FAIRFAX COUNTY

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V I R G I N I A

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Honorable Board of Supervisors
County of Fairfax
Fairfax, Virginia

Chairman, Ladies and Gentlemen:

I am pleased to transmit to the Board of Supervisors and the citizens of Fairfax County my budget proposal for Fiscal Year 2006 which totals $5,055,252,718 including General Fund Disbursements of $3,004,161,761, a 6.93 percent increase over the *FY 2005 Revised Budget Plan*. The FY 2006 Advertised Budget Plan represents our collective commitment to preserve the high quality of life and exceptional services that residents have come to expect, while recognizing the essential challenge of weighing these services against taxpayers' ability to pay for them.

I am extremely proud of the progress we have made over the past few years in terms of defining strategic priorities for Fairfax County and taking steps to tie our investment of resources to meet those priorities. What began as an initiative to transform County government into a high performance organization has paid dividends in terms of articulating our values and operationalizing them through vision elements that support the Board of Supervisors' priorities. By listening to residents, Board members and County employees, we have been able to align spending with strategic objectives. With many competing needs and demands, this road map helps ensure we are investing in programs and services that will help us realize our collective core purpose and vision elements (see box to right).

COUNTY CORE PURPOSE

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County by:

- Maintaining Safe and Caring Communities
- Building Livable Spaces
- Practicing Environmental Stewardship
- Connecting People and Places
- Creating a Culture of Engagement
- Maintaining Healthy Economies
- Exercising Corporate Stewardship

BOARD OF SUPERVISORS' PRIORITIES

- Strong investment in education
- Public safety and gang prevention
- Affordable housing
- Environmental protection
- Transportation improvements
- Revenue diversification to reduce the burden on homeowners

The Board of Supervisors, at its strategic planning retreat in February 2004 identified priorities for the next four years (see box to left). Strategies and funding to address these priorities have been incorporated in the FY 2006 Advertised Budget Plan that I am proposing and will be addressed in greater detail on the following pages. Having these clearly defined priorities enabled us to focus budget strategies on those initiatives that will result in the greatest return on investment, while balancing the cost to taxpayers.

For the fifth consecutive year, average residential real estate assessments have increased by double-digits. This is consistent with the experience of other jurisdictions in the Metropolitan Washington area where most have seen average increases of over 20 percent. In Fairfax County, residential equalization (the reassessment of existing housing) is increasing 23.09 percent. In the past several years, this growth in the residential tax base has provided the primary, and many times, the only source of funding for

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increasing County service requirements. Also worth noting is the significant increase in nonresidential equalization, which was negative as recently as FY 2004 due to vacancies associated with the recession, but which has rebounded with an increase of 12.74 percent for FY 2006. This is important because it may represent the beginnings of a shift, albeit slight, in the burden shouldered predominantly by the residential taxpayer over the past few years.

Based on market factors as well as strong job growth, housing prices in Fairfax County continue to increase, reinforcing the belief that homeownership is indeed a good investment. It is noteworthy that for FY 2006, for every $1 in new taxes average homeowners will pay, they will have gained $167 in additional equity based on the value of their homes. This continuing trend of strong home sales in the County reflects the high quality of life afforded to residents and businesses. Reasons for relocating to Fairfax County consistently include the preeminent labor force, excellent schools, safe communities, and a broad range of cultural and recreational opportunities, supported by a government that is responsive to citizens' needs. Fairfax County offers the amenities many home-buyers are seeking. These benefits are especially attractive to knowledge-based workers who represent a large portion of new job growth. Nevertheless, we continue to be challenged to meet these high expectations, while providing services that are cost-effective. And equally important, we must continue to push for reductions in the real estate tax rate to help offset the extraordinary assessment increases we are experiencing.

My proposed budget includes a significant cut of 10 cents in the real estate tax rate, which reduces the rate from $1.13 to $1.03 per $100 of assessed value and results in a savings of $445 to the typical homeowner. With this cut, the total tax rate reduction since FY 2002 is 20 cents or approximately $1,531 in annual savings for residential taxpayers.

Accompanying my recommendation for a tax rate reduction is a note of caution against moving too quickly to cut the rate significantly beyond my proposal. We know from experience that when the bottom dropped out of the real estate market in 1992, there were severe repercussions for local governments for many years. During the boom of the late 1980s into the early 1990s, rapidly rising assessments led the Board of Supervisors to cut the tax rate 11 cents from FY 1989 to FY 1990 and another 8 cents from FY 1990 to FY 1991. Shortly thereafter, both residential and non-residential property prices declined drastically, leaving the County with <u>negative</u> revenue growth that required draconian budget cuts and a significant increase in the real estate tax rate. It took several years and considerable self-discipline to bring the County's structural deficit under control after those events. While the same market forces and economic factors that drove the real estate downturn of the early 1990s are not present in the current local and national economies, there are some signs that the housing market may be overpriced and at a minimum, future growth will adjust downward. In addition, as events in recent years have taught us, it is imperative that the County maintain the resources necessary to respond to both the service requirements and economic fall-out that could result from a catastrophic event such as a natural or manmade disaster. Such an event could have major consequences for the local economy and the budget, and we must have the flexibility to be able to respond accordingly.

