County Executive Message

February 21, 2023

Honorable Board of Supervisors
County of Fairfax

Chairman and Board Members:

Several months ago, we presented the FY 2024 Fiscal Forecast, which projected healthy revenue increases, driven primarily by growth in residential real estate, but also identified significant expenditure pressures, including those driven by a tight labor market and high inflation. Although the specific numbers have been updated, the underlying message in the budget I am introducing today remains consistent with the November forecast. With unemployment at historically low rates, we are struggling to attract new employees. Our residents, and our own County agencies, are experiencing the negative impacts of high inflation. And the Fed's actions to increase interest rates to curb inflation could result in an economic slowdown in the coming year. Therefore, this budget serves to stabilize and support our core – our employees and our existing programs – with the understanding that a significant expansion of services may be difficult to support in future years if revenues begin to wane.

The FY 2024 Advertised Budget Plan focuses on support for Fairfax County Public Schools and employee compensation, while addressing inflationary challenges and providing for targeted investments towards other County priorities.

This budget proposal demonstrates significant support for our partners at Fairfax County Public Schools (FCPS) and prioritizes support for our employees, including pay increases and required contributions to the County's retirement systems. With other required funding primarily to meet inflationary impacts, requirements for new facilities, and limited, targeted investments in other priority areas, I believe that this proposed budget meets many of our most urgent needs. Additionally, it offers considerable flexibility for the Board to provide tax relief or make additional investments. Today, I present the FY 2024 Advertised Budget Plan for your consideration.

Last year, growth in the County's budget was primarily driven by increases in residential real estate values, fueled by the shift to telework and the desire of many of our residents to search for homes with additional space to accommodate work-from-home arrangements. This trend continued into 2022, with prices starting to moderate towards the end of the year as the Fed's recent actions to increase interest rates has decreased the borrowing power of those searching for homes. Despite the slowdown, residential equalization was still a strong 6.97 percent as of January 2023. While rising interest rates contributed to a slowdown in the housing market, they have positively impacted the County's projected yield on cash investments. As compared to actual revenues received in FY 2022, revenues in this category are projected to be up more than 500 percent, or almost $100 million, in FY 2024. This growth is a primary contributor to the projected overall General Fund revenue growth of 5.8 percent.

Although non-residential real estate posted a positive 1.65 percent for this fiscal year, the commercial market continues to be affected by lingering impacts of the pandemic. For the third year in a row, the County's largest commercial real estate segment, office elevator buildings, posted a negative equalization change. This decrease was offset by a rebound of hotel values and increases in industrial and retail properties. With another year of residential growth outpacing non-residential, the burden on the County's homeowners grows heavier. Assuming no change in the current Real Estate

Tax rate of $1.11 per $100 of assessed value, the average tax bill will increase by just over $520. I have developed a budget based on the current tax rate. That being said, I have **left a balance of just over $90 million for the Board's consideration**. This balance can be used to provide real estate tax relief, increased pay adjustments for County employees, investments in other County priorities, or whatever the Board deems as necessary moving into the next fiscal year.

The Ten Priority Areas included in the Countywide Strategic plan include:

- Cultural and Recreational Opportunities
- Economic Opportunity
- Effective and Efficient Government
- Empowerment and Support for Residents Facing Vulnerability
- Environment and Energy
- Healthy Communities
- Housing and Neighborhood Livability
- Lifelong Education and Learning
- Mobility and Transportation
- Safety and Security

The action the Board took last year to expand the County's tax relief program for the elderly and disabled will provide relief for thousands of residents this year. Included in the program adjustments approved last year were additional expansions for this tax year. These include the new 75 percent tax relief bracket and tax deferral program. The projected revenue reduction associated with these changes, totaling $2.7 million, is included in this budget proposal.

