

April 19, 2016

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**FY 2017 BUDGET MARKUP PROCESS and**  
**FY 2018 BUDGET PLAN RECOMMENDATIONS**

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**Chairman's Remarks - Fiscal Year 2017 Budget Mark-Up**

Comments to be included in final package.

With that, I turn to Supervisor McKay, as the Budget Chair, who will move approval of the separate motions for the *FY 2016 Third Quarter Review* and the FY 2017 Budget Mark-up amendments that we discussed at the Budget Committee last Friday.

**Approval of the FY 2016 Third Quarter Review**

The *FY 2016 Third Quarter Review*, as advertised, included a contribution of \$10.25 million – or 50 percent of the balance available prior to Third Quarter – to increase the County’s reserves. Additionally, it identified the remaining balance of \$10.25 million for one-time requirements or additional reserve funding.

In order for the Board to provide additional flexibility in the FY 2017 budget, the Third Quarter proposal is amended to apply the reserve strategy of 40 percent, consistent with the Board direction for Carryover, thereby making available an additional \$2.05 million. This amount, in combination with the advertised balance of \$10.25 million, results in available funding of \$12.30 million. This balance is used to pre-fund one-time adjustments, outlined below, included in the FY 2017 Advertised Budget Plan.

<b>FY 2016 Third Quarter Board Adjustments</b>	
	<b>FY 2016</b>
<b>FY 2016 Third Quarter (Advertised) Balance</b>	<b>\$10,251,292</b>
Fund requirements for Presidential Election	(\$1,000,000)
Fund requirements related to the reduction in the Social Security Offset for Service-Connected Disability Retirees	(\$1,990,000)
Fund capital project requirements	(\$9,311,551)
Revenue Stabilization and Managed Reserve Adjustments	\$2,050,259
	Subtotal: (\$10,251,292)
<b>FY 2016 Third Quarter Balance</b>	<b>\$0</b>

In total, these adjustments allow the additional \$12.30 million in recurring funding to be available for FY 2017 requirements.

Therefore, I move approval of the *FY 2016 Third Quarter Review* including approval of Supplemental Appropriation Resolution AS 16190 and Amendment to the Fiscal Planning Resolution AS 16901 which includes the revenue, expenditure and transfer adjustments, grant awards and adjustments, and

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associated reserve adjustments contained in the County and School's Third Quarter Review as presented on March 14, 2016, as well as the adjustments listed above, resulting in an available balance of \$0.

**FY 2017 Budget Mark-Up with FY 2018 Budget**  
**Recommendations**

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

**Add-On Adjustments**

We start the package with a balance of \$23.57 million available after the adjustments included in the County Executive's Add-On package of April 8, 2016. This balance is the result of the \$22.53 million balance identified in the FY 2017 Advertised Budget Plan, as well as an increase of \$1.28 million in General Fund revenue based on final State budget actions, offset by expenditure and associated reserve increases of \$0.24 million.

<b>Add-On Adjustments</b>		
	<b>FY 2017</b>	<b>FY 2018</b>
<b>FY 2017 Advertised Balance</b>	<b>\$22,526,094</b>	<b>(\$74,384,895)</b>
Additional State Revenue	\$1,280,000 R	\$300,000
Public Assistance Eligibility Workers	\$0 R	\$0
School Health Position	\$0 R	\$0
Community Use Fees	(\$97,000) R	\$0
Adjustment of FY 2018 Residential Equalization to 1.64% (from 1.80%)	\$0	(\$2,591,405)
Revenue Stabilization and Managed Reserve Adjustments	(\$143,531)	\$146,490
Subtotal:	\$1,039,469	(\$2,144,915)
<b>Balance as of Add-On</b>	<b>\$23,565,563</b>	<b>(\$76,529,810)</b>
Note: Recurring FY 2017 adjustments do not impact FY 2018 as it is assumed that the balance remaining in FY 2017 will be used for recurring expenses.		

It should be noted that the \$1.3 million in additional state revenue for the County is in addition to the \$16.8 million recognized by the Schools as a result of state action.