Our current situation does, however, provide us the opportunity to begin to address some important, long-term issues that will have an impact for generations to come. I believe it is critical that we address the environmental and public safety requirements associated with our County stormwater system. Limited funding availability over the last several years has left us able to deal with only the most critical stormwater management projects. We know however, that the cost of required improvements – those to address public safety, preserve home values and protect our environment – total hundreds of millions of dollars. In lieu of creating a stormwater utility tax, I am recommending the allocation of $17.9 million in General Fund monies, the equivalent of one penny on the real estate rate, to begin a dedicated funding source for these essential projects. In addition to being easier and timelier than a utility fee to implement, this approach will be more efficient as it is less administratively burdensome, enabling more funding to be spent directly on projects. It should also be noted that this allocation of $17.9 million is in addition to $2.74 million in ongoing funding for emergency watershed improvements, Kingstowne environmental monitoring, dam repairs and the requirements associated with the Municipal Separate Storm Sewer System (MS4) permit.

In addition, the Board of Supervisors recently accepted a report from the Affordable Housing Preservation Action Committee that called for the dedication of one penny of the real estate tax rate to help keep 1,000 units of housing at affordable rental rates. As noted by the report, the County must act now to maintain affordable housing in a market driven by rising demand and dwindling supply. Since 1997, the County has lost 1,300 affordable units that have been converted into luxury condominiums or market-rate apartments. Although the work of the committee concluded too late to be included in my advertised budget for FY 2006, I believe such a dedicated funding source will represent a meaningful investment toward stemming the ongoing loss of affordable housing in Fairfax County and should be considered by the Board during your budget deliberations.

The FY 2006 budget that I am proposing represents a commitment to maintaining a well-run government offering the level of services residents have come to expect, while balancing those demands with the cost to taxpayers. Last year, we began including benchmarking data in the budget that show how Fairfax County's performance compares to other large jurisdictions nationwide and in Virginia. This year, we have included cost per capita data showing how much we spend in each of the program areas, e.g., public safety, health and welfare, community development, etc. The Auditor of Public Accounts for the Commonwealth of Virginia collects this data and publishes it annually. It is included at the beginning of each program area section in Volume 1 of the FY 2006 Advertised Budget Plan. The jurisdictions selected for comparison are the Northern Virginia localities as well as those with a population of 100,000 or more elsewhere in the state. In every program area, Fairfax County's cost per capita is highly competitive with others in the state.

Another measure of the efficiency with which the County provides services is the number of staff required to meet service demands resulting from increases in the County's population as well as changing requirements. As a result of process redesign, enhanced technology and strategic prioritization of resources, we have successfully reduced the number of positions per 1,000 citizens from 13.57 in FY 1992 to 11.10 for FY 2006, a decrease of 18.2 percent. This represents significantly improved productivity because in that same period, we have added or expanded over 150 facilities based on community needs. These include fire and police stations, libraries, recreation centers, school age childcare centers and senior centers, among others. I have included a total of 166 new positions for FY 2006, 127 of which are associated with new facilities and public safety, while 39 are workload-related. Details of these new positions are included in the Expenditure Highlights section.

THE ECONOMY AND REVENUE

My proposed budget relies on projected revenue growth of $246.36 million or 8.9 percent. Unlike recent years when rising real estate assessments accounted for all revenue growth, we are seeing the favorable impact of the improving economy. This revenue growth is consistent with factors influencing our national, regional and local economies.

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The National Economy
After several years of sluggish growth following the recession that ended in December 2001, we finally saw the national economy begin to accelerate in early 2004. Job growth averaged 150,000 monthly or approximately 1.8 million for the year. As a result, the national unemployment rate fell to 5.4 percent in December 2004. It had peaked at 6.3 percent in June 2003. Gross Domestic Product (GDP) increased 4.4 percent in 2004, a rate significantly higher than the 3.0 percent annual growth rate for 2003. In the final quarter of 2004 however, economic growth slowed to 3.1 percent. With higher energy prices, GDP is anticipated to moderate in 2005, most likely in the 3.3 percent range, which still represents healthy growth. In response to this economic growth, the Federal Reserve Board began to gradually tighten interest rates in order to keep inflation in check. At five consecutive meetings in 2004, the Fed raised the federal funds rate one-quarter point each meeting, moving the rate from 1.0 percent to 2.25 percent by December. More recently, at its first meeting of 2005, the Fed further raised the rate another quarter point to 2.50 percent.

Other indications of an expanding economy include the Consumer Confidence Index, which increased 12 percent between December 2003 and December 2004. The housing market continues to be strong nationwide as a result of continued low mortgage interest rates. This growth is anticipated to slow slightly in the coming years as the Federal Reserve Board is expected to continue to gradually tighten the federal funds rate, moving it to its historic equilibrium level of 3.5 to 4.0 percent. According to Dr. Stephen S. Fuller, Director of the Center for Regional Analysis at George Mason University, "...forecasts for the remainder of the decade show the expansion continuing at a moderate rate with little distortion but only moderate job growth." However, an ongoing caveat to forecasts about the national economy remains the potential negative impact of another terrorist attack.

The State Economy and Budget
The news at the state level is also encouraging. Virginia's economy continues to improve. The unemployment rate as of December 2004 was 3.3 percent, considerably below the national level. Nearly three out of four Virginians responding to the 13th Quality of Life Survey conducted by the Virginia Tech Center for Survey Research said they believe the state economy is improving. The percentage of those optimistic about conditions jumped from 58 percent in 2003 to 73 percent in 2004.