Another area where the Board acted last year to provide tax relief to our residents was for Personal Property taxes. As a result of the pandemic and its impact on supply chains, vehicle values skyrocketed last year, and assessments increased over 30 percent from January 2021 to 2022. Combined with the declining impact of state Personal Property Tax Relief Act (PPTRA) funds (which have been frozen at $211 million since FY 2007), taxpayers were faced with significant increases in Personal Property Tax bills. However, the Board approved a resolution adopting a vehicle assessment ratio of 85 percent of the trade-in value, as allowed by State Code, to help offset this impact.

For this year, trends seem to have reversed. November 2022 data from the National Automobile Dealers Association (NADA), which was used in developing recommendations for the FY 2024 budget, indicated that, while still elevated by historical standards, vehicle values are declining compared to January 2022 levels. Using these preliminary values, Personal Property Tax revenue would have increased approximately $60 million from the FY 2023 estimate (which included the 85 percent assessment ratio). However, with the understanding that the Board would wish to take action to mitigate the still-elevated vehicle values and keeping in mind the unexpected changes in vehicle values that occurred last year between the November and January 1 assessment data, we recommended that Personal Property tax revenue be held flat from the FY 2023 estimate. Updated information from NADA regarding January 1, 2023 vehicle assessed values confirms the decline and suggests that a 90 percent vehicle assessment ratio might be appropriate for FY 2024, which will keep the FY 2024 average vehicle levy relatively flat. Staff continue to evaluate vehicle value trends and will make a final recommendation to the Board of Supervisors about the assessment ratio prior to adoption of the FY 2024 budget.

This year's budget proposal recommends limited increases to taxes and fees. One of the more noteworthy recommendations is to increase Emergency Medical Services (EMS) EMS Transport fees, which is expected to generate almost $2 million. Current rates have not been adjusted since 2014 and surrounding jurisdictions have recently increased their rates. It should be noted that 97 percent of EMS Transport fees are paid by insurance companies, and Fairfax continues to have a compassionate billing policy. The refuse collection fee for the approximately 44,380 households served in the County's approved sanitary districts is proposed to increase to $490 per home, up from $475 in FY 2023. This adjustment is proposed to meet increased labor, equipment, and contractual costs. We are also recommending that sewer charges be increased by 6.2 percent in FY 2024. This includes a baseline increase of 5.9 percent and an increase of 0.3 percent as a result of the Developers' Reimbursement Program approved by the Board of Supervisors on December 13, 2022. The additional revenues generated will partially offset the increased costs associated with capital project construction, system operation and maintenance, debt service and upgrades to meet new, more stringent nitrogen discharge limitations from wastewater treatment plants. Despite the proposed increase, the average County bill will still be one of the lowest among area jurisdictions.

As is the case every year, the largest increase included in this year's Advertised budget is for our public schools. Since the beginning of FCPS Superintendent Dr. Michelle Reid's tenure, we have communicated regularly regarding the challenges currently faced by the school system. Like the County, attracting and retaining employees is a top priority, thus the Superintendent's Proposed Budget includes significant investments in employee pay, including a 3.0 percent market scale adjustment, step increases, a salary scale extension of one step, and a 1.0 percent retention bonus. The proposal also includes funding for enrollment growth and changing student needs, inflation and contractual adjustments, support for JET (Joint Environmental Task Force) recommendations, and funding to implement the Equitable Access to Literacy Plan.

Although FCPS projects approximately $84 million in additional sales tax and state aid, the Superintendent's General Fund transfer request is an increase of $159.6 million, or 7.0 percent over the FY 2023 Adopted Budget Plan. My proposed budget fully funds the *recurring* portion of the Superintendent's request – an increase of $144.1 million or 6.3 percent. The differential of $15.5 million represents the net cost to FCPS of the proposed 1.0 percent retention bonus. Of the projected $19.9 million cost, the state will provide funding of approximately $4.4 million. I feel that one-time expenses are generally more appropriately funded as part of quarterly reviews, a practice we also apply on the County side, and I am committed to partnering with FCPS to identify funds as part of a future budget process.

