County Executive Message

February 20, 2024

Honorable Board of Supervisors
County of Fairfax

Chairman and Board Members:

Last year when I presented my FY 2024 proposed budget to the Board, I noted that we were anticipating a 'troubling revenue picture and tight budget for FY 2025'. At that time, we projected flat residential assessments, slight growth in commercial real estate, and potential interest rate reductions by the Federal Reserve. Although our current updated projections include continued elevated interest income, our net overall real estate picture has not substantially changed from our estimates a year ago. We are seeing some residential growth, but our commercial values have declined, resulting in an overall real estate growth of just over 2.7 percent. Paired with significant expenditure pressures – particularly for employee pay and benefits, transportation requirements, and continued inflationary impacts – balancing this proposed budget has required difficult decisions. With this backdrop, I present the FY 2025 Advertised Budget Plan for your consideration.

The FY 2024 budget was focused on supporting and stabilizing our employees and core services. This proposed budget is no different. A substantial portion of the overall budget increase is directed to our partners at Fairfax County Public Schools (FCPS). The FCPS Superintendent's Proposed Budget, released on February 8, prioritizes compensation, addressing enrollment growth and changing student demographics, and continuing multi-year investments. As articulated in the Board's budget priorities, our focus likewise remains on our employees, with over 82 percent of proposed County disbursement growth attributable to employee pay increases – including those outlined in our recently negotiated collective bargaining agreements – and benefit requirements. Other County adjustments are included for our required debt service payments and transportation commitments. All other County increases – including investments in Board priorities such as funding for environmental initiatives, Parks support, early childhood education, inflationary and contract rate adjustments, and information technology infrastructure – are completely offset by over $36 million in identified reductions, savings and revenue adjustments and just under $3 million attributable primarily to targeted fee adjustments.

The FY 2025 Advertised Budget Plan focuses on support for Fairfax County Public Schools and employee compensation and benefits, while utilizing identified savings to offset funding needed for targeted investments in Board priorities, inflationary and contract rate adjustments, and information technology needs.

Despite limiting expenditure increases and undertaking an extensive agency reduction exercise, our projected revenues are not sufficient to cover our proposed expenses. With no changes to the Real Estate Tax rate, our revenues are projected to grow by 3.5 percent and will not support the necessary expenditures increases. Thus, **I have proposed a 4-cent increase on the Real Estate Tax rate in order to balance the Advertised budget**. This increase would generate $129.28 million and would result in an available balance of $3.83 million for the Board's consideration. I recognize that this would be the first Real Estate Tax rate increase in six years, and it was not a conclusion that I reached easily. I am proposing only those adjustments which I feel are essential to maintain the quality workforce and dependable services upon which our residents rely. But facing rising debt and transportation costs and needing to compete in our highly competitive local job market, funding increases are necessary.

It is important to note that additional increases beyond the proposed 4 cents would be required to fully fund the Superintendent's proposed School Operating transfer, as well as to provide flexibility in meeting the County's Metro and Connector obligations, which remain to be finalized. I encourage the Board to advertise a Real Estate Tax rate increase above the 4-cent increase upon which this budget is balanced to allow for and encourage engagement of our residents in the discussion on the budget challenges facing the County.

The major driver behind our financial picture for FY 2025 is the changing landscape of our real estate values. Tremendous growth in residential values over the past two years helped to boost our overall real estate base. However, mortgage rates have reached some of their highest levels in over 20 years, resulting in a residential market slowdown. Although residential equalization is a positive 2.86 percent increase for January 2024, achieved in part due to low inventory, this is far less than the 6.97 percent rise seen last year and the strong 9.57 percent increase the year before. Meanwhile, recovery in the commercial market post-COVID has been mixed. After modest increases in the past two years, non-residential values reflect a decrease of 1.24 percent. This is largely driven by the fourth consecutive decrease in office elevator properties – declining over 9 percent in FY 2025 – which represent 26 percent of the non-residential tax base.

