Budget Guidance for FY 2025 and FY 2026
April 30, 2024

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 30, 2024, the Board approved the following Budget Guidance for FY 2025 and FY 2026. Our next step is to adopt guidance for the development of the FY 2026 budget. The purpose of Budget Guidance is to indicate Board of Supervisors' support for initiatives included in the FY 2025 budget, to provide direction to the County Executive and County agencies related to the implementation of the FY 2025 Budget, and to make recommendations to the County Executive and County staff for the development of the FY 2026 Advertised Budget. Budget Guidance is not inclusive of all priorities of the Board, nor is it inclusive of all issues raised by the community during the development of this year's budget.

Fairfax County Public Schools (FCPS)

The Board appreciates the continued collaboration with the School Board on our joint legislative priority of securing increased state funding for schools. The Joint Legislative Audit and Review Commission (JLARC) study found that the state uses a "complex and unreasonable funding formula" that results in the underfunding of schools by $1,900 per student when compared to the national average. Implementing all JLARC recommendations would result in an additional $568.7 million for Fairfax County Public Schools. The cost of supporting our schools falls disproportionately on our local homeowners. As a result, it is imperative that we continue to pressure the state for increased funding, as growth in our local revenue sources will be limited. FCPS is encouraged to develop a FY 2026 transfer request that is consistent with the projected revenues that will be presented as part of the joint fiscal forecast in November.

State Budget

The Governor and General Assembly continue to negotiate on the state budget, with hopes for a compromise by mid-May. The budget passed by the General Assembly in March promised significant progress towards addressing Metro's budget deficit, with the pledge of additional state resources over a two-year period. The Governor's amendments reversed course, seeking to balance Metro's budget by redirecting County funds that are held at the Northern Virginia Transportation Commission (NVTC) for planned replacement of our Connector bus fleet and that could be depleted as early as October 2024. Metro is a critical component of Virginia's transportation infrastructure that keeps our economic engine moving. Funding the Metro system is a shared responsibility between the state and localities and significant new state resources are required this year to support Metro's operations. Staff is directed to report back to the Board regarding state budget action on Metro, as well as other possible actions impacting the County budget such as expansion of the sales tax base to include digital purchases, with any recommended changes in funding allocations as part of the *FY 2024 Carryover Review*.

FY 2026 Budget Development

The FY 2025 budget presented a challenging year, with limited revenue growth to support our expenditure requirements. County staff, through an extensive process last year, identified the equivalent of over one cent on the Real Estate Tax rate, primarily through expenditure reductions, to allow limited investments in County priorities. However, the burden on real estate taxpayers has continued to grow, with real estate taxes increasing as a percentage of our County's budget from 63.5 to 66 percent over the past ten years. This is creating an affordability challenge for all Fairfax County residents, particularly those on fixed incomes and those who are already struggling to make ends meet in a region with a high cost of living.

The FY 2026 budget, based on early forecasts, appears to be similarly challenging. Projected requirements for employee compensation and schools will leave limited flexibility to address other priorities or provide relief to taxpayers. This dynamic has been building for a number of years and is likely to continue; changing it will require state advocacy for the development of other revenue options. The JLARC study, as noted above, plainly stated the systemic underfunding by the state of school systems across Virginia. However, in addition to direct support of schools by the state, real tax reform is necessary to provide localities with options to reduce their over-reliance on real estate taxes and to help diversify their tax bases. While the world around us continues to modernize, Virginia's tax structures remain rooted in the past.

As we look ahead to our legislative program for the coming session, we should continue to advocate for broader taxing authority that will provide options to diversify our revenue base and for the state to meet its responsibility to fund shared services such as schools and transportation. We also direct the County Executive to review all existing taxing authority and come back to the Board at a future Budget Committee meeting with recommendations for strategies to diversify our revenue base and reduce the over-reliance on the Real Estate Tax.

Employee Pay and Collective Bargaining

The FY 2025 budget is our first to be adopted following negotiations with employee unions representing the Fire and Emergency Services and Police bargaining units. One theme arising from these initial agreements is that our employees desire predictability in their pay. The Market Rate Adjustment (MRA) has fluctuated widely in recent years, proving to be a challenge for our budget and a source of uncertainty for our employees. We support the County Executive's proposal to implement a more stable and predictable means of keeping our pay scales in line with the market, coupled with a commitment to more consistently fund those adjustments. We also encourage the Department of Human Resources to evaluate additional ways to help employees more easily calculate the graduated performance pay increases that are awarded to General County employees. The County will continue to use all of its available tools to recruit, retain and reward employees, including merit increases, performance increases, longevity increases, the hiring incentive bonus program approved by the Board in 2022 and the annual benchmarking of salary ranges against competitors that resulted in the adjustment of the salary grades of nearly 1,200 General County employees for FY 2025.

Retirement

One of the ways that the County exemplifies support for its outstanding employees is through the funding of employee benefits, particularly our strong defined-benefit retirement plans. Two studies are currently underway by the Retirement Administration Agency that will help ensure that the County is transparent to our employees and our residents about the financial health of our plans and that we remain vigilant in maximizing investment income which can help offset County costs. The first is a comprehensive 'stress test' of the systems, which will help us to understand the financial strength of our systems. The second is a consultant review that will examine the overall governance of the systems, as well as investment policies and procedures, based on best practices of other public retirement systems. The Board supports both efforts and looks forward to the results and recommendations of each.

