County of Fairfax, Virginia

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

February 20, 2018

Honorable Board of Supervisors
County of Fairfax
Fairfax, Virginia

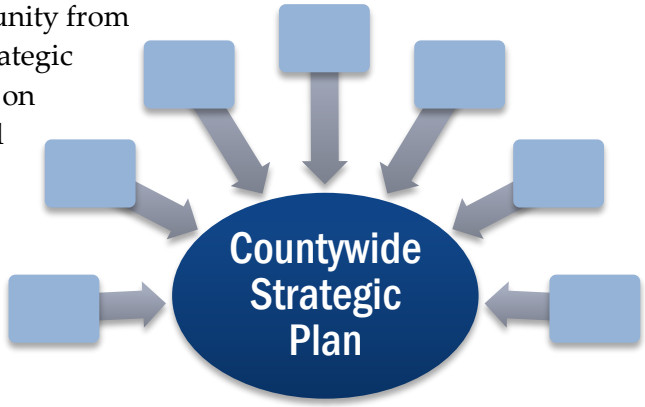
Chairman and Board Members:

I am pleased to present the FY 2019 Advertised Budget Plan, which includes a projection for FY 2020. As we move forward to deliver a structurally-sound budget for FY 2019, it will be imperative for our community to work towards common goals while we develop enhanced strategies for the future. To the Board of Supervisors and our County residents, Team Fairfax is poised to deliver a strategic budget process that will look for efficiencies, as well as opportunities, to increase our commercial base while creating a balance with our residential assessments. Over time, the County has developed a plethora of established financial policies and multi-year funding plans that we are incorporating into this year's budget. The Board's budget priorities and guidance, the One Fairfax policy initiative, and the County's Economic Success Strategic Plan, have all helped provide a framework for this coming budget year. As I begin my tenure as the County Executive I am excited for the challenges and opportunities that lie ahead.

While Fairfax County is a great place to live, learn, work, and play, as our population continues to grow and diversify, we are seeing persistent disparities within a host of indicators such as employment, income, wealth, and education. Our community remains economically strong and resilient; however, it is better to acknowledge and address these trends than to ignore them. Inequity is the thread that runs through many of the core problems we face as a community. Through your leadership in adopting the One Fairfax Race and Social Equity policy, our workforce and community have a growing understanding that Fairfax County's future will be even brighter if we ensure the full inclusion of the economic, social, civic, and creative contributions of all County residents.

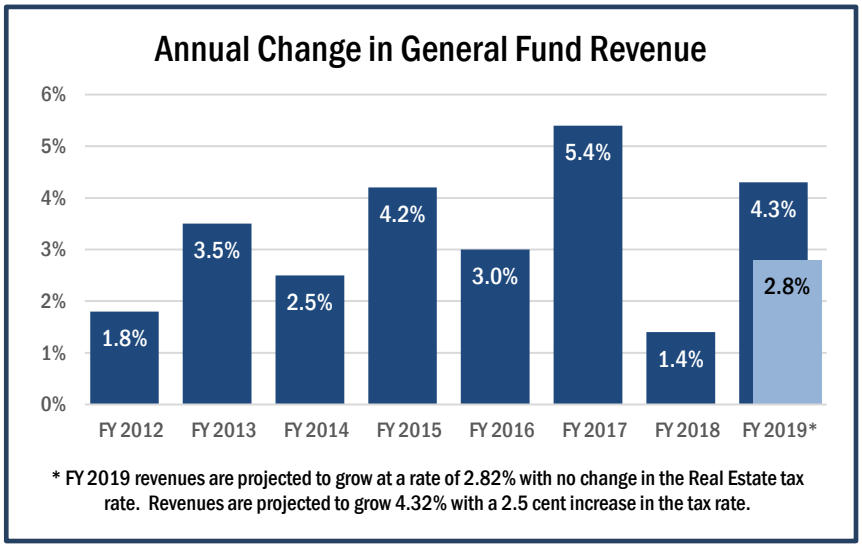
The key to a strong team is the ability to listen to, as well as develop a strategic framework with, our partners to move Fairfax forward. Establishing a solid working relationship with the leadership at Fairfax County Public Schools (FCPS), our Economic Development Authority (EDA), and our residents, to name a few, will be a charge going forward as we as Team Fairfax must remain cutting-edge, as well as the nation's premier community. These partnerships, in combination with the strengthened relations happening between the Boards over the past couple of years, have contributed to a more collaborative and cooperative budget approach. This was evident in the joint fiscal forecast presentation in November. With the understanding that the County recently undertook an extensive Lines of Business review, I am aware of the community support for the County's existing programs and services. The goal for my first budget was to maintain the solid budgetary baseline while focusing on fiscally-constrained adjustments to meet