As interest rates have stayed elevated, so too has the yield earned on the County's cash portfolio. After quickly slashing rates following the severe economic impacts of the pandemic, the Federal Reserve raised rates at an unprecedented pace to control high inflation. In FY 2023, the County earned over $116 million in interest earnings – almost $100 million more than the previous year. The Fed funds rate has remained unchanged since August, but rate cuts are expected over the course of 2024. With a yield of 4.15 percent projected in the current fiscal year, we project a slightly lower yield of 4.00 percent in FY 2025. As we increased our FY 2024 interest revenue projection after the budget was adopted, this lower yield is still estimated to generate almost $28 million more for the County as part of this proposed budget. If the rate reductions come to fruition, I anticipate that we will be bringing this revenue category down significantly in FY 2026.

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

Another category that we have been closely monitoring over the past few years has been Personal Property taxes. Two years ago, vehicle values jumped over 30 percent as a result of pandemic-related supply chain issues. To provide relief to residents on the resulting personal property tax bills, the Department of Tax Administration proposed, and the Board approved, an assessment ratio of 85 percent. Last year, vehicle values declined year-over-year, but were still elevated by historical standards. In response, the Board approved an assessment ratio of 90 percent, which kept the average vehicle levy relatively flat. Based on preliminary information for this year, vehicle values are once again expected to decline. With values normalizing, our estimates assume that vehicles will be assessed at 100 percent of the trade-in value and no assessment ratio will be utilized. Although this will result in increased personal property tax bills, this is consistent with what we are seeing in other jurisdictions. It is important to remind the Board – and our residents – that personal property taxes generally trend higher in part because of the declining impact of state Personal Property Tax Relief Act (PPTRA) funds. With state funding frozen at $211 million since FY 2007, state reimbursements have dropped from 70 percent of taxes paid on the first $20,000 of value to an estimated 50 percent in FY 2025.

Following the Board's budget guidance to undertake a comprehensive review of taxes and fees, this budget does include a number of recommended tax and fee increases. First, the FY 2025 Advertised

Budget Plan proposes increasing the County's Cigarette Tax to the maximum allowable rate of 40 cents per pack (up from the current 30 cents), which is projected to generate almost $1.3 million. This increase is possible because of authorization provided by the General Assembly in 2020. Although this change provides some increased resources in FY 2025, it should be noted that this revenue category has been trending down for eleven consecutive years.

As part of the budget development process, we also examined our Athletic Services Fees, first implemented in 2005. Diamond field and indoor gym fees have never been increased, and rectangular field fees were increased in 2016 as part of the Synthetic Turf Task Force's recommendations. For FY 2025, fees are proposed to increase from $5.50 to $10 per participant per season and from $15 to $20 for tournament team fees for diamond field users and indoor gym users. The rate for rectangular field users is proposed to increase from $8 to $10 per participant per season and from $50 to $60 for tournament team fees. These increased fees will generate an additional $0.7 million, the fee for non-County participants is proposed to increase from $30 to $50 for all field types per player, generating an additional $0.4 million. Additionally, the $0.6 million which has traditionally been generated from the existing non-County fee and deposited in the General Fund, will be applied directly to the athletic sports program. In total, $1.7 million in additional resources generated by the cumulative actions will be used for increasing costs associated with turf field replacement, custodial support for indoor gyms, maintenance of all athletic fields, and youth sports scholarships.

In addition, staff performed a comprehensive analysis of many individual agency and program fees for potential adjustments; the proposed budget includes increases to a number of them that have remained unchanged for many years. Included in that list is an increase to Zoning Fees based on increases in staff salaries and fringe benefits since 2011 (the last time that these fees were comprehensively evaluated). This increase is consistent with what we are seeing in other jurisdictions. Similarly, we are proposing revising fees associated with Fire Marshal services, with a goal of achieving cost recovery between 90 to 100 percent. These fees were last adjusted in 2015. A full listing of recommended fee adjustments is included in the Advertised Budget Summary contained in the Overview volume.

