April 24, 2018

FY 2019 BUDGET MARKUP PROCESS and FY 2020 BUDGET PLAN RECOMMENDATIONS

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Chairman's Remarks - Fiscal Year 2019 Budget Mark-Up

Hitting the Right Notes

The process for adopting the County Budget every year is all about community engagement. Fiscal Year 2019 is no exception, with Budget Forums and Town Hall Meetings hosted in each of our nine Districts, Budget Committee meetings which included our partners on the School Board, and three days of public hearings on the Advertised Budget earlier this month. Since February, our offices have received hundreds, if not thousands, of letters, e-mail messages, phone calls and personal visits from our constituents.

The Budget "mood" this year was **harmonic**, thanks to an Advertised Budget that I believe **Hit all of the Right Notes**.

By Olivia Mendoza / Photo Courtesy of U.S. Army

The Budget that we are about to "Mark-Up," or amend, is based on a tax rate of $1.15. The package:

- Fully funds the School Board's request, bringing teachers' salaries into competitive alignment with our sister jurisdictions in the region;
- Overall support for our school system is increased by $91.49 million or 4.22% over Fiscal Year 2018, with 52.8% of our General Fund Budget going to schools;

- Fully funds compensation for our County employees with a 2.25% Market Rate Adjustment, Performance, Merit and Longevity increases;
- Includes funding for Fairfax First, Gang Prevention, the expansion of Diversion First and Opportunity Neighborhoods, additional slots for Early Childhood programs, and funding to address the Opioid Crises;
- Provides an increase in funding for Metro (pending a long-term solution), VRE and our Connector Bus System.

While this Mark-Up package includes a 2 cent increase in the real estate tax rate, an increase of $241 on the average annual tax bill, I believe the additional revenue is an important investment needed to **shore up the foundation** on which our quality of life rests.

I want to thank Budget Committee Chairman Jeff McKay for his excellent work bringing this Mark-Up Package to the Board today, along with Budget Guidance that addresses issues discussed during budget deliberations with each of our colleagues. Adoption of a Budget every year requires the good faith collaboration of each member or our Board and I appreciate everyone's willingness to come together on a Budget process that moves Fairfax County forward.

Approval of the FY 2018 Third Quarter Review

The *FY 2018 Third Quarter Review*, as advertised, included a balance of $495,793 for additional one-time requirements during FY 2018. The Third Quarter proposal is amended to provide support for several Board priorities. These include funding to support the Arts Council of Fairfax County in its efforts to upgrade its communications system and rebrand to better service the community and support for the Turning Point Suffragist Memorial Association to construct a national memorial to honor the 5 million suffragists who fought for and won a woman's right to vote. Additional funding is included to fund leave payout expenses in the Office of Elections. Lastly, one-time-funding to support the Fairfax Symphony youth initiative is included.

FY 2018 Third Quarter Board Adjustments	
	FY 2018
FY 2018 Third Quarter (Advertised) Balance	$495,793
Construction of the Turning Point Suffragist Memorial	($200,000)
Arts Council of Fairfax County	($56,200)
Office of Elections	($45,000)
Fairfax Symphony	($40,000)
Revenue Stabilization and Managed Reserve Adjustments	($35,914)
Subtotal:	($377,114)
FY 2018 Third Quarter Balance	$118,679

Therefore, I move approval of the *FY 2018 Third Quarter Review* including approval of Supplemental Appropriation Resolution AS 17298 for FY 2017 adjustments to reflect the final audit as well as Supplemental Appropriation Resolution AS 18190 and Amendment to the Fiscal Planning Resolution AS 18901 which include the revenue, expenditure and transfer adjustments, grant awards and adjustments, and associated reserve adjustments contained in the County and School's Third Quarter Review dated March 20, 2018, as well as the adjustments listed above, resulting in an available balance of $118,679.

FY 2019 Budget Mark-Up

I will next outline and move approval of the budget proposal:

Add-On Adjustments

This package begins with a balance of $4.78 million available after the adjustments included in the County Executive's Add-On package of April 16, 2018. This balance is the result of the $3.88 million balance identified in the FY 2019 Advertised Budget Plan, as well as an increase of $0.90 million in General Fund revenue based on anticipated State budget actions.

Add-On Adjustments		
		FY 2019
FY 2019 Advertised Balance		$3,875,406
Anticipated additional State Revenue (HB599)		$900,000
	Subtotal:	$900,000
Balance as of Add-On		$4,775,406

Adjustments Recommended by Board

There are no FY 2019 Consideration Items being funded at Mark-up.

