FY08 proposed	% Change from FY07
Transportation Division	17.3	17.6	16.8	17.7	5.3
Metro Contributions	11.8	13.0	14.7	17.4	18.4
Automotive Equipment Fund	14.2	12.1	13.7	14.6	6.8
Transportation maintenance capital	4.0	1.5	2.5	2.2	-0.3
R&E recommended added maintenance				1.0	
Traffic Calming	2.3	0.5	0.5	0.5	0
Pedestrian System	1.4	***	***	***	
Other Street Improvements	0.4	***	***	***	
Total transportation	51.4	44.7	48.2	53.4	

***Not known as primarily from CIP budget. Neighborhood Conservation projects that are transportation related, such as traffic calming and sidewalks, are not included.

The most important budget issues are street maintenance, contributions to Metro and WMATA, and major projects that may be undertaken under the new Master Transportation Plan. Maintenance of the county's 958 lane miles of streets has been under funded since 2003. 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.

A maintenance program meeting the county's stated goal of a 15-year cycle would include repaving major streets such as Wilson and Clarendon after 8-10 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. Such a program would require maintenance on about 1/7 of county streets each year, about 137 lane miles. The budget notes that a 15-year cycle would require repaving about 64 lane miles per year. A similar amount of slurry application would be needed. Funding 15-year cycle would cost $4.7 million for FY08. The budget also shows that that a 27-year cycle, 56 percent of a 15-year cycle, would cost $2.8 million. The budget does not even fully fund for a 27-year cycle, however. By comparison, the Fairfax City budget goal is to repave main streets every 12 years and residential streets every 23 years, which appears closer to the 15-year cycle.

Lane Miles of Street Maintenance, Calendar Years 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007pr
Paving	45	60	66	35	36	37	22	33.5
Slurry	40	40	40	40	36	24	24	32
Cycle Years*	21	16	15	27	27	26	44	29

*Cycle years are estimated based on paving for 958 lane miles. 33.5 miles is mentioned for 2007, but is not fully funded in the Manager's proposed budget.

Residents and drivers are well aware of the many streets with significant alligator cracks, utility cuts from new development, and deteriorated surfaces that indicate that some type of repair or maintenance is needed. There is a risk that some county streets are falling below acceptable conditions and may deteriorate to the point where repaving at an average cost of $21,000 per block is needed instead of slurry costing $3,000 per block, or complete rebuilding would be required at a cost of $100,000 to $118,000 per block. If slurry is not applied before a certain point after a repaving (typically 7-8 years), the street deteriorates to the point where slurry won't suffice and the county then waits a few more years before repaving. In addition to leaving streets in poor condition for many years, the escalating costs mean that total costs are higher in the long run. Further, inadequate maintenance means higher maintenance costs for personal and county vehicles (e.g., re-alignments, tire wear, suspension system wear, broken axles). Adequate funding of maintenance each year keeps total costs lower in the long run. Residents should be able to expect adequate maintenance funding given the revenues collected from drivers through personal property taxes, parking fees, property taxes on garages, etc.

The budget includes $1.1 million for a curb and gutter program to improve storm drainage. This would fund 11-22 blocks of curb and gutter improvements, primarily for projects identified from the June 2006 flooding complaints. Also included are $500,000 for traffic calming and $500,000 for neighborhood conservation which often includes some transportation projects.

Recommendation: In addition to funding the Tier 3 strategic initiative of $1.1 million, the R&E Committee recommends an additional $1 million in funding for transportation capital maintenance. The additional $1 million would fully fund traffic signal, street light and bus shelter maintenance ($89,000), fully fund the 27-year maintenance cycle ($200,000 is diverted in the budget for repaving streets that have not been repaved because of the sidewalk requirement), and provide $711,000 for additional street repaving, additional slurry and a test of a longer lasting slurry formerly used by the county. This would go about 37 percent of the way toward the $1.9 million needed for a 15-year cycle, or could be viewed as a catch-up for only repaving 22 lane miles in calendar 2006 (FY07). Note that a 27-year paving cycle would mean that additional slurry applications would be needed because of much longer periods between repaving.

As shown below, Arlington's net tax support for Metro, Metrobus and Metro Access operations will increase by $2.7 million or over 18% to $17.4 million. This is equal to about 3 cents of the property tax rate. Over half of the total subsidy is offset by the regional gas tax and by state aid, which, in turn, is paid for by other taxes. In addition to rising fuel and operating costs, the increase in the Metrobus subsidy reflects the County's initiative to increase service on Columbia Pike to approximately the frequency of Orange Line Metro service. Based on projected ridership, Arlington's subsidy would be $0.18 for each Metrorail trip and $1.40 for Metrobus trip in addition to other state and Federal subsidies.

WMATA contributions in $millions.	FY05 Actual	FY06 Actual	FY07	FY08 proposed	FY08 increase	FY08 % increase
Metrorail	11.4	12.4	12.9	12.5	-0.3	-2.6%
Metrobus	15.1	16.6	18.3	21.0	2.6	14.3%
Metro Access	0.6	0.5	0.5	0.7	0.2	49.1%
Less state aid	-13.0	-13.1	-14.2	-14.2	0.0	0.0%
Less regional gas tax	-2.1	--3.6	-2.5	-2.5	0.0	-1.4%
Net tax support	11.8	13.0	14.7	17.4	2.7	18.4%

Arlington operates its own bus system (ART) 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 17% in FY05 as the system expanded and is expected to increase by about 7-8% in FY07 and FY08. County data show that for FY06, weekday fares covered 13.6 percent of cost, with the county covering 76.2 percent and the rest accounted for by state aid and business contributions. The county subsidy was $2.99 per rider, while the average rider paid $0.53. Subsidies for weekend service are likely higher because of much lower ridership. The budget shows non-personnel transit costs increasing by $318,000 for FY08, but still $208,000 lower than FY06. This may reflect some efficiencies from route changes in 2006. However, even the higher ridership level of 25 passengers per hour is less than half the ridership standards commonly used. The wide variation in ridership and low ridership on some routes suggests that the county should continue to examine whether some low ridership routes should reduced or eliminated.

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 more than doubled from 59,000 in FY02 to 126,000 in FY06. The number of trips is expected to stabilize at about 120,000 in response to an increase in user charges and other administrative changes. The proposed 49% increase in budget payments to Metro Access likely reflects a shift of some high-cost users from the Star Program to Metro Access.

