April 30, 2024

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Approval of the FY 2024 Third Quarter Review

The *FY 2024 Third Quarter Review*, as advertised, included previous balances of $54 million and recommended spending and reserve adjustments of approximately $49 million, with a majority proposed for investments in capital paydown and information technology needs. As a result, the advertised package included a net balance available to the Board of Supervisors of $5.2 million.

This package utilizes the available balance in order to address several one-time funding needs, as well as to bolster resources dedicated to meeting the County's affordable housing goals. The largest adjustment allocates $4.0 million to affordable housing, which, when combined with baseline funding, results in total County funding of $35.4 million in FY 2024. If also including federal stimulus funding dedicated to affordable housing during the current fiscal year, this total grows to $45.4 million in FY 2024.

Additionally, consistent with actions taken in prior years, $500,000 in funding is provided to supplement Fairfax County Public Library collections and $300,000 is included to support County parks, specifically to construct dedicated pickleball courts at Wakefield Park. Other adjustments include $150,000 to offset unanticipated expenses for The Women's Center related to relocation costs and $58,000 to finalize the construction of the Eileen Garnett Civic Space in downtown Annandale.

After funding these Board adjustments, there remains a balance of $229,126, which will be held in balance for consideration as part of the *FY 2024 Carryover Review*.

FY 2024 Third Quarter Board Adjustments		
		FY 2024
FY 2024 Third Quarter (Advertised) Balance		**$5,237,126**
Board Adjustments		
Support for Affordable Housing Initiatives		($4,000,000)
Fairfax County Public Library Collection		($500,000)
Wakefield Park Pickleball Courts		($300,000)
The Women's Center Relocation		($150,000)
Eileen Garnett Civic Space		($58,000)
	Subtotal:	($5,008,000)
Net Balance		**$229,126**

Therefore, I move approval of the *FY 2024 Third Quarter Review* including:

- approval of Supplemental Appropriation Resolution AS 23291 for FY 2023 adjustments to reflect the final audit;
- approval of Supplemental Appropriation Resolution AS 24190 and Amendment to the Fiscal Planning Resolution AS 24901, which include the revenue, expenditure and transfer adjustments, grant awards and adjustments, and associated reserve adjustments contained in the County and School's Third Quarter Review dated March 19, 2024;
- and the Board adjustments listed above, resulting in a net balance of $229,126.

FY 2025 Budget Mark-Up

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

Add-On Adjustments

This package begins with a balance of $11.01 million available after the adjustments included in the County Executive's Add-On package of April 19, 2024. This balance is attributable to the pre-funding of FY 2025 reserve requirements as part of the *FY 2024 Third Quarter Review* and reflects updated projections regarding Transient Occupancy Tax.

Add-On Adjustments		
		FY 2025
FY 2025 Advertised Balance		**$3,826,826**
Net Revenue Adjustments		$305,800
Economic Opportunity Reserve Adjustment		$576,211
Managed Reserve Adjustment		$6,304,846
	Subtotal:	$7,186,857
Balance as of Add-On		**$11,013,683**

Adjustments Recommended by Board

With the current strains on the County's Real Estate market, particularly for our commercial properties, the Board recognizes the resulting revenue constraints that impacted the FY 2025 budget. With limited options for revenue generation available, as we continue to operate under the state's outdated tax system, changes to the Real Estate Tax rate are the only significant lever that the County has to generate the resources necessary to meet our needs. With that being said, we understand the burden that increased Real Estate Taxes can place on our residents, and this budget strives to find a balance between taxing levels and addressing our most urgent priorities. The Advertised Budget Plan included a proposed increase to the Real Estate Tax rate of 4 cents. Through the identification of other resources, which will be described later, this package reduces that increase by 1 cent, which will result in a Real Estate Tax rate of $1.125 per $100 of assessed value. As a result, the increase on the average Real Estate Tax bill will drop from approximately $524 to just over $450.

The needs that face this County each year are significant. Providing appropriate compensation increases, for both County and Schools employees, is of upmost importance. Addressing the needs of our community, especially those who are most vulnerable, is vital. Meeting the needs of our students and our schools to ensure that we remain one of the top education systems in the country is a necessity. Maintaining an efficient transportation network to encourage economic development and growth is essential. But we cannot do this alone. We appeal to our state partners to work with us.