the top priorities of our residents and the Board. At the same time, I intend to focus the conversation for our future on a countywide strategic planning effort that builds on the solid foundation that we already have in place. This effort will include collaboration with our partners like FCPS and the EDA and involve the community from the outset. I feel strongly that this added strategic layer will be critical for our future as we focus on our priorities in the fiscally-constrained environment ahead of us. This strategic approach, with clearly defined and measurable goals, supplemented by a renewed focus on data, will be designed to frame all of our conversations about future opportunities and how the budget supports our success in taking advantage of them.



In November, County and Schools staff presented a joint fiscal forecast for FY 2019 which painted a mixed picture. At the national level, the stock market was booming (and has since contracted) and consumer confidence was high, but the potential for additional sequestration cuts still lingered. In Virginia, revenues were growing modestly, but sales tax growth had been lower than projected. At that time, local revenues were projected to grow 2.6 percent over FY 2018, with the growth primarily generated in Real Estate – and the largest projected increase in non-residential equalization since FY 2013. A strong commercial Real Estate market is a positive sign for a strong local economy, but there are concerns about the long-term impact on the local real estate market of the tax reform bill passed at the end of the year. The joint fiscal forecast showed a projected budgetary shortfall of almost $99 million.

Since that forecast was presented, there have been slight improvements in the real estate estimates for both residential and non-residential properties. The overall message is consistent, which shows revenue projected to increase at a moderate rate of 2.82 percent in FY 2019 at the current Real Estate Tax rate. This level of growth is insufficient to meet the needs of our government as outlined in the budget guidelines approved by the Board on April 25, 2017. After funding the County's requirements for debt service, transportation, benefits, and prior commitments, the remaining balance would only partially fund the County's compensation program for our employees. Investments in priorities such as Diversion First, school readiness, gang prevention, and the opioid epidemic would need to be limited or deferred without an



increase in revenue, and we would be unable to meet the proposed needs of our School system. We are keenly aware of this delicate balance of providing the appropriate level of services to our residents while minimizing the financial impact to our taxpayers. In order to address Board priorities such as the ongoing requirements of Metro and employee compensation requirements for County and Schools employees, the budget team is recommending a Real Estate tax rate increase of 2.5 cents for FY 2019 from $1.130 to $1.155 per $100 of assessed value. When you factor in the growth in residential equalization, the average taxpayer would see an increase in their Real Estate tax bill of $131 per year. With this proposed tax rate adjustment, the overall increase is approximately $268. Fairfax County has a myriad of challenges that our team will be facing in the future. We will explore every funding opportunity, as each and every priority deserves an informed decision.

The priorities described below include details on what could be funded with no Real Estate tax rate increase as well as the direct benefit of the recommended 2.5 cent increase:

- Full funding of the Schools Operating transfer request, offset by the anticipated $8.7 million in increased state revenues due to re-benchmarking and a decrease in the Local Composite Index. In total, a 4.49 percent increase, or $88.35 million, is proposed for the County transfer to support the School Operating Fund. This amount is consistent with the request from the School Board as approved on February 8, 2018. In addition, requirements for School Debt Service are funded, as well as a one-time increase of $2.5 million for School Capital requirements. This amount is associated with an assumed increase of $25 million in school bond sale capacity – from $155 to $180 million – beginning in FY 2019, which would require an additional $2.5 million in annual debt requirements beginning in FY 2020. The final bond sale level will be approved by the Board of Supervisors after discussions with the School Board. County budget staff is working with their counterparts at FCPS to develop a comprehensive understanding of both organization's capital needs and how increased bond sales impact our debt capacity in 2020 and beyond. *With no increase in the Real Estate tax rate, the School Operating transfer would be reduced by more than $25 million from the proposed level and no additional funding would be provided for School Capital Improvement Plans. It should be noted that FCPS requested an increase of $50 million in additional bond sales over current levels to accelerate planning and capital project completion. Decisions on increased capital funding should occur in the context of a fully informed discussion which includes review of all options, to include possible boundary changes and multi-use of facilities, as we look ahead to the long-term affordability of our capital program.*