As part of the new Master Transportation Plan and other development projects, the County is examining an ambitious program of transportation projects including a Columbia Pike streetcar system ($110-120 million), reconstruction of arterials and other county streets into "complete streets", a new parking administration, and expansions of ART bus service into more neighborhoods. While projects may obtain state or federal funding, unless modified, 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	FY07 (est.)	FY08 (est.)
Annual Metrorail trips (m)	56.28	59.66	61.15	63.59	65.50	68.81	68.15
Annual Metrobus trips (m)	11.61	12.20	12.46	12.96	14.20	14.50	15.00
Annual VRE trips (m)	0.76	0.87	0.97	0.98	1.01	1.03	1.05
Annual ART trips (m)	0.25	0.40	0.67	0.79	0.93	1.00	1.08
ART passengers per hour	na	20	19	19	21	25	25
Annual Metro Access trips	10,418	11,804	10,689	11,430	11,960	12,500	13,500
Annual STAR trips	59,485	74,829	89,649	108,809	126,164	119,690	120,000
ADA certified residents	1,257	1,267	1,060	1,052	1,085	1,100	1,100
Subsidy per STAR trip	$25.55	$26.99	$26.87	$26.14	$25.78	$27	$27

B. New Taxes and Fees

The proposed budget for FY08 contains a myriad of new taxes and fees, some designated to support policy and strategic 'options', and others ostensibly to 'recover costs'. During our review, a number of questions were raised as to the necessity and applicability of these fees. Two options were reviewed extensively, the Stormwater option and the Environmental Initiative. The table at the end of this section lists all of the proposed increases.

Stormwater Option

Over and above the County Manager's base budget proposal, his budget message presented on option for net additional spending of $2.75M ($3.039M of expenditures, offset by $289K of increased fees) to improve water quality and ensure regulatory compliance for the County's storm sewer system. Possible funding sources have been only suggested; a specific funding recommendation by the Manager has not yet been made.

We see this spending request and the source of funds for it as two separate issues, and have reviewed them as such.

The base budget already contains approximately $2.8M for stormwater management, with the funds spread over five different departments.

The strategic option requests NTS of an additional $2.75M, but it must be noted that this amount is for effectively a half-year effort. FY09 is already projected as a full year, at $5.88M.

The major components of the $3.039M of gross expenditures for FY08 are:

- $1.3M for capital items (storm drainage improvements and system maintenance).
- $250K for updating the stormwater master plan.
- 11.5 new FTEs, not all budgeted for a full year; cost estimated at $1.1M for FY08.

The majority of the new 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 over 300 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 30 years.

In broad brush, more than "maintenance by emergency" (such a culvert collapse) attention needs to be given to the stormwater system. Adding to that the environmental regulations tied to the Chesapeake Bay brings the Committee to the conclusion that more funding for stormwater efforts is needed.

We support the Manager's request for additional funding. Where we differ with him is on possible funding mechanisms.

The proposed budget offers three alternatives:

1. continued inclusion in the General Fund (in effect, paid through real estate taxes).

2. a special taxing district (an add-on to real estate tax bills, with the revenue dedicated to stormwater).
3. a stand-alone stormwater utility, comparable to the existing county water-sewer utility.

Beyond listing these three alternatives, there is no further discussion in the proposed budget books, although there are further details on each alternative contained in 11/04 Stormwater Program and Financing Action Plan.

We believe that stormwater maintenance is a basic function of government. We favor continued funding (including the FY08 new initiatives) through the County's general fund, and strongly oppose funding through a special taxing district or separate, new utility.

<u>Environmental Initiative (AIRE</u>)

Over and above the County Manager's base budget proposal, his budget message presented on option for additional spending of $1.5M for various environmental initiatives, to be funded by a new tax on residential utility bills.

We see this spending request and the source of funds for it as two separate issues, and have reviewed them as such.

On the spending side, we have learned that already included in the base budget is $1M in other environmental spending (e.g., $820K for "environmentally friendly fuels"; $128K for additional hybrid vehicles; $77K for purchase of wind power), plus an additional $400K in PAYG capital for 11 separate energy efficiency projects (primarily lighting and HVAC control retro-fitting).

In response to our queries staff provided a more detailed break-down of the four line item components of the Manager's proposal:

1. Outreach to residents & businesses ($272K). Staff broke this down as $75K for training for existing County design staff; $100K for technical assistance to the commercial sector (possibly including energy audits); and $97K for public outreach events and promotion, including travel to regional/national events.
2. Energy efficiency improvements ($600K). As previously noted, this amount is <u>in addition to</u> the $400K in the PAYG budget, bringing total proposed spending here to $1M. By comparison, $500K was spent cumulatively over the last six fiscal years (FY01-06). The County's experience to-date would indicate an energy savings payback period of around 5 years.
3. Demonstration projects ($200K). Staff described local government as a "laboratory for new technologies," as suggests a solar photovoltaic roof system on the Central Library and wireless building automation of lighting and HVAC in other county facilities as possibilities here.
4. Implementation ($428K). This covers the first year cost of 4 new FTEs. This would be in addition to 2 FTEs already in the DES base budget working on energy initiatives.

We question some of the components of this initiative, and propose it be reduced by $514K (from $1.5M to $986K), as follows:

- Delete $100K for assistance to the commercial sector. We feel this is not an appropriate use for local government dollars, and that the commercial sector is well aware of energy saving measures it can take if it so chooses.
- Delete $200K for the demonstration projects. We feel a municipality with a population of 200K residents should not be a laboratory for new technologies at taxpayers' expense, and feel that a county of Arlington's size should only be expending taxpayer dollars on environmental initiatives with proven success records.
- Delete $214K (two of the proposed four new FTEs) for implementation. As proposed, nearly 30% of the Manager's program is for additional staff. Two FTEs are already included in the base budget. We feel two new ones will be sufficient for the scope we are proposing.

On the revenue side, the Manager proposed a new residential utility tax, which would provide $1.5M of additional revenue to the County. This new tax would exactly equal the Manager's new spending proposals. Under the original plan, a maximum of $1.10 per month would be added to each residential electric and gas bill; the maximum paid by an individual household would be $26/year. This plan is 'subject to revision', but we have not seen the final plan advertised as of yet.

We reject the need for this new tax. We see it as both regressive and impacting only residential taxpayers, and feel that the small amount of proposed incremental expenditures ($1.5M proposed by the Manager; $986K supported by us) could be easily absorbed within the County's $875M General Fund budget.