County Position Review and Vacancy Analysis

The County, like many employers across the country, has faced significant challenges in the recruitment and retention of employees, as the post-pandemic labor market has been strong. As the County has made great strides with programs like the Board-approved hiring incentive bonuses, it has been difficult to assess our successes based on vacancy metrics due to the large number of unfunded positions throughout County agencies. The Board recognizes that many of these positions are unfunded as a result of budget reductions, some going back to actions taken following the Great Recession. In some cases, these positions provide flexibility for agencies to adapt their organizations to changing needs. However, it is important for the Board – and our residents – to have a clear picture regarding the number of positions that are vacant and are able to be filled. As a result, the Board directs staff to continue its ongoing comprehensive review of County positions. This review, conducted by the Department of Management and Budget in concert with agency directors, should include a focus on eliminating vacant positions that are unfunded and examining whether funded positions are appropriately classified. Steps to address any identified issues should be implemented as soon as possible but no later than as part of the FY 2026 budget.

Consolidation of Animal Control Services

The Board agrees with the staff proposal to consolidate animal control services into the Department of Animal Sheltering (DAS). However, we heard concerns throughout the budget season from the public and staff regarding how this new model would impact service delivery. Given the concerns voiced by some of our residents, additional clarification on how this consolidation will be operationalized and a clear timeline of implementation strategies are needed to provide further transparency. Staff is directed to return to the Board as part of a Safety and Security Committee meeting to provide additional details regarding the roles of DAS staff and police officers under this new structure and any changes to the philosophical approach to wildlife and other services.

Affordable Housing

As reflected in the Board's budget guidance for the past few years, the County is committed to taking steps necessary to reach our goal of a minimum of 10,000 new affordable homes by the year 2034. Although unable to commit additional baseline funds as part of the FY 2025 budget, the Board recognizes that additional capital investments are necessary and approved the allocation of $4 million for this purpose as part of the *FY 2024 Third Quarter Review*. Baseline funding of $32.3 million is currently included in the budget, equivalent to one penny on the Real Estate Tax rate. Including the additional $4 million, one-time funding of $89 million has also been allocated since FY 2022 for this important initiative. This one-time funding is a combination of utilizing $55 million in federal stimulus funds and $34 million from one-time General Fund balances. The Board remains steadfast in its resolve to add recurring baseline funding for this initiative with the goal of reaching a total investment of two pennies on the Real Estate Tax rate by FY 2027. As such, the County Executive is encouraged to add recurring resources in FY 2026. In addition, the Board encourages the County Executive to continue to pursue additional sources of funding, such as federal and state grants, to support affordable housing needs, including for the County's manufactured housing communities and to expand the County's efforts on promoting homeownership.

Parks

In January 2024, the Fairfax County Park Authority (FCPA) and their outside consultants provided a presentation at a Board committee meeting on the Review of the Equity of FCPA's Revenue and Operating Fund. Due to a reliance on the current fee structure, there are several FCPA programs that charge more than local comparators and have priced out many County residents. The presentation provided several recommendations to provide greater equity in FCPA programs. The next step in this process will be for Neighborhood and Community Services and FCPA staff to conduct a thorough public outreach process. This coordination will provide departmental insight into existing County programs that already implement some of the recommendations (e.g., School-Age Child Care sliding fee scale) to provide a guide to best practice implementation. County staff, in concert with the Park Authority Board, are directed to review the current funding structure of FCPA to determine if there are alternative approaches that could be considered to improve park services, facilities, and maintenance and further address equity. The Board recognizes that these changes will require significant fiscal resources and organizational change and expects any recommendations to be phased in over multiple years.

Workhouse Arts Center

Similar to other nonprofits in the region and nationally, the Workhouse Arts Foundation (WAF) was able to emerge from the pandemic but has been experiencing financial challenges to their operating budget for the last two fiscal years. This has been driven largely by lower revenues from class registrations, grants, contributions, and special events. WAF has utilized a portion of its reserves to balance its budget, but this is not sustainable long term. WAF Board members have formally asked the County for financial assistance for FY 2025 and potentially for the next several fiscal years.

The Board recognizes the need to ensure the vitality of this campus and the unique programs WAF offers, and encourages the exploration of additional opportunities, such as public/private partnerships, to generate further development on the campus. The opening of a brewery on the campus later this spring is the first of what the Board hopes will be many successes to attract more visitors to the site.

The Board requests that WAF provide further background and justification for its request for operational subsidy assistance, which could be considered as part of a future budget process. This should include an out-year financial forecast; actions from the WAF Board to ensure proactive oversight, fundraising, and member expansion; and review of joint coordination efforts with County agencies and non-profit organizations such as Celebrate Fairfax, Visit Fairfax, and ArtsFairfax.

Support for the Arts

Fairfax County is home to a variety of organizations that further arts, cultural, and tourism related activities. Consistent with the County's Strategic Plan, these activities "…are foundational to the overall quality of life and well-being of Fairfax County residents and visitors and contribute significantly to our community social connectivity and health." The County currently provides direct contributions through its Contributory Fund for arts organizations, and, in some cases, County funds are further leveraged in the form of grant funding opportunities for organizations. The Board remains committed to the arts in the County and requests staff review options to expand the annual funding dedicated towards the arts.

Consolidated Community Funding Pool

The Consolidated Community Funding Pool (CCFP) has been a valuable tool in partnering with the non-profit community for the delivery of human services for our most vulnerable residents. CCFP allows for innovative service delivery but also addresses core basic needs. This was most evident during the COVID-19 pandemic when the County saw an unprecedented need for services and the County's partnership with the non-profit community was instrumental in delivering these services. With the pandemic-era funding coming to an end, now is the time to evaluate what level of resources are needed and what is the most efficient method for delivering these services. Staff should convene a workgroup and report back to the Board at a future Health and Human Services Committee meeting on recommendations for moving forward with the expectation that these recommendations are included in the FY 2026 Advertised Budget Plan.

I now move the Budget Guidance that I just reviewed, which will help direct the FY 2026 budget process.