- Full funding of the County's compensation plan, which includes a 2.25 percent Market Rate adjustment for all employees, performance and longevity increases averaging 2.00 percent for merit non-uniformed employees, and merit and longevity increases averaging 2.25 percent for merit uniformed public safety employees. This would mark only the third year over the past 10 years where the County's full compensation program has been funded. *With no increase in the Real Estate tax rate, the Market Rate Adjustment would be partially funded at 1.26 percent.*

- Funding for Board priorities such as Diversion First and gang prevention, as well as funding to battle the opioid epidemic. In addition, resources dedicated to school readiness initiatives and Opportunity Neighborhoods, in line with the One Fairfax policy agenda, help to align and leverage existing investments. *With no increase in the Real Estate tax rate, it is likely that these investments would need to be deferred.*

- Funding and positions for the continued phase-in of priorities in the Public Safety Staffing Plan, primarily associated with staffing for the new South County Police Station, scheduled to open July 2021. *With no increase in the Real Estate tax rate, it is likely that this funding would be deferred for several years.*

- Funding for transportation requirements in the County, including Metro and Fairfax Connector. As detailed during our Legislative Committee meetings, there remains a significant gap of funding for Metro. We will be monitoring legislation and providing updates throughout the state budget approval process.

- Funding for benefits requirements, including contributions to the County's retirement systems per the funding policies adopted by the Board in 2015 and estimated health insurance premium increases.

- Contributions to the County's reserves in accordance with the new 10 percent reserve target and funding policies adopted by the Board in 2015.

FY 2019 Advertised Summary

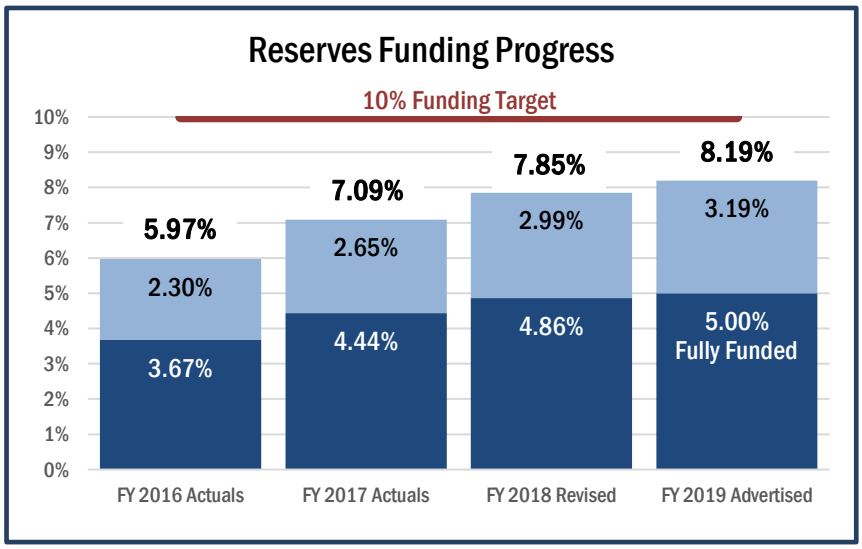
	County Requirements	Schools Support
Increased Revenues	$192.32	
Transfer In Adjustment	$0.11	
Available Resources	**$192.43 million**	
Employee Pay	$49.96	$86.90
Employee Benefits	$5.76	$7.00
Capital/Debt Service	$3.02	$6.75
Public Safety	$7.48	--
Human Services	$8.78	--
Community Development	$11.36	--
Cost of County Operations	$1.75	--
Reductions/Savings	($3.40)	--
Enrollment and Other Requirements	--	$21.65
Net Additional Schools Revenue	--	($27.20)
Total Uses	$84.71	$95.10
Combined Uses	**$179.81 million**	
Revenue Stabilization	$1.67	
Managed Reserve	$7.07	
Reserve Requirements	**$8.74 million**	
Available Balance	**$3.88 million**	