As the Board is aware, decisions regarding the recommendations in my Advertised Budget are made in mid-January, as developing and checking the County's lengthy budget documents in preparation of budget release takes many weeks. Thus, my decision regarding the proposed operating transfer to Schools was made before the news in late January of an error in the state's calculation of state aid for local school divisions. This error is anticipated to negatively impact FCPS by $5 million in FY 2023 and $12.7 million in FY 2024. My hope is that the state will step up to remedy their error by providing additional resources; however, we will continue to track activity at the General Assembly and provide updates to the Board as necessary.

Including required adjustments for School Debt Service, the total increase for Schools as part of the FY 2024 Advertised Budget Plan is $144.26 million, with total Schools support at $2.64 billion.

Excluding Schools and reserves adjustments, County disbursements have increased by $134.51 million, with over $92 million targeted towards employee pay and benefits. I know that the Board remains concerned about the retention and recruitment issues that our agencies have been facing over the past two years, and I have spent considerable time with my leadership team developing ways in which to tackle these issues. Following the Board's directive, we set aside funding as part of our *FY 2022 Carryover Review* for hiring incentives and have implemented sign-on bonuses ranging from $2,500 to $15,000 for our job classes that are experiencing the most severe challenges. Following the Board's lead to begin to address compression in our public safety pay scales last year, we are taking action now to address that issue for our non-uniformed employees. And we continue to monitor our benchmark job classes against our peer jurisdictions and are recommending once again to accelerate benchmark regrades for job classes found to be out of market, instead of waiting until the start of the new fiscal year. Some of the classes recommended for regrades include maintenance workers, custodians, programmers, trades supervisors, and plant operators.

One of the retention and recruitment tools that sets Fairfax County apart from many of our competitors is our excellent benefits package, particularly our defined benefits pension plan. The County has taken steps over the past several years to increase funding and limit increases in liabilities in order to strengthen the financial position of the plans and ensure their sustainability for current and future employees. Primarily due to all three systems' returns being less than the 6.75 percent assumed rate of investment return in FY 2022, the employer contribution rates for all of the systems are required to increase. This budget proposal includes just under $25 million for this purpose, with the largest increases required for the two public safety systems.

Our compensation programs consist of two main components: increases for performance, merit, and longevity that move employees up their respective pay scales, and the calculated Market Rate Adjustment (MRA), which moves both the scale and the salaries of merit employees but keeps their relative position on the pay scale the same. In order to reduce compression, and in line with the tenets of the compensation plan when it was developed years ago, **I have prioritized performance, merit and longevity increases in this year's budget and have included funding for their full implementation**. As we noted in the November forecast presentation, our calculated MRA this year was 5.44 percent, driven by high inflation. This calculation was the highest on record going back more than 25 years, and fully funding it would require more than $86 million. Based on the significant cost, **I have included funding for a 2 percent adjustment.** This results in an average increase of 4.39 percent for uniformed merit employees, with newer employees eligible for steps receiving 7 percent. For non-uniformed merit employees, the average increase is 4.06 percent, with employees lower in the pay range receiving as much as 5 percent. It should be noted that these averages do not reflect adjustments associated with benchmark regrades, so employees in job classes found to be out of market will receive additional adjustments.

The FY 2024 Advertised Budget Plan includes funding for a 2.00% Market Rate Adjustment; performance, merit, and longevity increases; and benchmark regrades.

After employee pay and benefits, the next largest increase included in this year's proposal addresses inflationary and contract rate adjustments. Consistent with the Board's action in adopting the FY 2023 budget, we have added funding specifically for our service providers in health and human services as these partners struggle with the impacts of inflation and the challenging labor market. Baseline funding is also included to address staffing issues at our homeless shelters, which we were able to address with stimulus funds in the current year. Funding is also included for other contractual obligations, including security and information technology, and lease escalations. Additionally, as we added funding at Carryover for the current fiscal year due to increased utility costs, this proposal adds baseline funding for these increases. Overall, we have included over $18 million to address inflation and accommodate increases in contract rates.