<u>Permanent New Fees and Taxes for Unrelated or Time-Limited Purposes</u>

As stated previously, we believe that <u>all</u> of the suggested policy and strategic options in the proposed budget can be funded with existing and projected resources. That said, we believe there are two instances where directly related fees might reasonably be applied for proposed FY08 expenditures. One would be to increase parking meter and permit fees to pay for approximately $1.1 million for the resurfacing of streets, particularly for streets lacking curbs and gutters. If parking fees are raised, some consideration should be given to keeping existing rates for meters that have relatively little use, and for keeping the same rates in and around 2100 Clarendon Boulevard, where much of the County' s business is conducted. Even if the parking meter and permit fees are used in FY08 for the aforementioned purpose, it should be recognized that these permanent increases will simply go into the general fund in the future, and not necessarily be dedicated to future paving needs. If it is the intention of the Manager to use such funds for the same purpose in the future, perhaps such amounts could be built into each department's base budget for succeeding years, on an incremental, but not a substitution basis.

The second fee increase that could be seen to have some correlation with use would be an increase in certain DPRCR fees to fund renovation of drop in community fields. The Committee does not believe, however, that fees should be increased across the board for this purpose, nor should fees be used to fund the installation of a fence at a dog park that as yet is unauthorized. The increased fees we would recommend to fund renovation of the community field would be fees for the skate park and fees for non-resident adult sports leagues, <u>if</u> it is determined that no other source of funding is available. These particular fees are well below current cost recovery for their operation. We should note that as with parking meter fee increases, the 'associated' revenues go into general revenues after the first year, and there is no assurance that they will continue to be used to renovate community drop in fields.

Further, we question the general technique of arbitrarily raising new taxes or fees for unrelated purposes or for programs and projects that are time-limited. A nominated project or initiative may last only a year or two, but the taxes and fees continue indefinitely. And while they may have the appearance of being related or connected to the program or service being provided, the simple fact or the matter is that beyond the current fiscal year's budget, they are simply added to 'general' revenues in succeeding years. Even though some of these taxes and fees are modest, they add to the increasing affordability burden for homeowners, and especially lower income residents.

User Fees and Cost Recovery

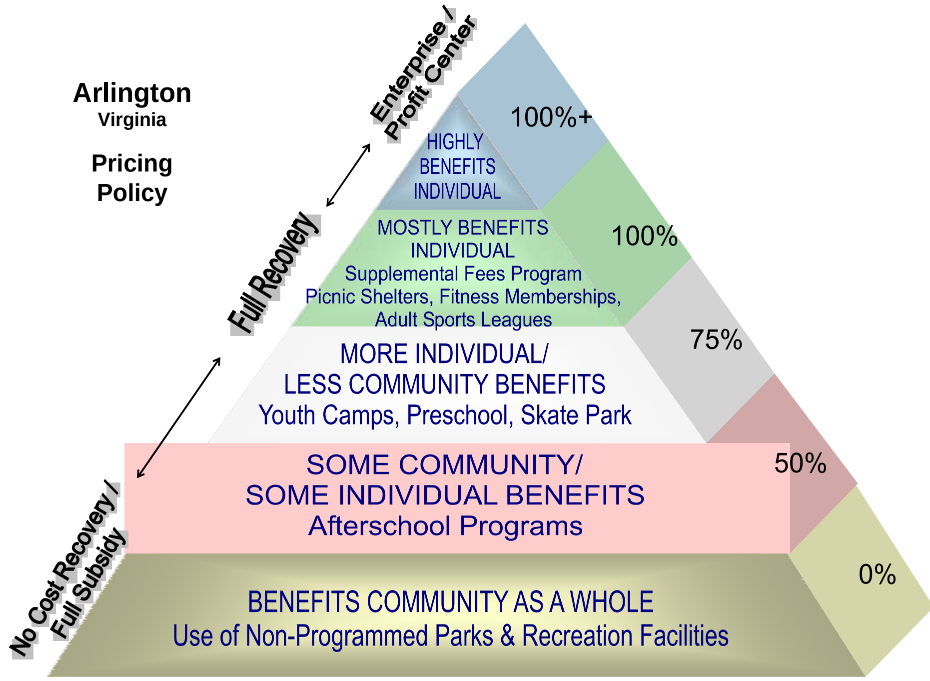
The Manager is proposing increases for a wide variety of fees. Many of the increases are justified by reference to 'user fees' or 'cost recovery'. While 'user fees' are widely used and generally accepted by the public, the best known perhaps being entrance fees for national parks, we were curious as to the County's policies and their application regarding such fees. We asked the following:

> **Does the County and PRCR specifically, have any written policies or guidelines regarding the application of user fees and cost recovery? If so, may we get a copy of these policies?**

The response was "In the past, fee increases were generally based on minor inflationary adjustments as opposed to a set cost recovery policy." PRCR went on to say "For FY 2008, PRCR has proposed a more defined methodology based on target levels of cost recovery. In order to determine fees, we calculate expenses to determine program costs; define the level of program benefit to the community or the individual; identify a target cost recovery rate based on benefit; and propose fee increases to move toward or meet the target cost recovery goals."

So until now, there has been no formal policy for user fees or cost recovery. An examination of recent increases (FY 2003-FY2007) show 0% increases for such programs and services as the Farmer's Market and picnic shelters, to 100% increases in fees for community gardens and developmental youth sports programs.

To their credit, PRCR has set out to rationalize its user fees by developing 'Cost Recovery Targets' based on how broadly the offered service or program benefits the community. The proposed 'pyramid' is shown following:



While there will no doubt be a robust debate on the assumed benefits of offered services, PRCR is to be commended for starting to rationalize this facet of its programs, which are generally very well run and extremely popular. We would encourage every other County department or program that charges ‘user fees’ or engages in ‘cost recovery’ to initiate a similar exercise. It can only add to the transparency of the process.

A more general question is to what extent PRCR and other County departments need to charge fees or recover costs. Clearly where the benefits are highly selective or supporting for-profit activities, some user fees are warranted. Beyond that, care should be exercised in increasing fees simply for the sake of ‘cost recovery’. After all, real estate and personal property taxes presently pay for everything not covered by user fees.

The following page lists all of the proposed increases in fees and taxes.