The FY 2019 Advertised Budget Plan was based on a 2.5 cent increase in the Real Estate tax rate (from $1.130 to $1.155 per $100 of assessed value) and included a small balance for the Board's consideration. With the adjustments included in Add-On, this balance is now $4.78 million. In order to help mitigate the impact of an increase in the Real Estate tax rate on our County's homeowners, this package utilizes the available balance to reduce the proposed 2.5 cent increase in the tax rate to a 2 cent increase, which would result in a tax rate of $1.150 per $100 of assessed value for FY 2019. As a result of the changes in residential equalization, the average annual Real Estate tax bill for County homeowners would increase by approximately $241.

However, in order to balance the budget at a $1.15 Real Estate tax rate, additional spending adjustments are required. In this package, the County's transfer to the School Operating Fund is reduced by $3.61 million and County disbursements are reduced by $3.22 million (see in table below). As a result of this action, the portion of General Fund Disbursements allocated to Schools remains at 52.8 percent and disbursements supporting both the Schools and County grow 4.22 percent over the FY 2018 Adopted Budget Plan.

Based on continued collaboration between the County Executive and the Superintendent, it is anticipated that Schools will be able to offset the adjustment by recognizing increased state revenues, even with projected cost increases related to updated enrollment information, to remain fully funded.

On the County side, this adjustment in funding will impact County support of capital and information technology (IT) project requirements. As noted in the Advertised Budget, necessary additional funding for both capital paydown and IT projects was not included in the proposed budget, but is instead included in the *FY 2018 Third Quarter Review*. In line with this approach, it is anticipated that the $3.22 million reduction in capital and IT support will be addressed as part of the *FY 2018 Carryover Review* for specific one-time projects.

It is important to note that this package maintains full funding of the County's compensation plan for FY 2019 consistent with Board priorities. With a Market Rate Adjustment of 2.25 percent, and funding of performance, merit and longevity awards, County employees will see average increases ranging from 4.25 to 4.50 percent.

Funding Adjustments Recommended by Board		
	FY 2019	
Balance as of Add-On	**$4,775,406**	
Reduce proposed Real Estate tax rate to $1.15 per $100 of assessed value	($12,320,466)	R
Decrease transfer to School Operating Fund to be offset with anticipated State revenues	$3,610,393	R
Reduce County support for Capital Paydown and IT Projects	$3,216,090	R
Revenue Stabilization and Managed Reserve Adjustments*	$718,577	
Subtotal:	($4,775,406)	
Final Remaining Balance/(Shortfall)	**$0**	
* With these adjustments, the FY 2019 budget includes contributions of $17.43 million to reserves (10% of the $174.29 million increase in General Fund disbursements), including $6.53 million to the Revenue Stabilization Fund and $10.90 million to the Managed Reserve. Total FY 2019 reserves, including contributions in the *FY 2018 Third Quarter Review*, are estimated at 8.20% of General Fund disbursements.		

As a result of these changes, we have a balanced FY 2019 budget with a total of 77 net new positions in the FY 2019 Budget.

In addition, this budget includes other tax and fee adjustments, including:

- An increase in the Refuse Collection fee per household to $350 from the current rate of $345.

- An increase in the Refuse Disposal fee per ton to $66 from the current rate of $64.

- An increase in Sewer Service Charges to $7.00 per 1,000 gallons. This is an increase from the FY 2018 service charge of $6.75 per 1,000 gallons.

- An increase in the Sewer Service Base Charge from $27.62 per quarter to $30.38 per quarter.

- An increase in the Stormwater Services district tax rate from $0.0300 to $0.0325 per $100 of assessed value.

- A decrease in the Phase I Dulles Rail Transportation Improvement District tax rate from $0.15 to $0.13 per $100 of assessed value per the recommendation from the Phase I District Commission.

Among other fees included in the budget proposal that do not change in FY 2019 are:

- Maintaining the Reston Service District tax rate at $0.021 per $100 of assessed value.

- Maintaining the Tysons Service District tax rate at $0.05 per $100 of assessed value.

Therefore, having provided public notice and conducted a public hearing as required by Virginia law, **<u>I move approval of the FY 2019 Budget as Advertised, with the changes I just summarized</u>**, advertised changes to other taxes and fees, and required Managed Reserve and Revenue Stabilization adjustments. The tax and fee increases become effective on and after July 1, 2018, unless otherwise noted. **<u>These actions result in a balanced budget for FY 2019.</u>**

Budget Guidance for FY 2019 and FY 2020

April 24, 2018

At a regular meeting of the Board of Supervisors of Fairfax County, Virginia, held in the Board Auditorium of the Fairfax County Government Center on Tuesday, April 24, 2018, the Board approved the following Budget Guidance for FY 2019 and FY 2020:

Strategic Planning

The Board of Supervisors endorses the County Executive's strategic planning initiative. As the County Executive stated in his budget message, the Fairfax Team is poised to deliver a strategic budget process that will look for efficiencies, as well as opportunities, in service delivery, and work to increase our commercial base, with a goal of creating a more favorable balance with our residential assessments.