In addition to the above-mentioned rates which impact the General Fund, this budget includes proposed rate changes for some of the County's self-supporting funds. Consistent with the five-year plan presented to the Board last year, sewer charges are recommended to be increased by 5.8 percent in FY 2025. The additional revenues generated will be used to offset 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. Even with the proposed increases, the average bill will remain one of the lowest when compared to other jurisdictions. The County's Solid Waste Management Program conducted a comprehensive budget analysis over the past year to examine recent trends and project future fiscal needs. The analysis projected major budget shortfalls unless revenues were increased. Paired with efforts to utilize contracted employees to help provide cost-effective services, rate increases are proposed for FY 2025. Rates for the estimated 44,500 households provided refuse collection as part of the County's approved sanitary districts are proposed to increase from $490 to $555 per home in order to meet increased labor, equipment, and contractual costs necessary to operate the collections programs. For the approximately 25,000 properties included in the County's approved leaf collection districts, the levy is proposed to increase from $0.012 to $0.019 per $100 of assessed value in FY 2025. This rate increase reflects the additional cost of providing the service through County and contract employees, and the need to replace aging capital equipment. Further increases will likely be required in FY 2026 to meet the operating and capital equipment needs of this program. Based on increased staffing and cost increases since the last comprehensive change in Land Development Services (LDS) fees in 2015, we are also proposing a 25 percent increase in all building fees, a 10 percent increase in all site fees, an additional 2 percent fee on all building and trade permits to support code academy operations, and a 6-percentage point increase in the technology surcharge fee. These changes are necessary to increase the cost recovery in our LDS Special Revenue Fund to ensure that the fund is sustainable and remains self-supporting.

The largest net increase included in my Advertised budget this year is support for Fairfax County schools. Like the County, the FCPS Superintendent focused on employee compensation as part of her proposed budget. Her budget includes a 6.0 percent across-the-board salary adjustment for all FCPS employees, funding to support the ongoing costs of a 2.0 percent pay adjustment provided in January 2024, a new Deferred Retirement Option Program (DROP) for legacy ERFC employees, and over $46 million in funding to address student demographic changes and enrollment growth. The budget also includes ongoing support for multi-year investments such as inclusive preschool expansion, JET (Joint Environmental Task Force) recommendations, and fine and performing arts stipends.

The Superintendent's operating transfer request is an increase of $254.0 million, or 10.5 percent over the FY 2024 Adopted Budget Plan. This is the largest school operating request by percentage since FY 2007 and the largest request, in terms of dollars, in history. Based on other significant budgetary pressures, **I have not been able to include full funding of this request in my proposed budget**. The Advertised Budget includes an operating transfer increase of $165.0 million, or 6.8 percent, leaving just over $89 million unfunded. As the Superintendent noted during her presentation to the School Board, the funding challenges facing FCPS are due to the severe underfunding of Schools by the state of Virginia. As the Board has discussed several times, the recently released Joint Legislative Audit and Review Commission (JLARC) study noted that Virginia schools receive 14 percent less funding per pupil than the average across the entire country, with West Virginia, as an example, providing 25 percent more funding per student. Funding Virginia schools at the national average would provide another $1,900 per student, or approximately $345 million in additional funding. We have been sharing this information through our communication channels to help our community understand the scope of this important issue. I hope that our legislators will agree that a strong education system is the key to our economic success and that the General Assembly will expand schools funding beyond the minimal funding contained in the Governor's proposed budget. Barring additional state funding, fully funding the Superintendent's request would require an additional 3-cent increase on the Real Estate Tax rate.