Schedule of Tax and Fee Increases, FY 2008

Tax	Current Rate	Proposed Rate	Target Taxpayer	Remarks
Real estate Tax	$0.818/$100	$0.818/$100	Residential + Commercial	Revenues will increase 4.60% due to increase in commercial assessments. Effective increase of 4.6%.
Chain Bridge Svc District	$0.0534	$0.053	Residents in Chain Bridge Service District	Annual repayment for design and construction of sewer line extension. 22 parcels involved.
2nd Road North Svc District	$0.223	$0.147	Residents in 2nd Road North Service District	5th year of 10-year repayment plan to pay for the construction of $45,000 sewer line extension.
Rosslyn BID Service District	$0.78	$0.82	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	$0.045	Commercial Properties in Certain Areas of Crystal City	An ad valorem property tax for properties in Crystal City. County gets 1% to offset admin costs.
Personal Property Tax	$5.00/$100	$5.00/$100	Vehicles + tangible personal property + machinery & tools	Staff recommends changing allocation of State funds to offer a 'discount' for "clean fuel" cars.
Landscape Cons. Plan Review Fee	None	$290.00	Homeowners + builders in Chesapeake Bay watershed	Would produce approx $88,000 for the Storm Water Strategic Option, paying for an additional arborist.
Household Solid Waste Fee	$260.36	$295/80	Households	Increase would be 13.6%, and produce $9.5 million. Continues practice of 100% cost recovery.
Utility Hook-up Fee	$40 (water $76 (sewer))	$$69 (water) $95 (sewer)	Developers for new or existing structures	Last increased in 1997. Change terminology from "hook-up fee" to "infrastructure availability fee."
Residential Utility Tax (elect + nat gas)	None	Max of $1.10/mo/ea	Residential homeowners	Generate $1.5 million for the environmental initiatives. Arl is only NoVa jurisdiction that doesn't have one.
Water and Sewer Rates	$$3.21 (water) $4.79 (sewer)	$3.34 (water) $5.86 (sewer)	All users	15% increase for combined. Average residential bill would increase by $84/year. Funds Utilities Fund.
Right-of-Way Permit Fee	$7.50/$5.50 $0.03/$0.30	$15.00/$11.00 $0.10/$0.50	Developers	Produce $229,000 for infrast/mtce initiative. For pkg meters and linear foot lane. Last increase FY '06.
Parking meters fees	$0.50 $0.75	$0.75 $1.00	Parking meter users	Produces $900,000 for Mgr's infrastructure and mtce initiative. Last increase was 1989.
Signs, Rezonings, & Various Permits	See schedule.	See schedule.	Developers	Produces $84,000. Last increased FY 2005/
PRCR Fees	See schedule.	See schedule.	Residents + non-resident users.	Additional $296,000. "Closer to full direct cost recovery. Use for infrastructure + mtce initiative.

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', aka 'surpluses' and/or 'Unreserved reserves' in recent years. Much of this resulted from the County underestimating the increase in real estate assessments, or simply not spending as much as was authorized. These 'surpluses' are temporarily parked in certain reserve categories, and may be 'distributed' or spent in subsequent fiscal years. However, there is no obligation to spend these amounts, or use them for current or future tax reductions. The following table shows the level of these reserves in recent years.

	2002	**2003**	**2004**	**2005**	**2006**
'Unreserved' Reserves ($000)					
Self insurance	3,500	3,500	3,500	3,500	3,500
Operating reserves	12,600	13,400	14,400	15,200	16,600
Subsequent year's Budget	15,839	17,041	24,240	29,109	34,576
Incomplete projects	27,024	21,241	15,497	16,466	41,251
TOTAL (Less Insurance & Operating Reserves)	42,863	38,282	39,737	45,575	55,727

As of June 30, 2006, there was approximately $75 million in two unrestricted reserve categories, 'Designated for Subsequent Years Budget' and 'Designated for Incomplete Projects'. In the County's annual closeout exercise, these funds can be legally reserved, appropriated, or 'designated'. Even after making allowances for transfers and appropriations that may be made by the Board in FY07, there appears to be at least $40 million that is available, in current funds, to pay for a broad spectrum of programs and activities. The Committee has discussed this issue with staff on several occasions, and unless there remain some budgetary or accounting conventions that we are unaware of, this money is available.

With respect to the composition of the reserves, we see no need to distinguish between a 'Reserve for Self-Insurance' and an operating reserve. Both cover unexpected contingencies so there is no real purpose served for segregating them. Moreover, consolidating the Reserve for Self Insurance to the Operating Reserve gives the County even more of a balance with the rating agencies.

For that matter, unless it is decided to set up a separate reserve account for the GASB retiree health care actuarial liability, any funds reserved for that purpose could be further added to the 'Operating Reserve'. This might please rating agencies while complying with the GASB requirement to identify the liability.

As we noted last year "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." If the County can find no useful purpose for this surplus, refunding or crediting part of it against future taxes would be a welcome alternative.

D. Affordability Indicators

As residential assessments have risen in double digits for the past six years, real estate taxes and County expenditures have also increased, well beyond the growth in population and inflation. For 2007, housing prices and rents are at an all-time high, as shown below:

AVERAGE ASSESSED VALUE (2007) - $593,607

Single-Family Detached House	$701,408
Single-Family Attached House, Townhouse	$689,847
Condominium Townhouse	$551,606
Condos & Cooperatives	$353,486

Percent change in average assessment (2006 - 2007) -0.8%
Source: Arlington County Department of Real Estate Assessments.

AVERAGE RENT (2006) - $1,480 per month

Efficiency	$1,123
One Bedroom	$1,332
Two Bedroom	$1,708
Three Bedroom	$2,160

Percent change in average rent (2005-2006) 3.0%
Source: Arlington County 2006 Rent and Vacancy Survey.

Current per capita and median household income is shown below:

2007 Median Household Income	$84,800
2007 Per Capita Income	$63,500

Source: Arlington County Planning Division estimates.

Without reference to other costs, we thought it would be useful to calculate incomes required to purchase the average house or condo in Arlington. So we went to a mortgage site, and plugged in the average housing costs, added Arlington's real estate tax rate, 1/10th % of value for insurance, a 20% down payment, and a 6%, 30-year mortgage. The results are as follow:

Single-Family Detached House ($701,408):	**Qualifying Income: $166-173,000**
Single-Family Attached House, Townhouse ($689,847)	**Qualifying Income: $164-170,000**
Condominium Townhouse ($551,606):	**Qualifying Income: $131-136,000**
Condos & Cooperatives ($353,486):	**Qualifying Income: $86-87,000**

We believe these figures speak are accurate and speak for themselves, and the trend is certainly upward. And consider what an increase in mortgage rates to 7 or 8% would do to the PITI.