Higher employment has resulted in greater revenue collected by the Commonwealth. An additional $918.7 million was included in Governor Warner's proposed amendments to the 2004-2006 Biennial Budget. That projected increase has subsequently grown to approximately $1.2 billion. Accordingly, the Governor has stated, "We will budget the additional projected revenue just like any prudent business would. We will use it for one-time expenses that are urgently needed or that represent smart investments in economic growth, new jobs, or a better quality of life for Virginians. We will make a 'super deposit' to our Rainy Day Fund, speed up food tax relief for all Virginians, and make innovative investments in our transportation system. We will use current revenues rather than issuing new debt for capital expenses."

More than 80 percent of the net expenditures that Governor Warner has proposed are for one-time or mandated spending. Included is funding for transportation improvements, the largest cash infusion for transportation in many years. Education continues to be an important priority for the state and the Governor's proposed budget amendments provide general fund and additional lottery fund support for K-12 education, as well as a 3.0 percent salary increase for all public school employees effective December 1, 2005. This increase for education is in addition to the significant funding infusion for education approved by the 2004 General Assembly which resulted in an increase of over $125 million for the Fairfax County Public School system over the biennium. Another major initiative proposed is increased funding to strengthen the safety net for Virginia's most vulnerable citizens, enhance systems of care for disabled persons and address high priority needs of at-risk children. The impact of these initiatives on Fairfax County will not be known until after the General Assembly takes final action on the 2004-2006 Biennium Budget after my budget goes to print.

The Regional and Local Economies

It is interesting that Dr. Stephen Fuller and others single out the Washington metropolitan area economy as the best performing among major metropolitan areas nationwide in 2004. Through the first nine months, it generated new jobs at an annual rate of 70,000 or 2.3 percent. This is twice the magnitude of the next best region – the Phoenix metro area. Dr. Fuller also projects that 2005 will be the best year for job growth in the region since 2000, with up to 80,000 new jobs added. Sixty percent of the new jobs expected to be created will be in Northern Virginia according to the Center for Regional Analysis. Fairfax County's job growth numbers are even more impressive. County unemployment was below 2 percent for the year and stood at 1.7 percent as of December – a rate that economists consider a workforce to be "fully employed." The County's job growth averaged over 4 percent for the year, which is almost 2 percentage points better than the region and 3 points better than the nation.

As a sign of its inherent strength, the breadth of the economy's acceleration spread across all major sectors. Only the two smallest segments – manufacturing and transport/utilities continued to lose jobs, while the largest sector – management and business sectors continued to account for a disproportionate share of new jobs. This results in better-paying jobs which increase the area's income growth and is also reflected in higher consumer spending.

The single most important factor affecting the regional economy's performance is federal spending. Even this is not evenly distributed across the region. Federal contractors in Northern Virginia captured 52.6 percent of the area's total contract value or 2.5 times the contract value of suburban Maryland contractors. The County's strong gains in federal procurement outlays have steadily upgraded the quality of jobs, which enable continued consumer spending that spreads across the local service economy. This underlying strength in jobs resulted in especially robust gains in the retail and housing sectors. Consumer spending also led to increased sales tax revenues, which by December, had increased for the fifth time in six months. This increase in sales tax is important because it provides a more diversified revenue base upon which the County can rely to finance services. Dr. Fuller projects more moderate growth in federal spending as concerns about the deficit rein in spending somewhat and the War on Terrorism stabilizes. However, he anticipates that non-federal core industries will accelerate their growth in response to increased domestic and global market demand.

The County's economic index reflects this growth. October's Coincident Index, which represents the current state of the County's economy, increased to 143.9 for a gain of 2.76 percent, establishing another new historic peak value. The Index has increased in five of the last six months and exceeds its October 2003 value by 9.2 percent. On a monthly over-the-prior year basis, the Coincident Index has increased for 13 consecutive months over the last year's same month values, with August 2003 being the last down month.

FY 2006 Revenues

FY 2006 General Fund revenues total $3.02 billion, an 8.9 percent increase over FY 2005. Based on the proposed tax rate reduction of 10 cents, real estate tax receipts are anticipated to increase 12.5 percent over last year and represent 60.6 percent of total revenue. All other categories of revenue combined are forecasted to increase a moderate, but solid 3.7 percent over FY 2005 levels. This is encouraging because it indicates a rebound in categories such as sales tax and interest on investment.

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In previous years, real property tax revenue growth represented the only meaningful increase in the County's revenues. In FY 2006, Other Local Taxes, which includes sales tax, accounts for an increase of $14.8 million or 6.0 percent of the total increase, while Personal Property Taxes are projected to increase $10.0 million or 2.2 percent over the *FY 2005 Revised Budget Plan*. With the Federal Reserve raising the federal funds rate 150 basis points over the past year and in early February, we are seeing a concurrent increase in our investments, resulting in a projected increase of $7.1 million or 27.2 percent over the FY 2005 level.

The increase in residential assessments continues to be the focal point of County revenue growth. The FY 2006 Real Estate estimate is based on a 23.49 percent increase in the FY 2006 valuation of real property reflecting a 20.80 percent increase in equalization and a 2.69 percent increase due to new construction. Not surprisingly, residential equalization contributes the largest component. Increased demand and a supply that cannot keep pace are driving up home prices. Low mortgage rates also continue to fuel sales. These trends remained strong over the past year and as a result, the County's residential equalization increased 23.09 percent in 2006. All categories of residential property experienced double-digit increase in value for FY 2006. Since FY 2000, average house values have more than doubled, growing 127 percent from $195,713 to $444,766 in FY 2006. A series of tax rate reductions in the last four years have offset a portion of this increase. Due to stagnant and often declining growth in other County revenues and the lack of availability of new, additional revenue sources, the County has had to rely on the real estate tax to fund basic service requirements.