The County Executive also has been working in collaboration with the Fairfax County Public Schools to implement operational efficiencies. The FY 2019 budget was developed with an eye on FY 2020 as well. As both organizations realize slowed growth, a concerted effort will be required to identify additional operational efficiencies that will provide the pathway for a productive and creative budget process in future years.

The County has developed many financial policies and multi-year funding plans that uphold the Board's budget priorities and annual budget guidance, the Lines of Business review, and the One Fairfax policy initiative, and all provide a framework for enhanced County service delivery. We are now ready to facilitate an opportunity to further enhance our framework to include our partners, and to collaboratively move Fairfax forward.

The County team has already begun to develop the County Strategic Planning process and a more detailed memorandum to the Board on the specific timeline is being drafted to be distributed by mid-May. Among the high-level details that are anticipated are a procurement process to engage consultant support of the initiative. It is expected that the procurement will be completed and a consultant will be selected by early Fall. The consultant, in consultation with Senior County Leadership and a Strategic Plan Team, to be named with representatives from across the organization, will oversee the work of the initiative. Simultaneously, staff will be reviewing the Lines of Business opportunities to prioritize those that are most likely to generate savings. Additional projects, currently not on the LOBs Phase 2 work plan, will also be reviewed by the County Executive to determine if additional work should begin now on them. The opportunities that will be identified are currently being reviewed by County staff and include service delivery redesigns, consolidation of space, privatization options, employment of technology and elimination of redundancies. These details will also be presented to the Board as part of the May memorandum.

Schools Operating Support and Board of Supervisors/School Board Collaboration

With limited projected revenue growth and an estimated budgetary shortfall in FY 2020, the recent collaborative approach taken in the development of prior year budgets will need to continue. Similar to this year, it is likely that many important priorities on both sides will not be able to be funded next year. However, it is important that work continue through the Joint Budget Development Workgroup and the Boards continue to hold more frequent discussions on budget issues, utilizing the joint budget development timeline presented to the Boards in February 2017. Successes such as funding for gang prevention and combating the opioid epidemic should be models for upcoming budget development. The Boards, as well as staff from both the County and Schools, should also continue collaborative work regarding shared services and joint capital initiatives (including their impact on the Capital Improvement Program). The work on school security enhancements that have been underway will also need to be reviewed for any funding requirements.

In addition, as the County continues to review its Lines of Business for efficiencies, a similarly detailed programmatic review by School staff and the School Board would be helpful in setting collaborative priorities for Fairfax County residents for FY 2020. These discussions, as well as the presentation of updated revenue projections and forecasts in the fall, are necessary to identify specific recommendations to shape the joint list of County and School priorities and provide for a more well-informed backdrop as FY 2020 budget decisions are made.

In the absence of a State budget at this point, some assumptions have been made about State revenues in FY 2019. Staff from both the County and Schools are directed to continue to report back to the Boards once the State budget is adopted to ensure that all assumptions are validated.

Employee Pensions

The next discussion on employee pensions is expected to take place at an upcoming Personnel Committee meeting on May 22. Additional discussions should focus on the narrowed list of options that had been presented to the Pension Workgroup. The discussions going forward should also be focused on maintaining the defined benefit plans but be thorough enough to preclude the need to review every few years. The Board takes its fiduciary responsibility very seriously and has made the difficult funding decisions that have resulted in the current health of the systems. However, as a reminder of why the review is essential, and to clarify misunderstandings that may still exist among employees, the funding to maintain the health of the systems and address gradual elimination of the unfunded liability has been significant. Constrained growth in future budgets requires that we ensure the most efficient provision of strong defined benefit systems into the future. It is anticipated that all decisions required to implement changes effective for new hires as of January 1, 2019, be made in the coming months. In order to meet this goal, all Board action will need to be completed by October 2018 so that future County employees to be hired after January 1, 2019, are fully informed about any changes that may affect them.

School Readiness

Significant capital and operating funding has been included in the last several years to address the array of school readiness requirements. The County's new Equitable School Readiness Strategic Plan incorporates the goals of One Fairfax and represents a deep commitment to and strategies for assuring that all children receive the support and services they need for their optimal development. County, community and school staff will continue to work together to eliminate disparities in access, affordability and quality of early childhood services. As the next step in the process it is directed that SCYPT propose a 5 plus year plan for expansion of the early childhood services with identification of requirements from both the County and Schools to ensure that future budget discussions are informed by specific requirements.

Public Safety Priority Issues

A number of compensation, staffing, operational and equipment/capital issues have been / are being worked on within Public Safety agencies. These issues need to be addressed by the County in a prioritized and phased approach. As part of a deliberate and comprehensive review, staff is directed to schedule time for discussion by the Board at appropriate upcoming Committee meetings.

