

The City of Fairfax

Office of the City Manager



June 25, 2018

The Honorable David L. Meyer and Members of the City Council
City of Fairfax
City Hall
10455 Armstrong Street, Suite 316
Fairfax, Virginia 22030

RE: City Manager's Adopted FY19 Budget Transmittal Message

Dear Mayor Meyer and Members of City Council,

On behalf of a talented and dedicated management team, I am pleased to present the City Manager's adopted FY 2019 budget. This adopted budget conforms to the following legal and policy-guidance documents impacting the budget process:

1. The City Council's Adopted FY19 Budget Preparation Guidelines
2. The City Council's 2016-2018 Adopted Goal Statements
3. The City Council's Financial Policies
4. Wastewater Fiscal and Operating Policies
5. The City Charter of the City of Fairfax

The City of Fairfax, similar to other jurisdictions in the region and elsewhere, is in the throes of a challenging balancing act, seeking to achieve its goals while experiencing stagnating or, at best, marginal growth in its revenue sources. For the past several years the city's principal sources of revenue (the real estate tax, Business-Professional and Occupational License (BPOL), sales tax, meals tax, etc.) have experienced minimal growth. This economic reality constrains the city's ability to adequately address every need. In this document, our fiscal reality for FY19 is reflected in minimal increases in operating expenditures linked to minimal revenue growth, few additional personnel resources, and a modest Capital Improvement Program (CIP) program while seeking to achieve the City Council's commitment to strengthening the General Fund's cash reserves, a 'best practice' recommended by our Financial Advisors.

This adopted budget, while conservative in its spending proposals and requests for additional tax revenues, nevertheless favorably positions the city, in large measure, to advance its goals, as follows:

1. Supports environmental sustainability goals through the addition of personnel resources, and additional funding for the Stormwater Fund.
2. Emphasizes strategic initiatives of the current and future Comprehensive Plan.
3. Supports basic services such as Fire and Police.
4. Advances the city's multimodal transportation goals through an aggressive construction program that embraces alternative and sustainable modes of transportation.
5. Provides additional resources for the city's Economic Development program for business recruitment and retention.
6. Establishes a reorganized city wide communications and marketing function to provide comprehensive and coordinated information and marketing services to the community.
7. Provides compensation adjustments for city employees consisting of a 3.5% merit adjustment and full funding of fringe benefits.
8. Supports redevelopment of several large scale residential and mixed use developments, which will result in enhanced commercial and retail growth in addition to contributing to a greater diversity in housing options.
9. Achieves newly established level of cash reserves in the General Fund, providing enhanced fiscal health aimed at retaining the city's AAA bond rating.
10. Establishes a full time Human Services Director to improve and strengthen the administration of the city's complex health and human service contracts and to serve the depth of need represented by those using such services.

BUDGET SUMMARY

The adopted budget totals \$172M in all funds and areas, a decrease of 0.6% from FY 2018. This modest decrease is primarily due to a pullback in capital spending over FY 2018.

The adopted total of General Fund expenditures of \$142M represents an increase of 1.4% over FY18 levels reflecting increases attributed to employee compensation and fringe benefit increases, additional employee positions, and an increase in the City Schools contract with Fairfax County.

The adopted budget is balanced, with no real estate tax increase. An additional .25 cent increase in the real estate tax rate for Stormwater Fund revenues will be offset by a corresponding decrease in the base real estate tax rate of .25 cent. The real estate tax revenues flowing to the Stormwater Fund have enabled the leveraging of significant additional sums for our storm water maintenance and construction programs through the acquisition of grants. The residential real estate tax rate remains at \$1.06 per \$100. Higher assessment will result in an increase in the average residential tax bill of 0.45%. Commercial and industrial properties subject to the C&I transportation tax will see an additional 1 cent increase, with the new rate at 11.5 cents per \$100 of assessed valuation resulting in a recommended rate of \$1.175 per \$100 of assessed valuation.