The FY 2006 increase in the non-residential real estate tax base reflects an increase of 12.74 percent in equalization, up significantly from the FY 2005 increase of 3.74 percent and a turnaround from the FY 2004 loss of 2.94 percent. Leasing of office space was at near record levels in 2004 and the County's overall office vacancy rate declined from 11.2 percent at year-end 2003 to 9.7 percent by mid-year 2004. However, because of the substantially higher increase in residential equalization, the overall Commercial/Industrial percentage of the County's real estate tax base is 17.36 percent in FY 2006, down from 18.20 percent in FY 2005. This is a trend we need to turn around in order to reduce the burden on residential taxpayers. In FY 2006, every 0.1 percentage point change in the collection rate on the locally assessed Real Estate Tax levy yields a revenue change of $1.8 million, while every penny on the tax rate yields $17.9 million in revenue.

Revenue Diversification

The growth in revenue categories other than real estate in FY 2006 is a positive sign and perhaps a step toward a more balanced revenue base. Moderate growth in sales and BPOL taxes, personal property tax receipts and interest on investment support overall revenue growth and have enabled the large real estate tax rate reduction proposed in this budget. In order to enhance this revenue diversification and increase cost recovery, I have also recommended increases in some key fees based on the actual service costs. Land development fees have not been adjusted since FY 1996 despite increases in the number and complexity of cases as well as the growth in regulations placed on the development process. I am proposing a phased increase in these fees to improve cost recovery toward the Board's guideline of 90 percent. I have also recommended a further adjustment to the County's E-911 fee from $2.50 per line per month to the state maximum of $3.00 per line per month to more closely reflect the actual costs of our public safety communications system. Even with this increase, the General Fund subsidy in support of this service is $13.5 million. This system is one of the most vital components of our comprehensive public safety system and it requires a significant investment to continue to address the growing volume of calls.

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Based on action by the 2004 General Assembly, the Board of Supervisors approved increases in the County's cigarette tax and recordation tax, effective September 1, 2004. The FY 2005 revenue from these increases as well as their FY 2006 impact total $35.8 million, which has been held in a reserve to provide the Board with an opportunity to further reduce the real estate tax rate.

EXPENDITURE HIGHLIGHTS

This growth and diversification of revenue allowed me the opportunity to address a number of priorities that have been put on hold these past few years as we cut costs and could not afford to undertake new initiatives. As I noted previously, I used the Board of Supervisors' priorities and the County Vision Elements to guide the strategic allocation of resources. The following is a summary of key funding priorities for FY 2006. Additional details may be found in Volumes 1 and 2 of the FY 2006 Advertised Budget Plan, as well as the Budget Highlights section of this Overview Volume immediately following this section.

BOARD PRIORITY:

Strong Investment in Education

As always, the greatest share of the budget is dedicated to Fairfax County Public Schools (FCPS), the transfer for which will increase $108.96 million or 8.24 percent. However, the School Board's proposed budget includes an increase in the General Fund transfer of $121.52 million or 9.19 percent. When compared to most other school systems in Virginia, Fairfax County funds a much larger portion of its school budget with local funds. The average school division in Virginia receives approximately half of its financial support from its local government, while local funding comprises three-fourths of FCPS' budget. We will continue to work with the School Board and FCPS in a spirit of cooperation in order to maintain our high quality system of public education, while ensuring that we are fiscally responsible. In addition to the operating transfer of $1,431.34 million, an additional $130.28 million is included for School Debt Service to fund school construction. This represents 52 percent of total General Fund Disbursements. Although General Fund revenue is increasing by 8.89 percent, the percent increase for the operating transfer to FCPS is slightly less to reflect the Schools sharing in the $0.10 reduction in the real estate tax rate as well as the designated funding for priority stormwater projects.

Public safety also remains a top priority. We are one of the safest jurisdictions in the country due to our ongoing investment and commitment to public safety including stepped up efforts in recent years to address homeland security. The FY 2006 budget contains a number of adjustments to enable us to maintain this commitment as well as more broadly support the vision element – ***Maintaining Safe and Caring Communities***. They include:

- A significant investment of $15 million in FY 2006 to complete funding for the Public Safety and Transportation Operations Center (PSTOC) in order to provide a state-of-the-art public safety communications center and emergency operations center. By the time this facility is completed, the current center at the former Pine Ridge Elementary School will be over 20 years old and will not be adequate to address the 21st Century needs of over 1 million residents. I will also be recommending funding of $30 million as part of the *FY 2005 Third Quarter Review* for this facility.