**Adjustments Recommended by Board**

This package increases the Real Estate tax rate by 4 cents to \$1.130 per \$100 of assessed value. As a result of the FY 2017 increase based on equalization, the average annual Real Estate tax bill for County homeowners increases by approximately \$304.

This package increases County support for Schools beyond the levels included in the Advertised Budget, adding an additional \$33.6 million, for a total increase in School Operating support of \$88.4 million. The increase in the School Operating transfer included in this package is 4.84 percent over the FY 2016 level. Including \$2.71 million for School Debt Service and \$13.1 million for School Capital needs, total support for Schools is increased by over \$104 million, which equates to an increase of 5.18 percent. This amount represents over half of all new revenues received by the County in FY 2017. As a result of this action, the portion of General Fund Disbursements allocated to Schools remains at 52.7 percent. By comparison, in terms of growth over FY 2016, the County budget is increasing 4.35 percent (or 4.91 percent when reserves are included). In addition, total County growth is \$78.6 million (or \$88.8 million including reserves) over FY 2016.

It is important to note that in addition to this transfer, other County support of Schools such as School Crossing Guards, School Resource Officers and the School Health program totals \$85 million and when combined with the transfers mentioned above equates to 54.9 percent of General Fund Disbursements.

In order to provide this increased funding for Schools, this package – as outlined earlier – uses balances available as part of the *FY 2016 Third Quarter Review* to fund one-time adjustments included in the FY 2017 Advertised budget, including funding for the upcoming presidential election, costs associated with the reduction in the Social Security Offset for Service-Connected Disability Retirees, and capital project requirements. In addition, the full value of the 4<sup>th</sup> penny of the Real Estate Tax increase is allocated to Schools, clearly demonstrating this Board’s commitment to School funding.

In addition, the Board is pleased that this package maintains full funding of the County’s compensation plan for FY 2017. With a Market Rate Adjustment of

1.33 percent, and funding of performance, merit and longevity awards, County employees will see average increases ranging from 3.3 to 3.6 percent.

<b>Funding Adjustments Recommended by Board</b>		
	<b>FY 2017</b>	<b>FY 2018</b>
<b>Balance as of Add-On</b>	<b>\$23,565,563</b>	<b>(\$76,529,810)</b>
<b><i>Adjustments to provide additional flexibility:</i></b>		
Fund requirements for Presidential Election at <i>FY 2016 Third Quarter Review</i>	\$1,000,000 N	(\$1,000,000)
Fund one-time requirements related to the reduction in the Social Security Offset for Service-Connected Disability Retirees at <i>FY 2016 Third Quarter Review</i> (one-time for three years)	\$1,990,000 N	\$0
Fund capital project requirements at <i>FY 2016 Third Quarter Review</i>	\$9,311,551 N	\$0
<b><i>Adjustments to address Board priorities:</i></b>		
Increase the transfer for School Operating requirements from a 3.00% increase to a 4.84% increase	(\$33,610,957) R	(\$1,008,329)
Revenue Stabilization and Managed Reserve Adjustments	(\$2,256,157)	\$2,756,421
Subtotal:	(\$23,565,563)	\$748,092
<b>Final Remaining Balance/(Shortfall)</b>	<b>\$0</b>	<b>(\$75,781,718)</b>

Additionally, as part of this package, the \$7.5 million held in reserve for recommendations resulting from the Ad-Hoc Police Practices Review Commission should be allocated as follows:

- \$3.89 million and 19 positions for Diversion First: This funding reflects resources needed to fully operationalize the first year of the Diversion First program across multiple agencies and provide particular services for critical components of a successful diversion model.

- \$1.20 million for Salary Supplements for Court employees: This funding supports 15 percent salary supplements for eligible General District Court and Juvenile and Domestic Relations District Court staff, as well as increases for the Office of the Public Defender to raise their salaries to a level consistent with their counterparts in the Office of the Commonwealth's Attorney.
- The remaining \$2.41 million will continue to be held in reserve and is expected to be used as part of the initial down payment on the estimated \$35 million multi-year cost of the recommendations from the Ad-Hoc Police Practices Review Commission. Allocation of this funding will be based on priorities determined by the Board at upcoming Public Safety Committee meetings. Adjustments will be made as part of an upcoming quarterly review.