The FY 2025 proposed budget also includes an increase of $8.9 million to support School Debt Service requirements. This includes debt payments resulting from last month's $205 million General Obligation (GO) bond sale for Schools capital projects. January 2024 represents the second year at this level, after the Board of Supervisors and School Board approved the recommendations in late 2021 from the Joint County/Schools Capital Improvement Program (CIP) Committee to gradually increase the annual school bond sales from $180 million to $230 million. The last increase – to the full $230 million – will occur as part of the January 2025 bond sale, with associated debt service payments included in the FY 2026 budget. Prior to these changes, School bond sales had last increased in FY 2019, when they were adjusted from $155 to $180 million.

Including proposed increases for both the Schools Operating and Debt Service transfers, the total increase for Schools as part of the FY 2025 Advertised Budget Plan is $173.9 million, with total

Schools support at $2.81 billion. If the Schools operating request were to be fully funded, total support for FCPS would be increased by $262.9 million.

County disbursements, which exclude transfers to FCPS and reserves, are proposed to increase by $178.61 million over FY 2024. With associated revenue and proposed fee adjustments, the net impact on the budget is $171.53 million.

By far, the biggest driver of the County increase is due to County compensation, with the proposed pay and benefits increase totaling $148.10 million. This includes funding necessary to implement pay adjustments outlined in the collective bargaining agreements presented in December, when the Board approved resolutions indicating its intent to allocate the necessary funding. As the Board is aware, over the course of many months last year, the County worked with representatives of the International Association of Fire Fighters (IAFF) and the Southern States Police Benevolent Association (SSPBA) to negotiate two collective bargaining agreements for our uniformed police officers, firefighters, and public safety communicators. The Police agreement reflects the challenging market in which our Police Department must compete to recruit and retain employees and includes a 3.0 percent scale adjustment; merit and longevity increases, including a new 10-year longevity step; and a 2.0 percent cost-of-living adjustment. The agreement for the Fire and Emergency Services bargaining unit, which includes employees in our Fire and Rescue Department and Department of Public Safety Communications, includes a new, redesigned pay plan which eliminates longevity steps and holds, increases minimum pay, and includes a 3.0 percent scale adjustment. Both agreements include increases to various stipends and a full-day holiday for Christmas Eve (which we propose to expand to all County employees).

The FY 2025 Advertised Budget Plan includes funding for recently negotiated Collective Bargaining agreements as well as a 2.00% Market Rate Adjustment, performance and longevity increases, and benchmark regrades for non-represented employees.

In alignment with budget guidance approved by the Board last year, I have included pay increases for our non-represented employees that are consistent with our negotiated agreements. This includes performance and longevity increases for General County employees as well as merits and longevities for our non-represented uniformed public safety employees (primarily in the Office of the Sheriff). For uniformed Sheriff employees, specifically, I have also included a new 10-year longevity step to encourage retention and boost salaries in the middle of the salary range. We have also fully funded adjustments related to our annual benchmark studies to maintain competitive pay scales and ensure that we do not have specific job classes falling behind as compared to the market.

Since FY 2012, when the Market Rate Adjustment (MRA) was first calculated utilizing the current formula, through FY 2022, before supply chain issues from the pandemic began to spur inflation, the average calculated MRA was 1.86 percent. In the past three years, that average has jumped almost 2.5 times, to 4.52 percent. Even before the impacts of the pandemic, we saw fluctuations in the MRA calculation (ranging from 1.29 percent to 2.51 percent), with even those fluctuations causing budgetary challenges. As those fluctuations make it difficult for budgeting, it also creates uncertainty for our employees.

As we held our collective bargaining discussions with the public safety unions, it became apparent that proposing an alternative to the MRA was necessary. Unable to guarantee funding of an MRA whose calculation in future years was unknown, we instead proposed – and the unions accepted – a 2.00 percent cost-of-living adjustment (COLA) in many years of the contracts. A standard COLA is in line with what we see in other jurisdictions, provides stability for our budget, and allows employees to anticipate their pay increases in future years. Thus, I believe moving to a standard

2.00 percent COLA would be a prudent change for all of our employees. Although I know further Board discussions will be necessary regarding this important issue, I felt it important to begin this conversation as part of this budget.