So it is with some concern that we see that the Manager's proposed budget includes a sweeping variety of new taxes and fees, none excessive taken by themselves, but definitely adding to the affordability burden of living in Arlington.

One example serves to illustrate:

> *It is* ***proposed to increase water/sewer rates by 15 percent****, from $8.00 to $9.20 per thousand gallons. The estimated increase in annual costs for a household is $84. Total revenues for the Utility Fund would to almost $69 million. The year-to-year increase in revenues to the system would be $8.9 million, 94 percent ($8.1*

million) of which is accounted for water/sewer billing. Seventy eight percent of the increase in revenues from FY 2007 to FY 2008 ($6.7 million) goes to pay for increased debt service. (The increase in debt service from FY 2006 to FY 2007 is expected to be about $5.3 million.) The proposed FY 2008 transfer to the utility construction fund is expected to be $9.5 million, a figure fairly close to FY 2006 and 2007 transfers for construction.

Water/Sewer Service Rates / 1,000 gallons

										Proposed
1998	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
$4.19	*$4.19*	*$4.19*	*$4.46*	*$4.58*	*$4.70*	*$5.30*	*$6.20*	*$7.13*	*$8.00*	*$9.20*

*For FY 2008, it is proposed that **household solid waste pickup fees increase by $35.44 (13.6 percent)** which would bring the annual fee to $295.80. Total revenues for the Solid Waste Bureau are proposed to rise by 13 percent. Ninety five percent of the increase is due to "non-personnel costs", largely higher waste hauler contract costs (including fuel) and higher charges at the waste-to-energy plant.*

Refuse /Recycling Fee

										Proposed
1998	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
$160.60	*$168.60*	*$197.64*	*$219.48*	*$219.48*	*$227.92*	*$232.40*	*$245.64*	*$248.76*	*$260.76*	*$295.80*

A number of other market related costs, particularly those associated with the cost of energy (e.g., transportation, utilities) have also increased significantly in recent years.

So to the above costs it is now proposed to add a residential utility tax that would range from $1.10 per month to approximately $3. It's not the absolute amount that hurts; it's piling these costs on top of other costs that add to the generally high cost of living in Arlington. We believe the County needs to be very circumspect about increases to the permanent fee and tax base in Arlington, particularly given other increases in the cost of living.

E. <u>Personnel, OPEB, Compensation</u>

Personnel costs, including a large and growing amount for health care both current and post-retirement, make up a very large share of the County budget. This calls for some rationalization, particularly Arlington's open competition with surrounding jurisdictions which some believe has resulted in a 'wage war'. Given the amount of time that County employees devote to their jobs, over and above the standard 40 hours a week, and their general level of courtesy and competence, we as residents should want to make sure that they are both recognized and appropriately compensated for their efforts.

But the pressures of a tight and competitive labor market, together with ever increasing health care costs make 'affordability' a relevant question, further leading to an examination of the form and composition of compensation. To address this, the County has commissioned a 'Compensation Study'. Hopefully this will offer solutions that will address both affordability for the County, and fairness to the employees. But the problem is, no one outside the County has yet seen this study. Therefore, it is difficult for this Committee to make specific judgments or recommendations at this time.

We are indebted, nevertheless to Committee member Frank Emerson, who also examined part of this issue for the FAAC. His comments and observations are shown below:

> As seems to be established practice, compensation receives relatively light treatment in the Proposed Budget. It would be useful for future Proposed Budgets to include several years of data on compensation costs – the largest component of County expenditures – similar to the coverage of numerous other programs.
>
> Most increases in employee pay result from a combination of within-grade "step increases" plus a "market pay adjustment." According to staff, although step increases are intended to reflect merit pay, the vast majority of employees receive step increases each year. Steps range from 4.1 % down to 2.3 %, as an employee approaches the top of a pay grade, now step 18. The Manager is proposing the addition of a step 19 to the pay schedule at a cost of about $1 M, in order to provide a raise to the more than 10% of County employees who would become eligible for step 19. Additional steps have been added in recent years.
>
> The proposal that no across-the-board "market pay adjustment" be included in the FY08 budget is an understandable source of concern for employees. However, to put the current situation into perspective, note that, between the FY 2007 Adopted Budget and the FY 2008 Proposed Budget, General Fund personnel expenditure grows more rapidly than the total General Fund budget. The most rapid increase has occurred in fringe benefits, especially retirement, and for health care – for which Arlington is believed to have more generous plans than many local jurisdictions. At the recent rate of growth, expenditures on health – excluding funding for Other Post Employment Benefits (which are referred to with the acronym "OPEB") – would double in about 5 years.

	FY 2007 Adopted Budget	FY 2008 Proposed Budget	Percent Change
General Fund Personnel Expenditure	$285.5 M	$303.7 M	+6.37%
Pay / Salaries	$214.5 M	$220.1 M	+2.61%
Fringes/ Other	$71.0 M	$83.6 M	+17.7% *
Health	$26.15 M	$29.97 M	+14.6%
Total G.F.	$828.9 M	$873.6 M	+5.39%

> * Total FY 2008 fringe expenditures include a more than $5 M increase in expenditure for retirement plus a nominal $1 M for OPEB, that was not in last year's budget.

Although the regional CPI-U is up 2.9%, neither Arlington nor – according to recent reports – Alexandria is planning a general MPA /COLA. Both are considering a new pay step; and it is proposed that APS staff receive a 2% COLA – in addition to step increases. It has been reported that a number of outlying jurisdictions are planning on approximately 3% general pay increases.

With respect to total employee compensation, the major concern at the moment is the funding of so-called Other Post-Employment Benefits. OPEB's principal components are health care, and life and disability insurance. To date, the County has covered these costs on a pay-as-you-go basis.

There is now a Government Accounting Standards Board requirement ("GASB 45") that liabilities for future OPEB expenditures be 'recognized'. Preliminary estimates of these liabilities, as of about a year ago, were on the order of $365 M for the County and $182 M for Schools. It is estimated that the County's Annual Required Contribution to fully fund the existing OPEB liability of $365 M over several decades is $37.5 M. This would bring the combined annual health-related expenditure for both FY 2008 health and OPEB costs to about $67 M.