Lastly, the Board appreciates the work of the Fairfax County Athletic Council and accepts the Council's proposed modifications to the County's Executive's advertised changes to athletic service fees. These changes include:

- Increasing the individual participant application fee for rectangular field users from \$5.50 to \$8.00 (lower than the \$9.50 fee originally proposed)
- Increasing the tournament team application fee for rectangular fields from \$15 to \$50 (increased from the \$25 fee originally proposed)

Including a redirection of \$125,000 from the existing turf field development fund, these adjustments result in \$500,000 in increased revenue for synthetic turf replacement and result in no net change to the County's General Fund.

**As a result of these changes, we have a balanced FY 2017 budget.**



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

- An increase in Sewer Service Charges to \$6.68 per 1,000 gallons. This is an increase from the FY 2016 service charge of \$6.65 per 1,000 gallons.
- An increase in the Sewer Service Base Charge from \$20.15 per quarter to \$24.68 per quarter.
- An increase in the Stormwater Services district tax rate from \$0.0250 to \$0.0275 per \$100 of assessed value.
- A decrease in the Phase I Dulles Rail Transportation Improvement District tax rate from \$0.19 to \$0.17 per \$100 of assessed value per the recommendation from the Phase I District Commission.
- Also, per the recommendation from the Tysons Service District Advisory Board, the Tysons Service District tax rate will remain at \$0.05 per \$100 of assessed value.

Other fee adjustments included in the budget proposal are increases to refuse disposal fees.

Therefore, having provided public notice and conducted a public hearing as required by Virginia law, **I move approval of the FY 2017 Budget as Advertised, with the changes I just summarized**, advertised changes to other taxes and fees, and required Managed Reserve and Revenue Stabilization adjustments. The tax and fee increases become effective on and after July 1, 2016 unless otherwise noted. **These actions result in a balanced budget for FY 2017.**

**Budget Guidance for FY 2017 and FY 2018**

**April 19, 2016**

At a regular meeting of the Board of Supervisors of Fairfax County, Virginia, held in the Board Auditorium of the Fairfax County Government Center on Tuesday, April 19, 2016, the Board approved the following Budget Guidance for FY 2017 and FY 2018:

**Joint Board of Supervisors/School Board Work**

As the Board of Supervisors and the School Board strive to provide quality services to the community the collaboration of the two Boards should continue. The Boards have committed to a joint meeting/retreat on June 14. The specifics of the meeting, including the agenda, are being refined. However, it is expected that the agenda will include discussion of the budget requirements of both entities and additional opportunities for collaborative service delivery.

In addition, as the FY 2018 budget process unfolds it is directed that additional joint meetings be scheduled to provide updates on projected requirements and resources. It is anticipated that these meetings occur in September and October/November. Updated revenue projections and refined service delivery needs should be outlined with time allotted for discussion by both Boards on how to best address these needs in the continued environment of constrained resources that we face. Staff will schedule the joint meetings of the two Boards.

Clearly, there continues to be a projected shortfall of over \$75 million as we project ahead to FY 2018. This projection includes revenue increases of approximately 2.4 percent based on limited projected growth in the County's Real Estate market. As evidenced by the reduction in the projected increase in residential equalization included in the County Executive's Add-On Package, current estimates indicate sluggish growth in the market similar to that experienced this year.

The projected shortfall makes it clear that difficult budget decisions lie ahead. In order to provide additional context for FY 2018, the County Executive is directed to outline, as part of the multi-year component of the FY 2017 Adopted Budget Plan, a FY 2018 budget that allocates current projected available resources between the County and Schools. This presentation should include

what can be funded within these resources for both the County and Schools as well as those items that cannot be covered with current revenue projections. It should be noted that the Board recognizes that Real Estate rate increases, such as the 4 cent increase included in the FY 2017 budget, are not sustainable. The Boards will need to balance affordability with the long list of priorities, therefore making these joint conversations extremely important.