I have also included baseline funding for a number of new facilities requiring partial or full-year funding in FY 2024. These adjustments total just over $5 million and represent only about 2 percent of the total budget increase. They include support for the South County Animal Shelter, scheduled to open later this year, and the new PAWS (Pet Assistance and Wellness Services) Clinic to provide low-cost veterinary services; emergency shelter expenses associated with the construction of the new Patrick Henry Shelter anticipated to be completed in late 2024, and full-year funding for Patriot Park North. Funding and three new positions are also included to operate the Springfield Center Without Walls, to allow older adults to participate in health and wellness activities. Funding to support construction and build-out costs for a new leased facility for this program were approved as part of the *FY 2022 Carryover Review*.

Several other adjustments have been included to address needs across the County, and I will provide highlights of some of these adjustments below. Brief descriptions of all General Fund adjustments are included in the *Advertised Budget Summary* which follows this letter. At the end of the summary is a chart listing all General Fund adjustments. This chart also notes the associated Community Outcome Areas as listed in the Countywide Strategic Plan.

In contrast to prior years, I have not been able to make significant investments in many of our top priorities, although you will see smaller targeted adjustments to meet some of the most urgent needs. I should note, however, that we continue to make progress in many areas utilizing other funding sources or with the utilization of one-time balances at quarterly reviews. For example, I was not able to recommend additional baseline funding to continue making progress towards the Board's affordable housing goals. However, we have been successful in utilizing available stimulus funds ($45 million in ARPA dollars so far) to take advantage of opportunities to expand our affordable housing inventory, and I have included a position and funding for a Manufactured Housing Coordinator, as recommended by the Manufactured Housing Task Force. Similarly, I was unable to add baseline funding for environmental and energy projects, a priority for the Board and the community. However, we have been very successful in utilizing one-time funds available as part of our quarterly reviews, and I know that staff is also pursuing outside funding sources for a number of initiatives. This budget proposal does include funding for three new positions to support programs including Charge Up Fairfax and the Community-wide Energy and Climate Action Plan (CECAP).

I was also unable to include baseline funding for information technology projects or increase funding for capital renewal. Both of these are areas which require investments each year, but we have not had the funding flexibility to include recommendations in our annual budget proposals. Based on ongoing and new IT projects, such as modernizing our tax system as requested by the Board, and based on the maintenance needs of our facilities, I anticipate making significant funding recommendations for these items as part of the upcoming *FY 2023 Third Quarter Review*.

One of the most important functions that we perform as a County is the administration of fair and free elections. Changes in absentee voting laws, the implementation of same-day registration, and the increased complexity of voting equipment has increased workloads across the Office of Elections. In order to appropriately resource the agency, two new positions, along with funding for non-merit support is provided in this budget proposal. I am also recommending one new position to alleviate workload issues in the Probate Division of the Fairfax County Circuit Court, where no new positions have been added in the past 20 years.

While the County works to ensure equitable access to voting, we are also working towards broadening access to our world-class Parks programs. Last year, we provided $0.5 million in funding to further equity initiatives in the Park Authority system; this year's proposal adds another $0.5 million for a total of $1.0 million in baseline funding. A portion of the FY 2023 funding was used for a consultant to conduct an analysis and develop recommendations to increase access to Park program and service offerings. In anticipation of these recommendations, FY 2024 funding will provide an initial investment by maintaining all summer camp program fees at the FY 2023 level. Without this funding, fees would be increased based on rising operational costs, supplies, and contract rates for vendor-run programs. Taking this step will allow the Park Authority additional time to develop a more all-encompassing, equitable service delivery model. Other investments specifically targeted to meet our One Fairfax objectives include funding to provide training for community members on racial and social equity and to partner with Leadership Fairfax to promote a more diverse group of applicants for the County's boards, authorities, and commissions.