Our proposal includes equal growth rates for both School transfers and County requirements (excluding reserves) at 4.38 percent over the FY 2018 Adopted Budget Plan level. This budget also maintains the Schools as a percentage of General Fund Disbursements at 52.8 percent. In order to achieve a balanced budget and equal growth rates, reductions to County agencies of $3.4 million are also included. The proposed budget includes a net increase of 77 positions, many included at no cost to the General Fund. After funding the priorities outlined above, plus the full-year impact of prior commitments and other adjustments (all detailed in the following *Advertised Budget Summary* section), a balance of $3.88 million is available for the Board's consideration. We believe it is important to provide the Board with some flexibility to address additional priorities or issues raised by residents at community meetings and/or public hearings.

General Fund Disbursements
(in $millions)

	FY 2018 Adopted	FY 2019 Advertised	*Growth* $	*Growth* %
Schools	$2,169.15	$2,264.25	*$95.10*	*4.38%*
County	$1,932.25	$2,016.96	*$84.71*	*4.38%*
Revenue Stabilization	$5.22	$6.89	*$1.67*	*31.99%*
TOTAL DISBURSEMENTS	$4,106.62	$4,288.10	*$181.48*	*4.42%*
Schools as % of Disbursements	52.8%	52.8%		

The importance of our proposed budget today continues the County's commitment to our taxpayers and the bond rating agencies regarding adequate funding of pensions and reserves, as well as the appropriate use of one-time funding. Based on the County's consistent financial discipline and progress in meeting pension and reserve funding targets, all three rating agencies reaffirmed the County's AAA bond rating last month. The FY 2019 Advertised Budget Plan continues the County's adherence to the *Ten Principles of Sound Financial Management* and the funding policies established by the Board. Funding is included to increase the County's contributions to its retirement systems in order to amortize at least 99 percent of the unfunded actuarial accrued liability. This is consistent with our target to achieve 100 percent amortization by FY 2020. An amount equivalent to 10 percent of all General Fund disbursement increases are set aside in our Revenue Stabilization and Managed Reserves. Based on reserve contributions included in this proposal, reserves are estimated to be approximately 8.19 percent of General Fund disbursements in FY 2019. Based on estimated investment earnings, *it is anticipated that the Revenue Stabilization Fund will reach its target of five percent of General Fund Disbursements in FY 2019*, with the Managed Reserve funded at 3.19 percent of its four



percent target. The increased reserve levels are an indication of the significant progress the County has made towards its 10 percent target since the funding strategy was adopted in 2015. Additionally, for the fifth straight year, the County's budget is balanced with no use of one-time funds.

This budget also continues the progress made in funding strategies outside of the General Fund. FY 2019 marks the final year of the five-year stormwater plan developed in FY 2015. In accordance with the plan, the stormwater service rate will increase from $0.0300 to $0.0325 per $100 of assessed real estate value in FY 2019. This levy is estimated to generate over $77 million for operating and capital costs, including infrastructure reinvestment, regulatory requirements, and dam safety. Over the course of the next year, staff will be evaluating the results of the 5-year program, analyzing future stormwater requirements, and developing the next 5-10-year plan. It is anticipated that the next multi-year plan will continue to include ¼ cent increases per year until such time as the rate is at the target level of 4 cents.

Although I believe that this budget proposal meets many of our County's needs, there are still several important priorities that are not funded due to a lack of resources. For the third straight year, the budget team will be unable to include an increase in baseline funding for capital paydown. Paydown includes infrastructure replacement and upgrades, athletic field improvements, projects required for compliance with the Americans with Disabilities Act, and other capital improvements. Based on the recommendations from the Infrastructure Financing Committee, the County's goal is to reach a level of $15 million annually to address infrastructure replacement and upgrades. Unfortunately, the FY 2019 proposed budget does not include this level of funding even for the entire paydown program. Additionally, since the Great Recession, we have struggled to rebuild our baseline funding for information technology needs. For example, in FY 2008, General Fund support for IT projects was over $12 million. In the FY 2019 Advertised Budget Plan, General Fund support stands at $4.77 million – an amount that has remained unchanged for three years. Consistent with actions that have been taken in previous years, I have deferred additional spending for both capital paydown and information technology projects until the *FY 2018 Third Quarter Review*. While I estimate that funding available at the quarterly review will serve as a stop-gap for the coming year, it is imperative that we begin to rebuild our baseline funding in future budget years.