Finally, the work of the Successful Children and Youth Policy Team (SCYPT) should be the focus of joint Board discussions as well in the coming year. First convened in May 2013, SCYPT is comprised of leaders from multiple sectors within Fairfax County. The team's role is to set community-wide goals and priorities for public policy as it relates to children, youth, and families. According to the team's charter, "in order to become confident individuals, effective contributors, successful learners and responsible citizens, all of Fairfax County's children need to be safe, nurtured, healthy, achieving, active, included, respected and responsible. This can only be realized if the County, schools, community, and families pull together to plan and deliver top-quality services, which overcome traditional boundaries."

In order that the needs of the community as discussed by SCYPT are fully vetted by both Boards, the June retreat and subsequent joint meetings should also include updates and policy discussions to ensure that the recommendations coming from the SCYPT can be incorporated into funding decisions going forward which support the development of a joint County/School community-wide strategic plan for building the capacity to address early childhood and school readiness. It is extremely important to remember that the County and Schools have focused additional resources on / shifted existing resources to school readiness, beginning in FY 2015, as a result of joint planning efforts. In order for these initiatives to be successful, there will need to be continued coordination and funding support from both bodies in pursuit of the agreed-upon goals. The added value of expanding the discussion to the full Boards is that these issues clearly have significant funding implications that will require support from a majority of each Board.

The first focus of this discussion should be on the policy and implementation issues associated with pre-Kindergarten. This focus is also consistent with recommendations from the Joint Budget Development Committee. There have been incremental adjustments made to the County and School programs

designed for pre-K students, however a comprehensive long-term plan needs to be defined and funding and facility options identified jointly in order for progress to be made towards this significant priority.

Another important joint County and Schools effort involves the Children's Services Act (CSA)/System of Care program. Staff should continue to look at opportunities to incentivize efficiencies and the opportunity to redirect savings to address other critical needs. In addition, in anticipation of FY 2018 System of Care funding, staff should initiate the process to implement Family Navigation services which ultimately would be provided through contracted services. Navigation services should include parent navigators to support families and the development of a one-stop web based resource directory of families to find the services available within their communities. Staff should also continue to pursue grant opportunities for these services.

### **Diversion First**

As part of implementation of continued Diversion First expansion, staff is directed to leverage funds available in the Housing Blueprint/Bridging Affordability programs, and FY 2017 Diversion First Housing dollars as a source to provide matching funding for non-profits to provide additional housing units for persons with mental illness. Staff is also directed to report back on Diversion First implementation and make recommendations for service delivery adjustments as appropriate.

### **Human Trafficking**

As part of the FY 2017 budget, the County has replaced the federal grant funding supporting enforcement efforts related to the human trafficking issue. Staff is continuing to evaluate the way we combat this growing threat in our community. Ultimately, additional resources may be necessary, not only for enforcement, but also for victim services. The Board anticipates future funding requirements based on these staff recommendations.

**County and Schools Infrastructure Investment**

For two years (beginning in FY 2016 and maintained in FY 2017), the County has provided a transfer of \$13.1 million to the School Construction Fund for capital replacement and upgrade requirements, freeing general obligation bond funding for large replacement or new capacity requirements. This level of support is permanent. The County is attempting to also increase funding for infrastructure both in the use of one-time balances and by increasing the level of funding in the annual budget. To continue the excellent work completed by the Infrastructure Financing Committee, staff is directed to work with Schools to continue to focus on the presentation of this information so that the various uses of capital funding are clearly defined and are consistent across both entities. In addition, the Board directs staff to provide updates on a regular basis which detail the uses of these multi-year funds and the progress made in addressing infrastructure issues in both the County and Schools.

The Board also encourages collaboration and joint planning between the Schools and County for future capital improvements. Consistent with the work of the Infrastructure Financing Committee and the recommendation that “County and School Board members recognize that capital requirements must become a funding priority,” staff is directed to include an analysis in the FY 2018 Capital Improvement Program (CIP) of a possible increase in the annual School bond capacity from the current level of \$155 million. This analysis should include the projected impact on the County’s debt ratios and a discussion of the affordability of additional debt service on future County budgets. Similarly, the County should identify specific CIP topics for discussion as the FY 2018 CIP development process is undertaken, including reviewing the \$275 million annual sales limit to consider raising it for the first time since FY 2007. Finally, County staff and the Park Authority should review requirements for the long-term management of our inventory of historic artifacts to include both capital and operational needs.