GENERAL FUND

The General Fund provides for all general services of the City not accounted for in other funds. Approximately 80.7% of city expenditures come from this fund.

The forecast for General Fund revenues is essentially flat. Real estate tax revenues, representing just under half of all revenues accounted for in the General Fund are estimated to increase only 0.1% over FY18 due to anemic assessed value growth; adding 'new construction' valued at \$105M brings the overall total to an increase of 1.9% over FY18. The FY18 increase was 3.3% over FY17.

The total increase in adopted General Fund revenues over FY18 is a modest \$1.9M. Increased real estate tax revenue over FY18 totals \$2.2M and it is estimated there will be additional, revenue growth in the personal property tax and investment income; however, these gains are offset by anticipated losses in other revenue areas of state and local sales and use tax, tobacco tax, classroom rental income and communication taxes. The increase in General Fund expenditures matches the \$1.9M in increased revenues available. Increases are attributable to increased personnel costs of approximately \$1.7M, a relatively small increase in the school tuition contract of \$692k, non-education contract increases of \$220K, and an aggregated miscellaneous decrease of 700k.

The total FY19 debt service payments on the city's current \$133M in outstanding debt will total \$12.3M, an increase over the FY18 total debt payment of \$12.1M. The city's debt amortization schedules reflect approximate level annual payments until 2023, given no new debt is undertaken.

CAPITAL IMPROVEMENT FUND (CIP)

The city has a separate five-year plan for capital improvements, which are generally defined as major projects with a long life expectancy valued above \$25K. The CIP for FY19 totals \$36.7M, funded from several sources. The General Fund annually provides a transfer to the CIP, in FY19 the amount is \$16.3M and, of that total, \$9.1M is from borrowed funds used to finance fire station construction. The CIP fund is presented in detail at section G.

WASTEWATER FUND

The city operates its own wastewater (sewer) collection system and contracts with Fairfax County for wastewater treatment. The FY19 budget for the wastewater system is \$15.2M. Due to the costs of the city contracted treatment services, the debt service on city borrowed funds for maintaining its wastewater collection system and payments to Fairfax County for ongoing major improvements to the regional treatment plants, the City's wastewater utility rate will be increased by 10% for FY19. The city's rate payers have been witnessing wastewater rate increases of 10% annually for several years and we expect this trend to continue for several more years. The city's wastewater utility rate is benchmarked in the lower half of those of the surrounding area jurisdictions. The city continues to strengthen its preventive maintenance program by computer based reconditioning programs for relining wastewater lines and rebuilding manholes.

Please review the highlights of the FY19 budget on page A-2 for a description of other recommended actions contained in the budget.

To review details of the Stormwater Fund, the Cable Grant Fund, the Old Town Service District, and the Transportation Tax fund, please see section H.

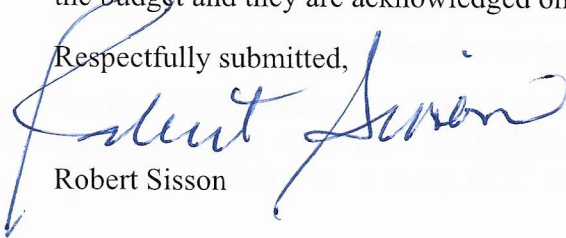
CONCLUSION

It is my hope that the adopted spending plan contained herein will help move the city towards a more effective, as well as a more efficient organization. As we look forward to what should be an eventful FY19, I want to focus the work of the management team in the areas of benchmarking, workflow evaluation, organizational design and technological improvements as recommended by City Council in our budget guidelines for FY19.

I want to thank the Mayor and City Council for their community leadership and setting an example and expectation of excellence for the staff.

There are many people to thank for their hard work in the preparation of this document. The principal responsibility lies with the Director of Finance, David Hodgkins and the Budget Manager, Kerry Kidd. There are many others who contributed substantively to the completion of the budget and they are acknowledged on page A-38.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Robert Sisson", is written over the typed name.

Robert Sisson