In that vein, **I have not included funding for the full calculated Market Rate Adjustment (MRA) of 4.10 percent and am proposing an increase of 2.00 percent.** I have chosen to do this for fiscal reasons and, as I am proposing shifting to the COLA model in future years, to provide some predictability for our employees and for budget planning. Certainly, from a fiscal perspective, this is a challenging budget that has required difficult decisions. I have included adjustments only when I believed that they were necessary to address inflationary impacts and workload increases, and to make small investments toward Board initiatives. Each of my proposed adjustments was contemplated with the knowledge that a tax increase would be required to balance this budget. I would be hard pressed to propose increasing the tax rate by an additional penny, which would be required to generate the additional $30.6 million necessary to fully fund the MRA.

It is also important not to disregard the significant increases that this budget includes to support employee benefits, particularly for the County's defined-benefit retirement plans. Over $31 million is included for required increases in the employer contribution rates for all three systems, based on FY 2023 investment returns and the remaining impact of smoothing in returns from prior years. All three systems experienced returns well below the 6.75 percent assumed rate of return in FY 2022, while only the Uniformed system exceeded that target return in FY 2023. It is the County's policy to fully fund the actuarially determined contributions to the systems and making these investments is crucial to sustaining the strong financial position of our plans.

Like funding for our retirement systems, we are also obligated to pay our debt service payments which, in FY 2025, will require an additional $11.6 million. This increase is attributable both to the current interest rate environment and the recent increase in annual bond sales as recommended through the Joint County/Schools CIP Committee. Until last year, the annual bond sale limit for County capital projects stood at $120 million, which had remained unchanged since 2007. The Board of Supervisors approved a $50 million phased-in increase in order to address significant inflationary impacts and rising capital contributions for Metro. The first $25 million increase occurred in January 2023. Last month, the County sold $145 million in bonds at an interest rate of 3.27 percent. That rate is competitive given the existing market, and is evidence of the strength of the County's triple-AAA bond rating, but is slightly higher than the 2.98 rate we received last year and far above the 1.23 percent received in January 2021. For comparison, our combined debt service obligation for FY 2025 would be reduced by $6 million if we had been able to achieve that same 1.23 percent rate for our most recent sale. Next year, the bond sale will increase to its new maximum of $170 million, with debt payments increasing accordingly in FY 2026. I include more information on the County's Capital Improvement Program later in this letter.

As I noted, a big contributor to the increasing capital program is our capital contribution to the region's Metro system. But, as the Board is aware, Metro is also facing significant budgetary pressures on its operating side as well. Facing an FY 2025 budgetary shortfall initially projected at $750 million, WMATA has been pursuing a multitude of potential measures, including fare increases, service reductions, and shifting funding targeted for preventative maintenance to operations. The General Manager's budget released in December outlined several budget scenarios, with the impact to Fairfax County ranging from an increase of over $39 million to almost $80 million. (After applying estimated state aid and gas tax receipts, we estimated that the General Fund impact would range roughly between $16 to $55 million.) We have included a net increase for Metro of almost $37 million in my proposed budget, with a $10 million increase in General Fund support, with the remainder coming from applied state aid and gas tax revenues.

As maintaining a strong rail and bus system is a regional priority, Metro funding has been a hot budget topic in our neighboring state and local jurisdictions, as well as in the Virginia General Assembly. Based on preliminary financial commitments from DC, Maryland, and Virginia, Metro released a revised budget which included targeted service adjustments (without station closures) and scaled-back fare increases, along with organizational cost reductions, including no salary increases for Metro employees in FY 2025. As our Advertised budget was developed before this revised budget was released, and as Virginia state support and final Metro budget numbers are still unknown, further adjustments may be necessary to meet our Metro requirements. As the state budget moves closer to approval and as we learn more from WMATA, we will provide the Board with updated budget figures when they become available.