**Employee Compensation**

The Board continues to recognize the importance of fully funding the County’s pay plan to help recruit and retain high quality employees. The pay plan includes performance/longevity increases for General County merit employees, merit/longevity increases for uniformed Public Safety employees, and a Market

Rate Adjustment, based on a formula, for all employees. Full funding of the pay plans in FY 2017 is an important step in ensuring high quality services. The County Executive is directed to fully fund the County's pay plan in his FY 2018 Advertised Budget.

### **Public Safety Compensation and Organization Study**

During FY 2016, the Board directed the County Executive and County staff to work with public safety agencies and employee groups, with the assistance of an outside consultant, to provide analysis and develop recommendations regarding: the reorganization of the operational and administrative structure of the Police Department, to include but not limited to possible changes to the current rank structure, the organizational structure, and pay for police officers. Additionally, the consultant is studying the organization of the Animal Services Division and possible pay parity between uniformed Sheriff and Police employees.

For FY 2017, the Board directs the County Executive and County staff to continue this work. The results of the consultant's study should be used for discussion by the Board regarding realigning the pay scales and considering duties, responsibilities, and span of control. Any recommendations shall be implemented in phases and designed to coincide with the opening of the South County Police Station. This important work should be presented to the Board for discussion at a Personnel and/or Public Safety Committee meeting in the summer to allow enough time for the Board to establish priorities and provide direction to the County Executive in regards to the development of the FY 2018 Advertised budget.

### **Lines of Business (LOBs) Process**

As the Board winds down the Phase 1 discussion, we will soon turn our attention to the next phase, delving deeper into issues which will be used to inform budget decisions over the next several years. The Board appreciates the hard work of staff, evident not only by the LOBs volumes themselves, but also by the informative and thorough presentations made to the Board over the past few months. The community's interest in LOBs is also clear based on the large number of responses to the survey, and we will need to continue to engage the

community as we look more closely at specific LOBs and opportunities for efficiencies in the coming year.

It is intended that Phase 2 include the identification of specific projects by the Board for both County-specific services and those services that cross County and School lines. At the conclusion of the presentations, the discussion of community input and survey results, the Board will provide this direction to staff. Staff has been working to compile a list of possible project topics based on the discussions the Board has had, the input from the community, and suggestions from staff throughout the organization, including the LOBs Committee.

### **Tax Relief for the Elderly**

The Commonwealth of Virginia no longer imposes maximum income or net asset limits for real property tax relief. The limits are now strictly local option. The Board directs that, in advance of the FY 2018 budget, staff present the state of the current tax relief program at a future Budget Committee meeting.

This presentation should include all components of tax relief, however focus on assets and the inclusion of retirement accounts such as 401(k)s in the asset calculation. The Board understands that staff does not have solid information about the income and assets of residents who have never applied for the tax relief program. The estimates of the impact are very difficult as a result of this. Consistent with previous information provided to the Board part of the analysis should include comparisons to other jurisdictions in the Commonwealth.

### **Meals Tax/Other Revenue Opportunities**

As a follow-up to the discussion at the March 1st Board meeting, staff is directed to schedule a discussion of the Meals Tax during the May 3rd Budget Committee meeting. This discussion should focus on an update of the information that has been gathered on the Meals Tax, a review of other opportunities for revenue diversification such as those mentioned by Board members (such as the alcohol, cigarette, BPOL, and personal property taxes) and a discussion of options available to the Board. In advance of this meeting, materials that have been compiled in response to the March 1st Board

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discussion on the Meals Tax should be provided to the Board so they can be reviewed by the Board and additional information requested if necessary.

**I now move the Budget Guidance that I just reviewed which will help direct the FY 2018 Budget process.**



**Approval of the FY 2017-FY 2021 Capital Improvement Program (with future fiscal years to 2026)**

I move Board approval of the FY 2017-FY 2021 Capital Improvement Program (with future fiscal years to 2026) with the following amendments:

- Make all necessary adjustments to reflect actions taken during the Board's decision on the FY 2017 Adopted Budget Plan that impact the Capital Improvement Program.