- A 3.07 percent Market Rate Adjustment for all uniformed public safety personnel as well as merit increments and an across-the-board salary adjustment of 4 percent for sworn Police and Fire and Rescue personnel based on compensation comparability with neighboring jurisdictions with whom we compete for employees;

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- Increases in the shift differential rates and holiday pay to be more comparable to surrounding jurisdictions to enhance recruitment and retention;

- An increase of an additional hour of guaranteed court overtime from two to three hours since police officers have increased travel time for mandatory court attendance, particularly during rush hour;

- A restructuring of the Public Safety Communications Center and provision of 11 additional staff to strengthen the organization, as well as attract and retain highly qualified staff;

- Continuation of the phase-in of the Fire and Rescue Department's Advanced Life Support Plan with a total of 35 positions in order to provide the necessary command and oversight infrastructure as well as a sufficient number of certified personnel to meet service demands on each shift daily and avoid excessive overtime that drives up costs and results in employee burn-out;

- A total of 12 additional Police positions including 8 for Patrol and 4 for the Gang Investigations Unit to address the needs associated with a growing population including the emerging gang threat;

BOARD PRIORITY:

Public Safety and Gang Prevention

- Opening the second half of a floor of the Adult Detention Center to accommodate the growing number of inmates, which will require 11 additional positions;

- A total of 6 Public Health Nurses and Clinic Room Aides to staff the new South County Secondary School scheduled to open in September 2005 as well as improve the ratio of school nurses to students;

- The opening of the Little River Glen Adult Day Health Care Center with 9 new positions to serve an additional 35 senior citizens daily to promote the health and independence of frail elderly and adults with disabilities as an alternative to more costly nursing home placement, as well as provide a respite for family caregivers;

- A Case Manager position to address the increased case management workload associated with the June 2005 special education graduates;

- A Security Analyst and associated operating expenses in the Office of Emergency Management to provide a position to manage the County's emergency training/exercise program;

- A Probation Counselor for the General District Court's Case Management Unit to address an increased workload of providing investigative information on incarcerated defendants to judges and magistrates to assist them with release decisions; providing pretrial community supervision to defendants awaiting trial; and supervising probation for convicted misdemeanants and convicted non-violent felons; and

- Full-year operating costs of the Fairfax Center Fire Station, as well as 36 positions and the start-up costs for the Crosspointe Fire Station scheduled to open in May 2006 to provide much-needed response capability in these areas of the County.

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We also have a significant infrastructure investment to maintain. For the first time in many years, I have included funding to address a backlog of facility renewal requirements as well as invest in other Board priorities such as affordable housing. My budget includes a significant increase in the Capital Paydown Program to address the following initiatives that support our vision element of ***Building Livable Spaces***:

- Asbestos mitigation and site stabilization at Laurel Hill, a former penitentiary and reformatory property on 2,340 acres of land that was transferred to the County from the federal government in early 2002;

- Renovation and expansion of the Mott Community Center based on changing demographics of the community and increased programming needs, as well as the anticipated development of the adjacent Popes Head Park site;

- Increased County funding for maintenance contract support for the Commercial Revitalization Program in four major revitalization areas – Annandale, Baileys Crossroads, Springfield and the Route 1 Corridor to enhance the appearance and ensure the vitality of these aging business districts;

- Emphasis on Capital Renewal Construction for which a new fund is created for FY 2006 to provide essential resources for building renewals to protect the County's capital investment in order to maximize the life of County facilities, avoid their obsolescence and provide for planned repairs, improvements and restorations to meet organizational and community needs;

- Provide two Engineer positions to assist with construction administration at the West Ox Road Complex as well as numerous construction projects included in the Fall 2004 Bond Referenda approved by voters on November 2, 2004; and

- Seed money of $2 million for the Housing Assistance Program to provide additional affordable/workforce housing (as noted previously, the Board may wish to consider additional resources for this strategic priority based on the recommendations of the Affordable Housing Preservation Action Committee).

BOARD PRIORITY:
Affordable Housing

For FY 2006, I have also designated funding to support the Board's priority of **Environmental Protection** as well as the County vision element of ***Practicing Environmental Stewardship***. This affords the opportunity to make a significant investment to address the following:

- A backlog of stormwater management projects to be addressed by the addition of 3 positions and funded through the investment of $17.9 million in General Fund revenue annually instead of a more administratively-intensive utility tax in order to address public safety, preserve home values and protect our environment including the Chesapeake Bay as well as local waterways;

BOARD PRIORITY:
Environmental Protection

- Converting the Reston-Herndon Division of the FAIRFAX CONNECTOR to ultra-low sulfur diesel (ULSD) fuel as part of the County's initiative to retrofit the entire CONNECTOR fleet with Green Diesel technology that has been shown to reduce harmful emissions by as much as 90 percent below current levels; and

- Mass transit improvements that are detailed below in support of the ***Connecting People and Places*** vision element.

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While Fairfax County is viewed as a highly desirable place in which to live and work, we must be careful that our success does not overwhelm the capacity of our infrastructure to support the type of growth we continue to see. It is imperative that we invest in initiatives that will reduce the pressure on roads or gridlock will severely hamper economic growth as well as the quality of life for County residents. In addition, we are also seeing increased requirements to connect elderly residents with the services they need. To address these challenges as well as support the Board's priority for **Transportation Improvements** and the County vision element of ***Connecting People and Places***, I have including funding for the following in my proposed budget:

- An increase of over $4 million in the General Fund transfer to support Metrorail, Metrobus and MetroAccess (paratransit) service as well as contribute to construction costs associated with the 103-mile Metrorail system and the repair, maintenance, rehabilitation and replacement of capital equipment and facilities;

BOARD PRIORITY:

Transportation Improvements

- Additional service hours in the Huntington Division of the FAIRFAX CONNECTOR to address ridership increases and annualize service enhancements begun in late September 2004 as part of a larger public transportation initiative in the South County area, as well as increased service in the Reston-Herndon Division pending receipt of additional Dulles Corridor Rapid Transit funds;

- Five positions in the Department of Transportation to address substantial workload-related issues such as traffic calming, pedestrian safety, Residential Traffic Administration (RTAP) Programs, traffic operations activities, bus stop safety study, Metrobus Service and Operations Planning, the Tyson's Area Transportation and Land Use Study, and work on the Laurel Hill Plan Update;

- Support for the Dulles Rail project including a Planner position in the Department of Planning and Zoning to address issues associated with the extension of Metrorail service that will provide much-needed mass transit to this rapidly growing section of the County;

- Five mechanic positions in order to address workload issues associated with the increase in the number of school buses in the fleet to ensure that students are transported safely and efficiently to school each day; and

- Establishment of a new Meals-on-Wheels route in the Centreville/Chantilly area to serve frail, homebound elderly persons to maximize their health with nutritious meals, in addition to piloting a program to provide ethnic meals at one site.