Similarly, we are awaiting more information regarding the ongoing negotiations with our contract vendor for the Fairfax Connector bus system. Our proposed package will ensure our valued Fairfax Connector employees are adequately compensated as compared to our regional comparators. Although we have included a modest contract rate increase in our proposed budget, the final fiscal impact will not be known until negotiations are completed. I am hopeful that we will have more information and will be able to include further adjustments as part of our FY 2025 Add-On Package prior to budget adoption.

As the financial outlook for FY 2025 began to come into focus, we realized that tough decisions would be required to balance this budget. As we noted to the Board at the joint forecast meeting with the School Board in November, we directed agencies to provide reduction options totaling seven percent of their General Fund budgets to provide savings to offset other required increases. As a result of this exercise, **we have identified $36.0 million in net savings, including a reduction of 84 positions.** While these actions may serve to reduce agency year-end balances, they are not expected to have a considerable impact on agency operations or existing employees. A full listing of proposed reductions is included in the Advertised Budget Summary; reductions primarily focus on identified efficiencies and shifting costs to non-General Fund sources, with a minimal number of full or partial program reductions. I am incredibly proud of the work that our agencies put into this exercise, scrutinizing their programs and activities to determine where they could eliminate vacant positions, align budgets to actual spending, and utilize technology to generate savings. We had robust conversations with our leadership to ensure that any recommended reductions would not negatively impact our existing employees or create operational challenges which could impact the services we offer to our residents. While agency reduction percentages vary, the average reduction proposed is 2 percent. Of the $36.0 million identified, a majority ($33.8 million) is attributable to expenditure reductions while a small portion ($2.2 million) is associated with a net increase in projected revenue. These are primarily attributable to additional resources proposed in the Department of Tax Administration which are expected to improve business tax compliance and increase revenues.

As part of this budget, you will also see examples of our efforts to reorganize and restructure our work where we believe that there are opportunities to achieve efficiencies. To better align countywide summer programs for school-age children, the Rec-PAC summer camp program will be transferred from the Fairfax County Park Authority (FCPA) to the Department of Neighborhood and Community Services (NCS). NCS currently operates the summer School-Age Child Care (SACC) program, also called Camp Fairfax. By consolidating Rec-PAC into Camp Fairfax, we will be able to maximize our resources and utilize experiences from both programs to offer a healthy, fun, and inclusive environment for families at convenient locations throughout the County. FCPA will continue to operate Rec-PAC this summer, and NCS will take over the consolidated program in the summer of 2025. Similarly, funding and positions which currently support the County's FASTRAN operations in NCS will be transferred to the Department of Transportation (DOT). The program, which offers specialized transportation services to individuals within the health and human services network, will be improved through the leveraging of route-planning expertise and contracting opportunities in DOT. Lastly, as we discussed as part of a recent Safety and Security Committee meeting, we are recommending a consolidation of the animal control function that currently resides in the Police Department with the Department of Animal Sheltering. This reorganization is expected to take 18 to 24 months to fully implement, with most of the transition anticipated to be included in the FY 2026 budget. My FY 2025 proposed budget includes a position transfer from the Police Department for the creation of a Chief Animal Control Officer in the newly established Field Services division to begin this work.

We have utilized the $36.0 million made available as part of our reduction efforts and the net impact of fee increases and revenue adjustments associated with expenditure changes to fund all remaining budget requirements, including inflationary and contract rate increases; targeted investments in information technology, parks, and environmental and energy initiatives; adjustments necessary to address workload concerns; and new positions to support our elections and new facilities. In total, I have proposed 42 new positions as part of this this budget, with almost half targeted towards housing and human services needs. However, with the 84 positions identified for elimination, this budget will result in a net decrease of 42 positions. I will highlight some of our suggested investments below, although all General Fund adjustments are described 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.