Although there is no requirement that these liabilities actually be funded, it is expected that they will be of concern to the bond rating agencies. These agencies would be expected to examine plans for funding the OPEB liability when assigning ratings to the County's bonds. As of late March, there was a bill awaiting the Governor's signature that would permit jurisdictions to establish trust funds for OPEB that would be very similar to, but separate from, the County's retirement trust fund.

The Arlington County Employees' Retirement System has a trust fund that covers primarily County employees. (Most Schools' staff are covered by a separate system.) Annual payments into the trust fund have been increased during the last several years, and are expected to level off in FY 2009 at 13.3% of pay. This System is currently well funded with about $1.3 billion and is subject to annual audits and the publication of an annual report.

The Committee is recommending an additional contribution to OPEB (for the actuarial health care liability) of $1.7M. This is in addition to the Manager's proposed contribution of $1M. Suffice it to say that a great deal more needs to be done to address the compensation and retirement liability issues, plus the Arlington affordability issues that impact our employees as well. The Committee will continue to monitor and report back to the membership on these issues.

F. Opportunities for Cost Savings

With much of the focus of this Committee on fiscal prudence and affordability, it's only fair for others to ask 'So what are your solutions?' We have made but a modest beginning to address this question, and would like very much to engage the ACCF membership in a similar exercise during the year. But for now, we offer three areas where we believe both costs and/or emissions could be reduced:

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.

G. Report of Civic Federation Schools Committee on the Arlington Public Schools Proposed FY2008 Budget

The Schools Committee has reviewed the Superintendent's Arlington Public Schools (APS) FY2008 proposed budget for new initiatives.

REPORT ON THE ARLINGTON PUBLIC SCHOOLS DRAFT FY2008 BUDGET

The Schools Committee has reviewed the draft Arlington Public Schools ("APS") FY2008 proposed budget for new initiatives. These initiatives will be funded by a combination of $14.7 million in new funds and approximately $0.9 million in redirected funds (e.g., savings or budget cuts from existing programs).

Overall, the proposals appear fair and sensible, in light of present needs and the looming issues of rising debt service, construction projects and health benefit costs for retirees. In a few areas, the Committee feels that the proposals should either not be funded at all, or should be directed differently, as described below. The Committee assumes $2.9 million more in revenue that the draft APS budget does, and allocates those resources in ways that are specifically identified in the report below. To summarize, there is an additional $0.87 million in budget savings that are not included in the APS draft budget, but which the School Board was advised at its March 23, 2007 work session would very probably be available. We recommend using this money for the Washington-Lee construction set aside, for which $15 million will eventually be needed, and for which the APS draft budget recommends setting aside approximately $4.2 million. Similarly, the Federation's Revenue and Expenditures Committee ("R&E") has estimated that an additional $0.9 million will be due APS in re-estimated revenue in calendar year 2007. R&E has also estimated that real estate assessment growth in 2008 will be 5%, instead of 4% as the County Manager's proposed budget indicated. This would result in an additional $1.06 million for APS, which we have proposed allocating to an additional salary adjustment for staff, were it to become available. A basic summary of the elements of our recommendations is as follows:

Revenues

$329,704,141	(APS Estimated County Transfer)
$ 3,480,810	(APS Re-Estimated Revenue - FY 2007)

$ 3,329,915[1]/	(Carry Forward/Budget Savings)
$ 886,949	(R&E Additional Re-Estimated Revenue - Calendar Year 2007)
$ 1,056,826	(R&E Estimated Add'l Revenue Growth Increase - CY 2008)
$ 48,195,396	(APS Estimated State Revenues - sales tax & other)
$ 13,835,887	(APS Estimated Federal Revenue)
$ 12, 453,413	(APS Estimated Other Revenue)
$412,943,337	(TOTAL)

[1]/ Includes an additional $0.87 million that the School Board was advised at a March 23 work session was available.

Previously Accumulated Reserves (not counted elsewhere)

$ 4,000,000	(reserve fund)
$ 1,400,000	(OPEB - retiree health benefits set-aside)
$ 5,4000,000	(TOTAL RESERVES)

Expenditures

$328,087,480[2]/	(Operating fund) (APS draft budget is $1.98 million more)
$ 14,318,922	(Community activities)
$ 5,814,295	(Cafeteria fund)
$ 13,373,544[3]/	(Capital projects) (APS draft budget is $0.75 million less)
$ 3,650,000	(Comprehensive services)
$ 15,988,148	(Grants & restricted programs)
$ 27,670948	(Debt service)
$ 2,040,000	(Capital reserve) (APS draft is $2.04 million less - proposes $0)
$ 2,000,000	(Additional reserve fund contribution - see below) (APS draft is $0)
$412,943,337	(TOTAL)

Revised Reserves (not counted elsewhere)

$ 4,000,000	(reserve fund) (APS draft budget is $2 million less)
$ 3,400,000	(OPEB - retiree health benefits set-aside)
$ 7,400,000	(TOTAL RESERVES)

SPECIFIC RECOMMENDATIONS

1. Compensation.

A. Salary adjustments for all staff of 1% (the Superintendent recommended 2% at a cost of $5.2 million; $2 million can be redirected to OPEB fund, $0.36 million redirected to capital reserve).

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[2]/ Includes $1.06 million R& additional re-estimated revenue growth increase - calendar 2008.

[3]/ Moves $ 1 million for Reed School (a rejected proposal) from Capital Projects to Capital Reserve. Includes $0.9 million in R&E additional re-estimated revenue - calendar year 2007. Also includes $0.87 million in budget savings that the School Board was advised of in its March 23, 2007 work session.