There is much work that is still ongoing throughout the County regarding issues for which, based on timing, we are unable to include recommendations in this FY 2019 proposal. The Board's review of the County's retirement systems is continuing through a joint workgroup with employee representatives. Following the investment impact of the Great Recession and changes in comparator pension plans (especially the Virginia Retirement System) since the County's last comprehensive review, and on the heels of the multi-year funding strategy approved in 2015, this review is necessary to continue to strengthen the long-term viability of the systems. The workgroup is exploring possible adjustments to benefit levels, employee contributions, and eligibility requirements based on demographics of the County's systems and trends nationwide. The Board has committed that any changes will not impact current employees. The group's work is expected to wrap up by mid-March, with recommendations anticipated to be made to the Board's Personnel Committee in the spring. Although no short-term budgetary savings are expected, adjustments for new hires should place downward pressure on future

pension liability calculations, allowing the County to move towards full funding of its systems at a faster pace.

Several compensation and organization studies are also underway. Consistent with the study previously undertaken to examine the rank, organizational and pay structure of the Police Department and Office of the Sheriff, a similar study is currently ongoing for the Fire and Rescue Department. Recommendations from the study, which is being coordinated by the Department of Human Resources (DHR) with the assistance of an outside consultant and with the cooperation of employee representatives, are expected to be presented to the Board of Supervisors in the spring. As with the Police and Sheriff study, recommendations are anticipated to be implemented in a phased approach over several fiscal years. In addition, DHR is also utilizing the consultant to perform market studies of the County's environmental and trades job classes as well as executive and mid-level management job classes. Depending on the timing and scope of recommendations coming out of these studies, adjustments could be included as part of the FY 2019 or FY 2020 budgets. As the County focuses on its strategic priorities, our pay and benefits need to be evaluated over the long term to ensure that they, along with other priorities, are designed to meet our long-term strategic objectives rather than meeting individual objectives that are not viewed comprehensively across all categories of compensation. This means a better understanding of the current market and the shifting paradigm in pay and benefits. A multi-year implementation of any approved adjustments will also need to be identified in the context of constrained resources. In this way, we shift from reacting to specific changes in our competitive positon and instead move more deliberately and strategically as a result of data review and analysis and, ultimately, Board decisions.

As has been done in prior years, as part of the development of the FY 2019 budget, staff examined potential areas for savings and/or efficiencies. This included analyzing budgetary trends to determine if there was flexibility in budgets based on hiring, turnover, and spending trends. As a result of this work, a total of $3.4 million in personnel services or operating savings were identified among a number of agencies. In addition, the FY 2019 proposal includes several reorganizations which will provide more efficient County services. As a follow-on to the Lines of Business discussions, administrative functions in the Department of Administration for Human Services are proposed to be moved to individual agencies to ensure regulatory, financial, and program compliance, and to more effectively support each agency's specialized service needs. Remaining functions, including management of the organization's strategic resources and inter-agency work related to integration of business processes, information management and data analytics, performance measurement, resource allocation, strategic planning, service transformation, and planning for facility needs will be incorporated into a new Office of Strategy Management for Health and Human Services. Also, included in the FY 2019 budget is the movement of the Infant and Toddler Connection (ITC) program from the Fairfax-Falls Church Community Services Board to the Department of Family Services (DFS). Based on the Lines of Business Phase 2 review, this move will allow the ITC program to be more closely coordinated with other early childhood programs managed by DFS.