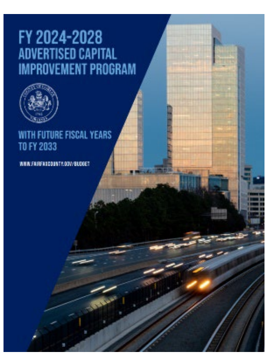
One new position and funding has also been included to create an equity lead in the Police Department.

As endorsed by the County's Successful Children and Youth Policy Team (SCYPT), funding is included to support a behavioral health system navigation program for children and families as part of Healthy Minds Fairfax. The program will consist of service navigators who can assist families and community members in identifying services for children, help with engagement, and negotiate with providers and insurance companies. The program will also include systems mapping and the identification of tools that can help determine the level of service a child needs. We anticipate additional investments in the program will be necessary next year. In addition to meeting the needs of the youngest in our community, we are also recommending additional resources to assist our seniors. Funding and one position in the Department of Family Services are included to serve seniors living in Fairfax County Redevelopment and Housing Authority (FCRHA) independent living communities that have no access to County staff for supportive services. This position will provide regular visits with each resident, coordinate with them on their service needs, and communicate with their families about their needs. The position will also coordinate closely with both on-site property management and Department of Housing and Community Development staff.

Increased funding is also included to address expiring grant funding and to meet workload requirements. One position and partial-year funding are associated with the transition of the Regional Preparedness System from Urban Areas Security Initiative (UASI) funding to local funding. The program will continue to enhance community outreach, preparedness, and public education to protect Fairfax County residents from emergencies and disasters. Additional positions are recommended for the Police Department to support the Victim Services Division in providing crisis intervention and referral services and in the Financial Resources Division to address workload concerns.

One of the largest single adjustments included in the FY 2024 proposal is baseline funding to support the Tysons Community Alliance. Following initial funding approved by the Board at Carryover, this organization will help continue driving economic growth and transforming Tysons into a global urban center to attract visitors, residents, and businesses. The County's Department of Economic Initiatives has been a key player in the establishment of the Alliance and has worked to create partnerships and expand our business community throughout the County. I have included one new position to serve as Deputy Director in this agency in order to provide more capacity for the agency to continue this important work.

With many County agencies maintaining position vacancies, **the <u>FY 2024 Advertised Budget Plan</u> includes no net new positions**. Although 17 new positions are recommended as part of this proposal, each increase has been offset by a reduction in another agency. Agencies continue to examine their vacancies to determine if they should be filled or redirected to other agency or countywide needs, and I will continue to first look toward existing position flexibility before adding to the County's position count.



Also released today is the **<u>FY 2024-FY 2028 Advertised Capital Improvement Program</u>** (CIP). As part of last year's budget development, we had many robust discussions with the Board and the community about recommended changes to our bond and capital program. Based on project delays, cost increases, and a backlog of unsold bonds, we recommended deferring the 2022 bond referendum and expanding the number of years between referendums to time them more appropriately. This slowdown, paired with an increase of $50 million (split evenly between the County and Schools) in annual bond sales following recommendations from the Joint County/Schools CIP

Committee, were intended to help get our program back on track and align referendum, bond sales, and project spending.

Our program, however, continues to be impacted by global economic factors. Projects continue to experience escalated construction costs, with bids often coming in above projections, sometimes at significantly higher amounts. Additionally, as interest rates have increased, so too have the County's borrowing costs. For the January 2023 General Obligation bond sale, the County received an interest rate of 2.98 percent. This rate was highly competitive in the current market and demonstrated the County's strong fiscal reputation. However, it was more than 120 basis points above the 1.75 percent received last year and is more than double the 1.23 percent received in January 2021. This results in millions more in debt service costs annually and less funding available for other priorities. As part of my FY 2024 budget proposal, I had hoped to be able to recommend further investments in both the County and Schools paydown programs as recommended by the Joint County/Schools CIP Committee. Last year, we were able to include $2.5 million each for the County and Schools, but I was unable to increase this investment based on other fiscal pressures. My hope is that we are able to contribute more to our baseline paydown programs in future years.