Following the same trend as last year, the second largest increase after employee pay and benefits is to address inflationary impacts and contract rate adjustments. We have included, net of associated revenues, approximately $15 million to provide an average 5 percent increase for most personnel-based contracts, particularly in health and human services agencies, but also where necessary in other County agencies. This funding will help support our community non-profit partners as they continue to face inflationary increases and compensation pressures. Funding has also been provided for some expenses which are not personnel-based, including fuel, waste disposal, and information technology maintenance and software.

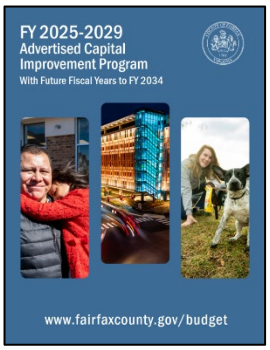
Almost $7 million has been provided for investments in environmental and energy initiatives, particularly in the Fairfax County Park Authority (FCPA) and other support for Parks. Following the Board's budget guidance, we have provided baseline funding to continue bamboo mitigation efforts at Park Authority properties and provide support for forestry operations and high-risk tree removals. Funding and positions are also included to support what is expected to be a multi-year effort to assist FCPA in its efforts to work towards the County's goal of achieving zero waste by 2030. Using the funding proposed, FCPA will establish a pilot program to enhance trash and recycling collection at two of the six park maintenance areas in FY 2025. In addition to these investments, additional funding is included for general parks maintenance, for over $3 million in new funding for FCPA. It should also be noted that $3.4 million is included for the County's capital contribution for the Northern Virginia Regional Park Authority (NOVA Parks). As previously proposed, this funding has been moved out of the County's GO Bond program to provide additional capacity and allows more flexibility in being responsive to NOVA Parks' capital funding needs.

In direct response to Board budget guidance approved with the FY 2024 budget and to further the County's goal of expanding access to early childhood opportunities, this proposed budget includes targeted investments in several critical human services areas. Funding and positions have been provided to support the County's efforts to create and preserve affordable housing, and we have also added baseline funding to support our hypothermia program, following several years of increased resources allocated as part of our quarterly reviews. Utilizing savings identified through aligning our Child Care Assistance and Referral program budget with actual expenses (included in our reductions and savings figures), we have redirected that funding to preserve 72 early childhood slots which were originally funded from a federal Community Funding Project in FY 2024. We have also included funding to continue initiatives begun as part of prior budget processes or originally funded with federal stimulus dollars. This includes the second year of a two-year phase-in of funding for a behavioral health system navigation program as part of Healthy Minds Fairfax, baseline funding to sustain increased support for the Transportation Options, Programs, and Services (TOPS) program approved at Carryover, and continued support for positions supporting the Health Department's laboratory, which were initially supported by federal stimulus dollars. In total, we have included approximately $7.1 million for housing and human services initiatives, net of revenue.

I anticipate continuing to provide IT Project funding as part of our quarterly reviews, as we have done for many years. I have also included $5 million in baseline funding to support ongoing improvements in our overall technology infrastructure. My goal is to further modernize our IT systems, as we develop an approach to improve and update our tax administration systems; it is imperative that we make investments to stabilize our network. Additional funds will be required in future years, especially as we begin to incorporate emerging technologies and artificial intelligence into our IT architecture.

Other adjustments included in our proposed budget include funding and positions to support new facilities and address workload issues. This includes civilian support positions for the Lorton District Police Station and funding and positions for two new School-Age Child Care (SACC) rooms at Louise Archer Elementary School. Additionally, we have provided additional support for our Office of Elections, particularly in response to changing state requirements, and new positions for the Office of the Sheriff to support IT needs and in the General District Court for new Probation Counselor positions to assist those being diverted from incarceration to mental health treatment.