Since it is recognized that Fairfax County government alone cannot address all the challenges faced by our community, the success of many County initiatives is dependent upon partnering with the community in order to achieve our vision element, ***Creating a Culture of Engagement***. For FY 2006, the budget contains funding for the following:

- An increase of 4.6 percent for the Consolidated Community Funding Pool to leverage resources of nonprofit organizations in order to meet community challenges;

- Five positions for the Department of Community and Recreation Services as well as one-time start-up costs to prepare the Southgate Community Center, the center for regional services in the North County region, including areas in the Hunter Mill, Dranesville and Sully districts that is estimated to serve 19,000 attendees per year when it opens in early FY 2007;

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- Continued training of citizens as Community Emergency Response Team (CERT) members who will be able to assist in the aftermath of a major disaster; and

- Full implementation of the Community Emergency Alert and Notification (CEAN) program where the public can register with the County to receive emergency alerts and notifications on any wireless device and e-mail system.

As noted above in the section on the Economy, Fairfax County benefits from low unemployment, relatively high income and steady growth. The strategic challenge we face is how to maintain our highly successful economy for the future. Toward achieving the vision element of ***Maintaining Healthy Economies***, my proposed budget for FY 2006 includes funding for the following:

- Staff resources consisting of 14 positions in Land Development Services to address longer plan review times, increased inspection requirements associated with more stringent environmental standards and increased workload due to greater volume and complexity of development such as an increase in revitalization and single lot (infill) projects;

- A Planner position in the Department of Planning and Zoning to review an anticipated increase in the number of special permit applications for the Board of Zoning Appeals; and

- Funding for an Economic Development Authority (EDA) representative in California to promote Fairfax County as a business location in order to generate new jobs and capital investment.

Lastly, we cannot forget our fiduciary responsibility to be good stewards of public resources. In addition to the efficiency indicators that I cited previously regarding positions per capita and per capita spending, we have a responsibility to County residents to seek ways to further diversify revenue, ensure a top-quality workforce, and protect our infrastructure investment. The following initiatives support the vision element, ***Exercising Corporate Stewardship***:

- Increase Land Development Services fees in order to recover approximately 90 percent of program costs. These fees have not been increased since FY 1996, resulting in a current cost recovery rate of approximately 75 percent, below the Board's 90 percent target. These fee increases will generate an additional $4.2 million in additional General Fund Revenue and will also offset the cost of the 14 positions necessary to address the growing and increasingly more complex workload associated with development;

- Increase fees for all zoning applications and appeals and zoning compliance letters by up to 55 percent, which would be more comparable to the fees charged by similar local jurisdictions and generate approximately $0.7 million in additional revenue each year. Current zoning fees cover only about a third of the costs incurred by DPZ staff involved in the processing of zoning applications (rezonings, special exceptions, special permits, variances, and amendments), appeals, and zoning compliance letters. A fee increase allows DPZ to recover approximately 50 percent of costs related to processing the zoning applications.

BOARD PRIORITY:

Revenue Diversification to Reduce the Burden on Homeowners

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- Increase the E-911 fee to the State maximum charge of $3.00 per line per month from the current $2.50 rate. This change would be effective September 1, 2005 based on notification requirements, and in combination with the trend of declining number of eligible phone lines, would result in FY 2006 revenue of $19.9 million. Despite the revenue increase, the General Fund Transfer to support the Public Safety Communications Center will also increase from $9.8 million in FY 2005 to $13.5 million in FY 2006 based on program requirements. To fully recover all allowable expenses without General Fund support would require an E-911 monthly charge per line of $4.95;

- Continue to support the Pay for Performance program for all non-public safety employees in order to link salary increases to performance;

- Provide three civilian positions in the Police Department for financial, grants and Web site administration due to growth in the size of Police Department's sworn force, in order to ensure proper accountability for public resources, maximize non-County funding and address the workload increase in these technical functions;

- Add three positions in the Facilities Management Department to address growing maintenance needs of County facilities due to the increase in the number of facilities as well as square footage;

- Introduce a Deferred Retirement Option Plan (DROP) for non-public safety employees in order to retain trained experienced employees for a maximum of three years past their regular retirement date and provide a Retirement Counselor to manage this program; and

- Provide a more systematic Capital Renewal Program to ensure that facilities continue to operate efficiently and meet their functional requirements. Whereas the Capital Program has predominantly focused on new facilities – between 1984 and 2004, square footage grew from 2.5 million square feet to 7.3 million square feet – many of these facilities are now approaching the critical investment cycle where it is more economical to implement a planned system of replacement/renewal than address major breakdowns as emergencies. Consequently, this budget creates Fund 317, Capital Renewal, to address these needs. It will be funded with a combination of General Fund monies and General Obligation Bonds approved by voters in a referendum. The first such referenda were approved this past fall when voters overwhelmingly approved the Public Library Facilities Bond as well as the Human Services Facilities Bond, both of which contained $2.5 million for capital renewal.