B. Eliminate the proposed study on merit pay for teachers ($0.25 million can be redirected to the capital reserve)

C. Delay the proposed academic and athletic stipends ($0.32 million can be redirected to the capital reserve)

Rationale: We believe a 1% across-the-board salary adjustment (formerly known as a COLA) is sufficient this year, in light of other growing pressures on the budget. County employees will receive no COLA at all under the County Manager's proposal, and there is no evidence that APS has fallen behind in competitiveness with other jurisdictions in terms of salaries. The personnel department, which is normally quick to warn of such trends, provided no evidence this year that it was having difficulty recruiting for positions, and little evidence that APS salaries were significantly lower than neighboring counties. Because we believe that it is important to fund the set aside for retiree health benefits (commonly called "OPEB," for Other Post-Employment Benefits Reserve) without reducing the $4 million reserve fund, we believe APS should provide a 1% salary adjustment and use $2 million of the $2.6 million saved to fund the OPEB reserve. The remaining $0.6 million should go to the capital reserve fund. Since the R&E Committee has projected a 5% growth in real estate tax assessments next year, rather than the 4% projected by the County Manager, this would result in an additional $1.06 million for APS under the Revenue Sharing Agreement. We would use this money and $0.24 million of the $0.6 million referenced above to increase the Schools Committee's proposed salary adjustment from 1% to 1.5%. The expenditure figures on page 1 reflect our recommended reapportionment.

A minority view is that the Superintendent's recommended 2% adjustment should be supported.

Regarding the proposed study on differentiated pay for teachers, we believe that there is no good way to objectively measure teacher performance and no jurisdiction where merit pay has been successfully introduced. Therefore, we believe this is not a fruitful area for study and the funds should be directed elsewhere. This money is for the further implementation of a differentiated pay program that provides a salary step increase for teachers who have achieved National Board certification. We have not seen compelling evidence of a direct correlation between the certification and good teaching, and therefore believe that a different way should be found to reward good teachers, or the money should be available to all. A minority view is that teachers who have already achieved the certification should continue to receive the $2,000 annual stipend they have received in the past, but that the salary step increase proposed by the Superintendent should not be implemented.

Regarding the proposed academic and athletic stipends, we believe these should be delayed and reserved for positions that are difficult to fill or to recognize particularly outstanding performance. Further analysis of all stipends is warranted.

2. OPEB:

Reject the Superintendent's proposal to use $ 2 million from the $4 million reserve fund, and instead use $ 2 million from salary adjustment savings.

Rationale: The Board's budget guidance was to maintain four million dollars in the reserve fund, and the Superintendent's proposal clearly does not follow that guidance. We see the reserve fund as money for one-time, unforeseen emergencies -- like a sudden drop in revenues, or the roof blowing off a school in a storm. The need for increased OPEB contributions is different: it was apparent more than a year ago that additional money would be needed in some amount, and it is not one-time. More money will be needed next year, as we build over five years to a new, higher annual contribution level. Further, we believe that $4 million is an appropriate size for a reserve fund, given the size of the system's operating budget, and the fund should be kept at that level. If the Board maintains the reserve at $ 4 million for the future, then the money removed this year will have to be replaced next year, and another substantial OPEB contribution will still be required. We do not see where the additional revenue will come from next year to do that.

3. Data Warehouse

Reject $0.04 million in proposed new spending.

Rationale: The Superintendent proposed redirecting $0.37 million in existing IT funds to investing in new software that allegedly will permit APS to use data from multiple data bases. In addition, he proposed $0.04 million in new funds for this project. We question whether our needs could be better met by other means, such as outsourcing to companies that specialize in data aggregation and analysis, which is the trend in the federal government. We are also concerned whether the investment in a data warehouse will produce the answers to questions that have long been raised by the Schools Committee, Board members and members of the public concerning the progress of students on a longitudinal basis, turnover of students and staff, and other factors affecting subsets of teachers and students for which data has so far been unavailable despite the recent substantial investments in various computer systems. Given those reservations, we would reject the Superintendent's request for $0.04 million in new funds for this project.

4. Attendance Social Worker

Reject the Superintendent's proposed $0.07 million for an additional social worker to address middle school attendance issues.

Rationale: A secondary school social worker was added to the budget last year. We believe that truancy should be handled with existing staff, and we are skeptical that adding another social worker will significantly improve attendance.

5. Expanding the Elementary School Foreign Language Program to Two Additional Schools

Reject the Superintendent's proposal for $0.3 million in new resources for this project, and spend the money instead on additional core instruction at two schools that are not making Adequate Yearly Progress (AYP) under the federal No Child Left Behind Law.

Rationale: We are reluctant to fund the continued expansion of the elementary school foreign language instruction on Wednesday afternoons in place of the current practice of releasing students early to provide teachers with planning time. We believe that, prior to expanding this program to other schools, APS should have at least one year of data to determine the extent to which the current project in the existing two schools in which it is located is successful and ensure there are established proficiency benchmarks to measure before expanding the program to other schools. As long as we have elementary schools that have had to implement federally-mandated tutoring programs because they have not met AYP standards, we believe funds would be better spent on additional core instruction at two such schools. A minority viewpoint would not designate how money saved from not funding this project be spent, other than including it in the capital reserve.

The Strategic Plan has some ambitious foreign language goals for 2011. It anticipates that 44% of Arlington students will be achieving at level 3 proficiency by the end of grade 11 by 2011, and that 55% of Arlington students in grades 6-12 will "participate in foreign language classes at various levels" by 2011. It sets no goals for elementary school foreign language instruction: neither completion of a certain amount of instruction by 5th grade, nor achievement of a certain level of proficiency. In order to integrate 5th grade foreign language instruction into the Strategic Plan goals and amend those goals as appropriate, we need something more than the kind of haphazard approach that the budget proposal indicates. We ought to be able to develop such a plan within a year and have a comprehensive program for grades 5-12 outlined in the FY2009 budget. Then we will know what we have to do and what it will cost in new resources to achieve our goal.

6. Construction

Reject the Superintendent's proposal for $ 1 million in new resources for the Reed School project.

Rationale: Cost overruns and the projected costs of obtaining a LEED silver certification for the project have led the Superintendent to seek an additional $1 million to complete the Reed project. Setting aside our reservations, expressed many times in the past, about the relatively low priority this project should have been given in the first place, we feel that APS should build as efficient a building as possible, without going to the additional trouble and expense of seeking certification of its efforts. The certification adds approximately $0.25 million to the total cost of the project (of which APS' share would be $0.19 million), primarily in documentation and several design features, such as showers for those who bike to the building, that do not appear to relate to APS' primary mission to educate our students. In addition, cost of the project could be reduced by another $750,000 if the day care center and Integration Station programs were located at a different site. APS has several elementary schools that are operating at approximately 60% capacity. As the schools are currently constructed, none of them has enough empty classrooms to fully accommodate both programs. However, some schools appear to have space for 3-4 trailers which, in combination with the unused classrooms, would provide adequate space for the programs. We understand that APS was planning to locate the programs in trailers at the Wilson School site during Reed's construction, indicating that it is acceptable to house the programs in trailers, at least for a time. Perhaps the trailers can be moved to an under-capacity elementary school so that the classrooms and trailers can be used efficiently (and the Rosslyn neighborhood can reclaim some of its green space on the Wilson site).