As the Board will later address as part of budget guidance, it is imperative that we continue our efforts to push the state to finally implement real tax reform. At the same time, the state must recognize its own role in directly supporting public schools and Metro infrastructure, as maintaining strong schools and a solid transportation network help to draw people to this area, bringing development, jobs, and further economic growth which can benefit the entire Commonwealth. Fairfax County Public Schools, as with all schools across the state, remain significantly underfunded as the state's own JLARC study has proven. Similarly, as Maryland and DC have stepped up and indicated their support for additional funds to support the region's Metro system, so far the state has failed to coalesce around providing additional transportation funding. Relying upon existing state aid balances – which have all been allocated and which are rapidly depleting – is not the answer. Our hope, and frankly our expectation, is that the final state budget package – not expected to be approved until mid-May – will include some of these important investments.

Because the state has yet to adopt a final budget, you will see that we have assumed only limited additional revenue from the state. This package includes just under $2.7 million related to anticipated compensation adjustments, State Aid to Localities with Police Departments (HB 599), and State Aid to Local Public Libraries. Any additional state revenue will be recognized as part of budget adjustments at the upcoming *FY 2024 Carryover Review*.

With the expectation that the state will come to the table with additional resources for FCPS, this budget maintains the proposed School Operating transfer increase at $165 million, which represents an increase of 6.8 percent over last year. The Board recognizes that this increase falls short of the requested increase of over $250 million. However, approving this unprecedented request would have placed too heavy of a burden on our taxpayers. As fair compensation increases for our teachers seems to be an area where there is consensus between the Governor and General Assembly, the Board is optimistic that state funding will help to shrink the remaining shortfall and allow for investments in teacher compensation.

This budget continues our commitment to employees, most notably through funding the first year of the contracts that were negotiated with our two public safety unions. In addition, we have continued to fund the performance and longevity increases that allow general County employees to advance through their pay scales. With these adjustments and the 2 percent Market Rate Adjustment, General County employees will see salary increases that range between 3.25 and 6 percent in FY 2025, with nearly 1,200 of these employees receiving an additional 5 percent increase based on the results of the annual benchmark reviews that ensure our pay ranges continue to keep pace with the market. Our non-represented public safety employees in the Office of the Sheriff will receive merit and longevity increases, with many benefiting from a new 10-year longevity step, in addition to the 2 percent Market Rate Adjustment. Deputy Sheriffs will, on average, receive increases of 7.85 percent in FY 2025.

As the challenges of this budget were known well in advance of the release of the proposed budget, the Board appreciates the foresight exhibited and the efforts directed by the County Executive to find efficiencies and savings in our baseline budget. In total, our agencies identified over $34 million in reductions – more than one penny on the Real Estate Tax rate – which were utilized to free up resources for other purposes. Combined with the reductions put into place last year, the Board recognizes that agency budgets are tight, and we cannot expect to see these same levels of reductions in future years without impacting our employees or the services we offer to our residents. With that in mind, the Board did not pursue additional reductions beyond those included in the proposed budget and are making only one minor restoration - $25,000 for the Youth Leadership Program. This program provides opportunities for high school students to intern with County agencies during the summer months, as well as participate in educational sessions throughout the school year on County government. Given its small price tag – but the big impact that this program may have on our youth to pursue careers in public service – the Board believes this small adjustment is necessary.

As they do each year, staff continues to monitor revenue and expenditure trends after the Advertised Budget is released. As noted earlier, the Add-On Package presented to the Board provided more than $7 million in additional resources, primarily due to the prepayment of County reserves as part of the Third Quarter Review. After the presentation of the Add-On recommendations, based on the release of the latest economic data and projections regarding potential Federal Reserve action on interest rates, staff increased its revenue forecast for Investment Income. As Federal Reserve action on rates is now anticipated to occur later in the year, additional revenue of $11.1 million can be recognized, with reductions in this category anticipated in future years. This additional revenue is being used primarily to reduce the increase on the Real Estate Tax rate.