The table on the next page summarizes General Fund Disbursements proposed for FY 2006.

Summary General Fund Statement
(in millions of dollars)

	FY 2005 Revised Budget Plan	FY 2006 Advertised Budget Plan	Increase (Decrease) Over Revised	Percent Inc/(Dec) Over Revised
Beginning Balance [1]	**$152.34**	**$79.40**	**($72.94)**	**-47.88%**
Revenue [2]	$2,772.20	$3,018.56	$246.36	8.89%
Transfers In	$1.67	$2.10	$0.44	26.28%
Total Available	**$2,926.21**	**$3,100.06**	**$173.85**	**5.94%**
Direct Expenditures	$1,051.21	$1,076.87	$25.66	2.44%
Transfers Out				
School Transfer [3]	$1,322.37	$1,431.34	$108.96	8.24%
School Debt Service	126.53	130.28	3.75	2.97%
Subtotal Schools	*$1,448.90*	*$1,561.62*	*$112.72*	*7.78%*
Metro	$18.14	$22.32	$4.17	22.99%
Community Services Board	82.07	90.85	8.78	10.70%
County Transit Systems	21.21	24.15	2.94	13.84%
Capital Paydown	24.59	51.23	26.64	108.33%
Information Technology	11.42	17.05	5.62	49.21%
County Debt Service	98.72	98.72	0.00	0.00%
Other Transfers	53.25	61.37	8.12	15.24%
Subtotal County	*$309.40*	*$365.67*	*$56.26*	*18.18%*
Total Transfers Out	$1,758.31	$1,927.29	$168.98	9.61%
Total Disbursements	**$2,809.52**	**$3,004.16**	**$194.64**	**6.93%**
Ending Balance	**$116.69**	**$95.90**	**($20.79)**	**-17.82%**
Less:				
Managed Reserve	$56.19	$60.08	$3.89	6.93%
Reserve for School Replacement Requirements (School Buses and Computers) [4]	$5.00		($5.00)	
Reserve for Environmental Projects [4]	$2.00		($2.00)	
Reserve for Board consideration and tax relief as part of the FY 2006 budget [5]	$23.21	$35.81	$12.61	
Reserve for *FY 2005 Third Quarter Review* - Public Safety and Transportation Operations Center (PSTOC) [6]	$30.29		($30.29)	
Total Available	**$0.00**	**$0.00**	**$0.00**	

[1] The FY 2005 Revised Beginning Balance reflects audit adjustments for revenue as included in the FY 2004 Comprehensive Annual Financial Report (CAFR). As a result, the FY 2005 Revised beginning balance reflects a net increase in available balance of $1,174,328.

[2] *FY 2005 Revised Budget Plan* revenues reflect an increase of $44,239,242 based on revised revenue estimates as of November 2004. The *FY 2005 Third Quarter Review* will contain a detailed explanation of these changes.

[3] The proposed County General Fund transfer for school operations in FY 2006 totals $1,431,337,820 an increase of $108,963,633 or 8.24% over the *FY 2005 Revised Budget Plan* transfer. It should be noted that the actual transfer request approved by the School Board on February 10, 2005 is $1,443,894,483, an increase of $121,520,296 or 9.2% over the FY 2005 transfer level. In order to fully fund this $12,556,663 increase over the County Executive's proposed transfer, additional resources would need to be considered by the Board of Supervisors.

[4] The *FY 2005 Revised Budget Plan* ending balance reflects reserve funding of $5.0 million for school replacement requirements (School buses and computers) and $2.0 million for environmental projects. This funding was identified by the Board of Supervisors as part of the *FY 2004 Carryover Review* pending approval by the Board of Supervisors of a plan for use of the funds. Plans for the allocation of these funds have been developed and provided to the Board of Supervisors. As a result, these funds will be appropriated as part of the *FY 2005 Third Quarter Review.*

[5] The FY 2005 reserve of $23.2 million represents the sum of the $8.1 million reserved by the Board of Supervisors as part of the *FY 2004 Carryover Review* as well as additional revenue of $15.1 million associated with the September 1, 2004 implementation of the increased rates for recordation and cigarette taxes. As the Board indicated, these additional dollars are to be held in reserve for Board consideration and tax relief as part of the FY 2006 budget. The sum of the FY 2005 reserves is $23.2 million, which when added to the FY 2006 impact of the additional revenue associated with the recordation and cigarette taxes of $12.6 million results in the FY 2006 reserve amount of $35.8 million.

[6] The *FY 2005 Third Quarter Review* reserve reflects funding of $30.29 million. The County Executive's *FY 2005 Third Quarter Review* will include a recommendation that this reserve be used to complete construction and fund operating costs related to the Public Safety and Transportation Operations Center (PSTOC). Further details will be included as part of the *FY 2005 Third Quarter Review* package.

County Executive Message

FY 2005 REVENUE

Staff has been closely reviewing FY 2005 revenue receipts to date and has updated projections for the remainder of the fiscal year. At this time, FY 2005 revenue estimates assume a net increase of $44.2 million over the Revised Budget Plan, an increase of 1.6 percent. The majority of the increase is due to revenue categories that continue to react positively to improvement in the local and national economies. Recordation Tax/Deed of Conveyance collections are projected to increase $17.3 million over the estimate based on the higher number of refinancings than previously anticipated due to continued low interest rates as well as the increase in the recordation tax rate effective September 1, 2005. Sales tax and BPOL tax receipts also show strong collections in FY 2005 to date and as such, these categories have been adjusted to show a 7.6 percent and 6.0 percent growth rate, respectively, for a total increase of $15.4 million. Through January 2005, sales tax collections reflecting retail sales through November 2004 are up 7.3 percent; however, holiday sales data will be crucial to the overall fiscal year collections in this category.