As it relates to compensation, the discussions should include, but not be limited to, the Police and Sheriff pay concerns that were identified in the recent PFM study, the recommendations from the Fire and Rescue compensation and organization study that is currently underway, Sheriff environmental pay, and issues raised by employee groups such as Police pay compression and pay for Animal Protection Police.

In terms of operational priorities, issues such as body cameras, other results of the ad-hoc Police commission, and the results of the Fire and Rescue review should also be considered.

Finally, equipment and capital issues related to apparatus and facilities need to also be clearly laid out for the Board to ensure that the conversation about priorities is fully informed.

Metro

Given the urgency of Metro funding and the need for reforms, Metro has been a significant policy discussion the last several years. The Board is extremely disappointed that Northern Virginia Transportation Authority (NVTA) funds have been diverted to such a large extent as part of Virginia’s Metro funding plan. It is also disappointing that the funding enhancements sought by the Governor to amend the original General Assembly Metro bill were not approved. The approach that is left on the table hinders road building and transit expansion in the Commonwealth. We will continue to advocate that other funding sources be considered in the future to prevent over reliance on NVTA funds given our very large unmet needs even before the redirection of these NVTA funds.

<u>Health and Human Services Innovation Fund</u>

The Innovation Fund is a new initiative proposed by the County intended to encourage businesses and non-profits to team up to implement new and innovative approaches that transform their service delivery practices, create entrepreneurial venues that support the mission of the non-profits, or utilize technology to improve customer outcomes. The fund would provide matched seed funding for up to three years to test new service methods, integrate technology with practices, evaluate approaches, meet franchise fees and outfit small business entrepreneurial services, and other areas that will result in a fundamental change in service/business.

The County Executive is directed to evaluate and report to the Board on the merits of funding the Innovation Fund as well as a process for selecting projects. This analysis should be completed in time to allow funding recommendations, if any, to be considered for inclusion in the *FY 2018 Carryover Review*.

<u>Employment and Day Services for Adults with Developmental Disabilities</u>

The County Executive is directed to coordinate staff of the Community Services Board, Human Services agencies, and the Department of Management and Budget, to work with the Welcoming Inclusion Network (WIN) in order to develop options for funding employment and day services for adults with developmental disabilities. Staff is directed to develop two to four options for various levels of services and funding and present these options to the Board of Supervisors this calendar year. At least one of these options must be designed to provide appropriate services to all eligible people without use of a significant waiting list.

<u>Lake Accotink</u>

The County Executive, the Park Authority and Stormwater Management are directed to develop multiple options, with the appropriate funding mechanism for each, to address the critical environmental issues at Lake Accotink. These options shall be presented to the Board of Supervisors during the Fall of 2018 with an eye toward funding decisions, including a potential bond, in 2019.

I now move the Budget Guidance that I just reviewed which will help direct the FY 2020 Budget process.

Approval of the FY 2019-FY 2023 Capital Improvement Program (with future fiscal years to 2028)

I move Board approval of the FY 2019-FY 2023 Capital Improvement Program (with future fiscal years to 2028) with the following amendments:

- Recommend that County agencies collaborate amongst themselves and with FCPS to identify shared facility and co-location opportunities. Staff should incorporate these proposals, as appropriate, into future CIP planning to make these opportunities viable. Staff should also review the timing and size of proposed future bond referenda to be able to take advantage of potential opportunities.

- Recommend that staff determine opportunities to repurpose existing County-owned facilities or utilize temporary space, to reduce waiting lists for critical Health and Human Services programs. Staff should review the current Health and Human Services CIP priorities and options to reduce waiting lists for victims of domestic violence and those in need of substance use disorder treatment, especially detoxification and opioid treatment.

- Recommend that staff from the Fire and Rescue Department and the Department of Planning and Zoning work collaboratively with the Planning Commission to identify where traffic preemptive devices exist today and the need for additional devices.

- Recommend that staff devise a maintenance classification and prioritization system that (a) reflects national public and private sector best practice for assessing facility and infrastructure conditions and (b) ensures that the highest priority infrastructure replacement and upgrade project needs are identified by each agency and FCPS annually. Further, such a system should provide the Board a clear and County-wide integrated view of the scale and scope of unmet infrastructure replacement and upgrade needs.

- Recommend that staff incorporate a more complete projection of operating impacts for CIP projects to more fully inform the Board's decision making on capital facilities.

- Recommend that staff evaluate the process by which ADA compliance in new construction projects is met. This evaluation should include opportunities for design that go beyond meeting minimum standards to accommodate facility use by individuals with disabilities.

- Make all necessary adjustments to reflect actions taken during the Board's decision on the *FY 2018 Third Quarter Review* and the <u>FY 2019 Adopted Budget Plan</u> that impact the Capital Improvement Program.