Throughout our budget development process, we have strived to make decisions that would support the County's equity goals. Both when our agencies submitted requests for additional funding and when reduction opportunities were identified, potential equity impacts were evaluated to ensure that adjustments would not inadvertently disadvantage our most vulnerable populations. Where possible, we have made investments to directly support equity, such as funding to support an Equity Officer to focus on achieving desired equity outcomes as we pursue our affordable housing goals. A portion of the increased revenues from the Athletic Services Fees are utilized to provide a significant boost to funding available for our Youth Sports Scholarship Program. This program supports youth from low-income families who want to participate in community-based sports programs. In line with Board direction, we have also included funding to become a certified My Brother's Keeper Community. This alliance focuses on improving outcomes for boys and young men of color by supporting them in reaching milestones such as completing post-secondary education and successfully entering the workforce. Our proposed consolidation of the summer SACC program and Rec-PAC also supports our commitment to equity. The youth we serve in these programs are increasingly diverse, and persistent racial and social inequities remain for many of these families. The realignment is intended to further enhance the overall inventory of programs available and ensure consistent quality of offerings for all families. To embrace the expectations outlined by One Fairfax, each of our policies and practices must intentionally and strategically direct resources to fill the gaps in opportunities in our communities, especially for our youth.



Alongside the budget, our **FY 2025-FY 2029 Advertised Capital Improvement Program** (CIP) is also released today. Over the past couple of years, we have had many in-depth discussions regarding our capital program, from the need to seek co-location opportunities to how to address escalating construction costs driven in part by pandemic-related delays and soaring inflation. Increasing our overall annual GO bond sales from $300 to $350 million last year – with a planned increase to $400 million next year – will certainly help to address cost increases for both the County and Schools.

With more significant changes to the CIP implemented in the past two years, this year's CIP proposes fewer changes. First, we are recommending removing the Mount Vernon Police Station from the 2024 Public Safety Bond Referendum and pursuing Economic Development Authority (EDA) bonds for future financing. This facility is part of an ongoing master plan study underway to determine if colocation opportunities could be realized for the Police and Fire Stations, Sherwood Library, and other County facilities in the area. EDA bonds can provide flexibility in scheduling the project and braiding those funds with previously approved GO bonds for the Fire Station (2018) and Library (2020). Second, staff is recommending increasing the 2026 Library Referendum by $2 million to accommodate the Braddock District Board office space as part of that renovation project. Lastly, based on the pace of spending associated with the previous 2014 Road Bond, we recommend eliminating the 2028 Road Bond Referendum. EDA financing can be pursued with the ability to leverage commercial and industrial real estate tax funds to make debt service payments. With these changes, we anticipate that we will be able to increase bond sales to support Parks projects from $25 to $30 million in FY 2027, two years earlier than originally anticipated. This will help alleviate some of the pressures associated with the proposed construction schedule for the Audrey Moore Rec Center.

Just as we perform long-term planning for our capital needs, we also provide out-year projections for our General Fund revenue and operating expenditures as part of our Multi-Year budget. Unfortunately, FY 2026 looks to be presenting another challenging fiscal picture. Based on early estimates, our revenue is projected to increase by less than one percent, primarily attributable to a sluggish real estate increase of only one quarter of one percent. I would caution that our fiscal outlook will be highly dependent upon the speed at which the Federal Reserve takes action to reduce interest rates. As rates come down, it is expected to provide a boost to residential and commercial values as financing becomes easier to qualify for and affordability improves. However, stubborn inflation numbers released earlier this month have generated concern that Federal Reserve action may be delayed. For our budget, although lower rates could help to revive a struggling real estate market, they will also serve to reduce our interest income. We will be continually monitoring economic data to determine our budget development direction to agencies and will provide updates to the Board if economic signs become more worrisome.

I wish to thank the incredible staff in the Department of Management and Budget and each of our County agencies who contributed to the development of the FY 2025 Advertised Budget Plan. Knowing that this would be a challenging year, we began our budget development process earlier than normal. And, although I know that we still have much work ahead of us, I am thankful for their hard work and dedication.

Thank you for giving me the opportunity to present yet another budget to you and our community. I look forward to working with each of you as we engage with our residents to get feedback on this proposed budget and work towards adoption.

Respectfully submitted,

Bryan J. Hill
County Executive