Lastly, investment interest is increased $7.9 million based on higher than projected portfolio size and the portion of the total investment portfolio associated with the General Fund as well as an investment yield that is trending near 2.0 percent for the year.

I will be recommending that the balance of the additional FY 2005 revenue that is not directly associated with the recordation/cigarette tax increases be prioritized toward the completion of the funding necessary for information technology and equipment requirements of the County's Public Safety and Transportation Operations Center (PSTOC), which will house the Public Safety Communications Center (PSCC) and the Emergency Operations Center (EOC). This facility, planned for the Camp 30 site, will ensure adequate space, technology, security and communications to manage the volume of 911 emergency calls handled by the PSCC. There has been an 80 percent increase in calls handled by the Center since it opened in 1985 and the operations floor cannot support additional equipment to expand call-taking or dispatching capacity required to efficiently manage the increase in call volume. It will also provide for a new EOC. The County's current EOC is inadequate in terms of space, equipment and technology to support representatives from 40 County and state/regional agencies during an emergency operation. In addition, the EOC lacks system redundancy for electricity and telephone service. This equipment is needed to ensure that essential utilities will continue to operate during and following an emergency. In the last several budget packages, the Board has committed a portion of available balances to this facility in an effort to provide sufficient funds to finance its construction and equipment. This proposed adjustment, along with the FY 2006 recommendation, will provide the final resources needed to complete this vital facility.

Details of these adjustments will be included in the *FY 2005 Third Quarter Review* that will be provided in March for the Board's consideration.

FINANCIAL FORECAST

The financial forecast for FY 2007 and FY 2008 maintains the FY 2006 Advertised Budget Plan Real Estate Tax rate of $1.03 and limits increases in County expenditures and the transfer to the Schools to the revenue growth rate anticipated in each year. This forecast projects County total revenue growth of 7.43 percent in FY 2007 and 6.82 percent in FY 2008. These rates of growth are due to projected moderating increases in real estate property values and decelerating growth in other revenue categories This current forecast shows surpluses of $11.8 million in FY 2007 and $16.4 million in FY 2008, which are primarily due to one-time funding of $15.0 million in FY 2006 for the Public Safety Transportation and Operations Center that is not included in the forecast years. The projected surpluses in FY 2007 and FY 2008 may be available for the Board of Supervisors' consideration of funding for additional service requirements or providing additional real estate tax relief. Details of the FY 2007 Forecast can be found in the Financial Forecast section of this volume.

As the Board is aware, we also face growing challenges due to the growing number of senior residents. Persons 65 and older are projected to increase in number and as a proportion of Fairfax County's total population. By 2010, this group will be 9.2 percent of the County's total population, increasing to 104,400. Furthermore, by 2020, it is projected that there will be 138,600 persons age 65 or older living in the County and they will represent 11.6 percent of the total population. We can expect to see increased demand for senior services as there will not be as many caregivers as for previous generations. This has the potential to have a tremendous impact on the County's budget.

Conclusion

More than anything else, this budget represents a commitment to the residents of Fairfax County, the Board of Supervisors and employees to maintain the high standard of excellence and quality of life we currently enjoy. I am proud of what we have accomplished collectively to make Fairfax County one of the premier local governments in the country. The overwhelming margin by which the four bond referenda passed this past November further validates that the public understands and supports our efforts. Nevertheless, there are a number of unmet needs and worthwhile initiatives, particularly in the public safety and human services areas for which I would have recommended funding if additional, non-real estate tax revenue was available.

As I noted previously, this budget provides opportunities to address a number of priorities for which funding has not been available in recent years. A total of 166 new positions are included, which while it represents a larger increase than previous years, is associated predominantly with new facilities slated to open during the coming fiscal year, as well as critical public safety requirements of which the Board is aware, i.e., Advanced Life Support staffing. A growing population continues to result in increasing service demands. Nevertheless, we continue to decrease the ratio of employees per 1,000 residents, while providing the level of service citizens have come to expect.

We cannot afford to become complacent nor will we. By keeping our focus on the Board's strategic priorities and our countywide core purpose and vision elements, we will ensure that we are doing the 'right thing.' And by continuing our efforts to become more efficient, we will make sure that we are doing things 'right.'

County Executive Message

When I conduct the annual fall strategic planning/performance measurement meetings with agency directors and staff, I never cease to be impressed with the high level of commitment, creativity and capacity with which County staff fulfill their duties. We are extremely fortunate to have a dedicated and highly talented workforce that continuously seeks to improve services to County residents. Our challenge for the future is to continue to maintain and enhance our people, services and infrastructure. The budget I am proposing for FY 2006 is intended to do this.

In closing, I want to acknowledge the Board's support and strategic direction this past year, as well as the many hours staff has committed to developing a thoughtful fiscal plan for FY 2006. While we cannot afford to fund every worthwhile proposal requested, we have forged a budget that will continue us on the path that will enable us to achieve our core purpose.

Respectfully submitted,

Anthony H. Griffin
County Executive