In recognition of the ongoing pressures on the capital program, we have once again closely examined our short and long-term capital needs. In addition to adjusting project estimates to reflect inflationary impacts, several projects have been accelerated, offset by others that have been deferred. The overall impact is a smoothing of the County's referenda totals over the coming years while focusing on our most immediate needs. Accelerated projects include the Tysons Fire Station and the Criminal Justice Academy while projects that are recommended to be moved back include the Tysons Police Station, the Wellfit Facility, and the Chantilly Regional Library. These recommendations have been made after extensive discussions with our agency and facilities staff and reflect priorities based on operational needs and the aging and required maintenance of existing facilities. Additionally, the Board may recall that, last year, we proposed shifting the scheduled 2024 Parks referendum to 2026 and moving from a four- to a six-year cycle. This recommendation was based on a balance of almost $150 million in unsold Park bonds dating back to the 2016 referendum. However, this recommendation created concern among some of our Parks advocates, who worried that the change would result in project delays, such as several planned Rec Center renovations. Last year, in order to address these concerns, we recommended an allocation of $25 million in the County's American Rescue Plan Act (ARPA) stimulus funds to specifically address cost increases associated with the Mount Vernon Rec Center renovation. After working closely with Fairfax County Park Authority staff, we are recommending a $180 million Parks referendum in 2026 as part of this year's CIP. This represents a 20 percent increase in average annual funding for Parks capital needs based on the previous $100 million referendum planned every four years. I believe that these adjustments provide the correct balance between making the necessary investments in our capital program and managing affordability.

Concurrent with the release of the budget and CIP today, the first Countywide Strategic Plan Annual Report will be released and made available at www.fairfaxcounty.gov/strategicplan. This comprehensive document outlines the steps that we have taken over this past year to implement the Strategic Plan adopted by the Board last year. The report is organized by the four key drivers of the Plan, including Equity, Community Outcomes, Data Integration, and Inclusive Engagement. Underpinning all aspects of the Report is the importance of continuing to operationalize the principles of One Fairfax in all of our work, ensuring that any success we experience as a County is felt by all of our residents. For each of the ten Community Outcomes Areas, we highlight key areas where we have made progress and outline actions taken by the County for each of our specified strategies. The report also notes our ongoing efforts to improve the use of data in decision-making and includes information on new data dashboards that will display headline metrics for each of the Outcome Areas, including contextual information and the ability to drill down on each of the measures.

Utilizing data to help us prioritize and target our resources will be even more important in the coming year as I anticipate a troubling revenue picture and tight budget for FY 2025. We are currently projecting that residential equalization for next year will be flat, assuming a continuation in the slowdown of the housing market in 2023, with only marginal increases in commercial real estate. Additionally, the trajectory of inflation – particularly as it relates to services – will impact the Fed's actions on interest rates and our investment income. If actions taken in 2023 are enough to curb inflation, rate reductions in 2024 are possible, and we could once again see declines in this fluctuating revenue source. If we begin to see negative impacts on employment, as some anticipate, this could also impact consumer spending and categories such as Sales Tax. As we approach budget development for FY 2025 and have more information regarding our revenue projections, we will consider our guidance to agencies and determine whether programmatic reductions will be necessary to allow us to refocus on current and emerging priorities.

I know that you will join me in thanking the tremendous County staff from all agencies who contributed to the development of the FY 2024 Advertised Budget Plan. These past few years have stretched all of us as we have pushed through the pandemic, but I am so proud of how we have responded creatively, compassionately, and responsibly. I know that this budget recommendation will generate discussion in our community, and I look forward to future conversations with our residents and all of you as we finalize the FY 2024 budget.

Respectfully submitted,

Bryan J. Hill
County Executive