This package includes other minor changes to the proposed budget. Consistent with the actions taken by the Board on the proposed increases to zoning, fire marshal, and land development fees, the proposed increases in senior center membership fees will be phased in over a two-year period to moderate the impact on our residents at a cost of $33,641. After consultation with staff, the $5.0 million increase in information technology (IT) investments and just over $2.5 million for increased fuel costs have been deferred. It is anticipated that additional funding for IT needs will be able to be accommodated as part of the upcoming Carryover Review, with this adjustment resulting in no negative impacts to work currently underway. Similarly, staff will continue to monitor fuel prices and will work with agencies to reduce overall mileage on County vehicles, and any necessary adjustments will be made as part of a future budget cycle.

The Board has also included funding of $24,000 to increase the stipends paid to members of the Fairfax County Planning Commission, raising the stipend from $23,000 to $25,000 annually. This adjustment will bring stipends in line with those paid in neighboring Loudoun County. Similarly, also included in our actions as part of budget adoption will be a resolution to set the compensation for board members of the Fairfax County Water Authority at $25,000 annually and for the Water Authority Board Chairman at $31,250 annually. These amounts were last adjusted in 2007 and have no impact on the County's budget as they are paid from Water Authority revenues.

Funding Adjustments Recommended by Board	
	FY 2025
Balance as of Add-On	**$11,013,683**
Reduce increase on Real Estate Tax Rate by 1 cent to $1.125 per $100 of Assessed Value	($32,318,822)
Phase in increase to Senior Center Membership Fees	($33,641)
Increase stipends paid to Planning Commission members	($24,000)
Restore funding for the Youth Leadership Program	($25,000)
Recognize additional State Revenue	$2,693,239
Recognize additional Investment Income	$11,133,557
Defer baseline IT investment	$5,000,000
Reduce increase in agency baseline fuel budgets	$2,560,984
Subtotal:	($11,013,683)
Final Remaining Balance	**$0**

As a result of these changes, we have a balanced FY 2025 budget.

In addition, this budget includes other tax and fee adjustments, including decreases to the following taxes:

- A decrease in the Route 28 Highway Transportation Improvement District tax rate from $0.16 to $0.14 per $100 of assessed value

- A decrease in the Phase II Dulles Rail Transportation Improvement District tax rate from $0.18 to $0.16 per $100 of assessed value

Taxes and fees in the FY 2025 budget that remain unchanged include:

- Maintaining the Stormwater Services district tax rate at $0.0325 per $100 of assessed value

- Maintaining the Phase I Dulles Rail Transportation Improvement District tax rate at $0.09 per $100 of assessed value

- Maintaining the Reston Service District tax rate at $0.021 per $100 of assessed value

- Maintaining the Tysons Service District tax rate at $0.05 per $100 of assessed value

This budget contains increases in Refuse charges, including:

- An increase in the Leaf Collection rate from $0.012 to $0.019 per $100 of assessed value

- An increase in the Refuse Collection fee from $490 to $555 per household

- An increase in the Refuse Disposal fee from $72 to $79 per ton

The Board approved increases in Sewer charges following the public hearing on April 16, including:

- An increase in Sewer Service Charges from $8.46 to $8.81 per 1,000 gallons

- An increase in the Sewer Service Base Charge from $44.81 to $49.73 per quarter

- An increase in the Sewer Availability Charge from $8,860 to $9,038

Therefore, having provided public notice and conducted a public hearing as required by Virginia law, **I move approval of the FY 2025 Budget as Advertised, with the changes as outlined above**, and required Managed Reserve adjustments. The tax and fee adjustments become effective on and after July 1, 2024, unless otherwise noted. **These actions result in a balanced budget for FY 2025.**

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.

<u>Approval of the FY 2025-FY 2029 Capital Improvement Program (with future fiscal years to 2034)</u>

I move Board approval of the <u>FY 2025-FY 2029 Capital Improvement Program (with future fiscal years to 2034)</u> with the following amendments:

- Direct staff in the Department of Transportation to set aside a portion of the funding allocated for the bicycle and pedestrian access program as part of the next year-end process to begin to provide safety measures at prioritized sites near Metro stations and other activity centers; and

- Direct staff to formalize the process of equity review when making an annual CIP decision and, where possible, highlight Communities of Opportunity associated with capital projects in the CIP to support equity, informed planning, decision making, and alignment with relevant focus areas in the One Fairfax Policy.