7. Allocation of Savings From Our Proposals

We recommend that $ 2 million of the $4.2 million in savings that our proposals represent be used to fund OPEB, and the remaining amounts be allocated to the capital reserve fund, in light of the projects in our immediate future, such as Wakefield, Thomas Jefferson Middle School and the completion of Yorktown.

In addition, we are concerned about the draft budget's proposal to reduce the $ 6 million Washington-Lee set aside proposed by the Superintendent by $1.7 million in order to fund a variety of other projects. This money is part of the $15 million that will be needed to complete Washington-Lee High School. The proposed reduction is unnecessary, as the additional funds are available from two sources. Specifically, we understand that there is approximately $1.9 million in additional real estate revenue not in the County Manager's budget book, of which approximately $900,000 is due to APS under the Revenue Sharing Agreement. In addition, there is another approximately $850,000 in carry-forward funds from money APS did not spend in FY2007 (according to a report at the School Board's 3/27/07 work session). We feel this money should be used to fund the other projects, rather than money that will be needed for Washington-Lee.

8. The Superintendent's Proposed Budget

We applaud the Superintendent for identifying over $4 million in baseline funds that he felt could be better spent in other ways. This improved the transparency of the baseline portion of the budget. A suggestion for next year would be to list the specific sources of redirected funds. As an example, next year he might say, "Program XYZ is being reduced by $20k and the funds will be redirected to Program ABC." This should eliminate any confusion and further improve transparency.

Approved by the Schools Committee: 7-2

William Barker
Gerry Collins
Barbara De Pauw

John De Pauw
Reid Goldstein
Herschel Kanter
Roye Lowry
Roger Meyer
Tim Wise
Beth Wolffe, Chairwoman

R&E Committee Recommendations and Proposed Resolutions

Fiscal

1. Whereas Arlington County has advertised a real estate tax rate of $0.818 per $100 of assessed value, and if adopted at that level will result in a decrease in taxes for the average homeowner,

Therefore, be it resolved that the Federation commends the Manager and the Board for ‘holding the line’ on the real estate tax rate.

2. Whereas the Manager has identified a ‘surplus’ in the base budget of approximately $1.3 million, and whereas a number of basic services for the needy were cut due to reductions in LPACAP and CDBG grants;

Therefore, be it resolved that the Federation heartily agrees with and commends the Manager for proposing restoration of some of these funds with the identified ‘surplus’.

3. Whereas the Manager has proposed a policy option of $1.5 million per year to fund an environmental initiative, and whereas it is proposed to fund this initiative by the imposition of a new residential utility tax;

Therefore, be it resolved that the Federation recommends an amount of $1 million for this initiative including the addition of 2 new FTE’s, to be funded from the base budget and/or ‘unreserved’ reserves;

4. Whereas the Manager has proposed a strategic option of $3 million for FY08 to fund improvements to the County’s stormwater system, and whereas it is proposed to fund this option with new user fees and the imposition of a yet to be determined new utility tax or ‘special taxing district’, and whereas the County’s stormwater system is a part of its basic infrastructure, as are roads and bridges,

Therefore, be it resolved that the Federation recommends that the Manager fund the necessary improvements to this basic necessity from the base budget and/or ‘unreserved’ reserves;

5. Whereas the County’s repaving and road maintenance has fallen well behind its normal 65 lane miles 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 $1M for the purpose of paving and street maintenance, to be funded from the base budget and/or ‘unreserved’ reserves;

6. Whereas the Manager has identified a need to address certain new requirements for funding retirement health care liabilities as suggested by the Government Accounting Systems Board (GASB), and whereas the Committee believes there are sufficient current and projected funds to make an additional contribution to a reserve for this purpose,

Therefore, be it resolved that the Federation recommends that the Manager contribute an additional $1.7 million (over and above the proposed $1 million) to be funded from the base budget and/or 'unreserved' reserves;

7. Whereas the Manager is proposing increases and adjustments to a number of taxes and fees, and whereas adoption of some of these fees will add directly to the affordability burden for Arlington residents;

Therefore, be it resolved that the Federation asks the Manager and the Board to please consider whether there is not sufficient actual and projected resources, including 'unreserved reserves', to reduce or eliminate those increases that most directly impact homeowners and lower income residents;

8. Whereas the Federation believes that if the Manager determines that alternative sources of funding for certain optional programs and activities as identified in the Manager's proposed budget are not available, and that new taxes and fees can be closely associated with these options;

Therefore, the Federation recommends that the following taxes and fees associated with specific programs and options be considered for adoption:

> A. For the renovation of 'drop in community fields' ($101,000): Increases in PRCR fees of approximately $100,000 to be assessed to skate park and non-resident in Adult Sports Leagues;
>
> B. For funding additional paving and street maintenance ($1.1 million): Increases in parking meter fees and permits in the amount of $1.1 million.

9. Whereas the proposed changes in the personal property tax are not well substantiated and may not in fact act as incentive to improve the environment,

Therefore, be it resolved that the Manager defer the proposed change in the personal property tax until additional substantiation can be provided;

10. 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 47.8% 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.

11. 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 in expenditures be accomplished by the following measures:

A. Adjusting the CY07 assessment base resulting in an increase in projected revenues of $1.9M.
B. Increasing CY08 projected real estate revenues from the County Manager's estimate of 4% to a still reasonably conservative projection of 5%, for an increase in projected revenues of $2.2 million.
C. Using funds available in the category of ‘unreserved’ reserves
D. Directing the Manager to allocate 1% of the operating budget to ‘savings’ of up to $4.6 million, at his discretion.

Procedural

Whereas many of the recommendations of the ACCF’s budget resolution of April 5, 2005 and April 4, 2006 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 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 routinely be used as 'supplemental' appropriations. 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 necessities and 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. 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.

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<u>Respectfully submitted April 3, 2007</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 FAAC and ACCF Executive Committee)

Roye Lowry, Member (also member of Schools Committee)

Wayne Kubicki (Arlington County Taxpayers Association)

Roger Morton (Highland Park-Overlee Knolls Civic Association)

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