The FY 2020 forecast is similar to what the Board has seen over the last several years, with revenue growth insufficient to fund a full array of Board priorities. The forecast currently assumes revenue growth of 2.60 percent. With this level of additional resources, and assuming equal

growth for County and Schools, $55.5 million would be available to fund County priorities and $62.4 million would be available for Schools support. Full funding of the County's compensation program and benefit requirements is estimated at $60.5 million. This assumes a 1.5 percent Market Rate Adjustment and includes the last change in the amortization schedule for the County's retirement systems to amortize 100 percent of the unfunded liability. Thus, the County is already facing a projected shortfall of $5 million before taking into consideration other important priorities. If other major budget drivers are included, the projected budgetary shortfall increases to $60 million. These drivers include investments in public safety (such as the South County Police Station, Diversion First, and apparatus replacement) and human services (including the FY 2020 funding needs included in the Health and Human Services Resource Plan). The $60 million projection also includes increased baseline funding for capital paydown and IT projects. This level of expenditure growth, as experienced in FY 2019, is not sustainable without increased funding in the form of Real Estate Tax rate increases. As the conversation on the FY 2019 budget unfolds, we will need to clearly identify our priorities for FY 2020 so that we can manage the expectations of the community and employees and begin the strategic plan development process I referenced above. More details on the FY 2020 forecasted budget are included in the section entitled *Multi-Year Budget: FY 2019 and FY 2020*.

As the budget was being developed, we attempted a no-tax-rate-increase approach, as well as structuring our recommendation as outlined in the FY 2019 Advertised Budget Plan. The second approach affords the Board of Supervisors flexibility to align budget priorities with the moderate revenue growth we are experiencing. We arrived at this recommendation based on the significant number of important funding priorities which out-paced our current growth projections. I am certain some of our residents will not be pleased with a proposed increase in the Real Estate tax rate; however, I am confident that there is much in this proposal which will generate community, employee, and bond rating agency support as we begin to recalibrate our operations during the next 5 years and embrace the current climate of change in our nation. Full funding of our Schools budget request, new Police Officer positions, funding to combat gangs and opioid addiction, and increased support for school readiness initiatives are all positive contributions towards a safer, smarter, and stronger community. Additionally, employees should be pleased to see full funding of the compensation plan and continued support of the retirement systems as part of this budget. There is much work to do along the journey to achieve One Fairfax, but with your continued leadership and through a process of action planning and community engagement, Fairfax County government can proactively and collectively, with schools and partners, design and implement policies, practices, and programs to strategically and intentionally shape the structure of opportunity across the County. The proposed focus for One Fairfax in year one is two-fold – building organizational capacity and mobilizing action. The identified organizational-capacity-building strategies establish the foundational structures, processes, and practices to enable shared accountability across our organization and among our partners, and institutionalizes the consideration of equity in decision-making and actions.

As I submit the FY 2019 Advertised Budget Plan for your consideration, I would be remiss not to recognize the knowledge and expertise of County staff which I found to be incredibly helpful during this budget development process. Strong leadership and guidance from the Board, combined with sound assistance from staff, have helped make my transition to the Fairfax County

Executive position a smooth one. Full details of adjustments included in this proposal are included on the following pages in the Advertised Budget Summary. I look forward to working with you and our residents over the coming months to craft a final budget which helps contribute to the reputation of Fairfax County as a model of fiscal stewardship and responsibility.

Respectfully submitted,

Bryan J. Hill
County Executive

FY 2019 Budget Development Calendar

February 2018	• February 20	County Executive presents FY 2019 Advertised Budget Plan
	• February 27	Joint Board of Supervisors/School Board Budget Committee Meeting
March 2018	• March 6	Board of Supervisors advertises FY 2019 tax rates
	• March 13	Budget Committee Meeting
	• March 20	Board of Supervisors advertises *FY 2018 Third Quarter Review*
April 2018	• April 3	Budget Committee Meeting
	• April 10-12	Board of Supervisors holds Public Hearings on FY 2019 Budget, *FY 2018 Third Quarter Review*, and FY 2019-FY 2023 Capital Improvement Program
	• April 24	Board of Supervisors marks-up FY 2019 Budget, adopts FY 2019-FY 2023 Capital Improvement Program and *FY 2018 Third Quarter Review*
May 2018	• May 1	Board of Supervisors adopts FY 2019 Adopted Budget
	• May 15-16	School Board holds public hearings on FY 2019 budget
	• May 24	School Board adopts FY 2019 Approved Budget
July 2018	• July 1	FY 2019 Budget Year Begins