

The City of Fairfax

Office of the City Manager



June 24, 2016

The Honorable R. Scott Silverthorne and Members of the City Council
City of Fairfax
City Hall
10455 Armstrong Street, Suite 316
Fairfax, Virginia 22030

RE: City Manager's Adopted FY17 Budget Transmittal Message

Dear Mayor Silverthorne and Members of City Council,

I am pleased to submit the adopted FY17 budget for the City of Fairfax for your review.

The adopted budget is balanced, adheres to the adopted City Council Budget Guidelines and fiscal policies of the City Council.

The adopted budget for the City, for all funds, totals \$166,495,718, an increase of 2.2% from FY16. The General Fund, which supports most City activities, is projected at \$135,515,132, an increase of 3.9% over FY16.

The City's budget is made up of seven primary building blocks, or funds, that function interdependently yet each has its own function. The predominant fund, the General Fund, accounts for the majority of City services. When we discuss 'balancing the budget', it is usually referring to the task of balancing the General Fund. Balancing revenues with expenditures is a significant challenge every year, this being no exception. Minimal revenue growth this year, in some cases compounded by declines in major revenue sources, combined with significantly increasing expenditures, leave two basic alternatives: cut services or increase taxes. Neither are attractive options.

The City is fortunate to be able to contract for the provision of many City services. The City benefits abundantly from these relationships due the economy-of-scale savings that are achieved with 'contracting-out' services versus the City having to stand up and operate the administrative machinery to provide the services. However, this arrangement can be problematic as the City is unable to achieve cost-cutting methods for those services provided by contract when holding-the-line on expenditures is imperative. The City must either pay the amount due for the contracted services or consider the costlier option of providing the service itself.

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In addition to contracted-out services, several other major spending areas are non-discretionary; for example payments on the City's debt obligations, pension obligations, and, to a large extent, employee base compensation, maintenance of effort requirements in some revenue sources and some federal and state programs. Such arrangements create a structural problem for the City's budget; over 60% of City expenditures in the General Fund are unable to be reduced or trimmed back to meet available revenues. Therefore, the City is significantly constrained in what it can do to address ever increasing costs.

In providing you with a balanced budget this year, several tax rates or fees were recommended for an increase in several funds. (See pp. A-2 for a quick synopsis of the recommended adjustments.) The choice of recommending a rate increase is considered as a final resort after evaluating the impact of alternatives.

A brief discussion of significant changes follows in a "fund" format. We will begin with the General Fund.

GENERAL FUND HIGHLIGHTS

- Projected Expenditures of \$135,515,132; an increase of 3.9%, or \$5,050,330.
- Key factors impacting the fund, changes from previous year:
 - School Tuition Contract Increase \$1.1m
 - Increased CIP Investment \$1.5m
 - Personnel Costs Increases; Including Compensation Study recommendations (\$200k), a COLA of 1.35% and step increases included of 3.5% (Note: No additional positions funded.) \$1.1 m
 - Other City-County Contract Increases \$256k
 - Increase in fund transfers (Storm .25¢, C&I 2¢) \$578k
 - Decreased EDA Economic Development funding \$200k
 - Increased funding for Renaissance Housing \$50k
 - Use of General Fund surplus to balance \$394k
 - One Time Reductions FY16 \$221k
 - Increases in RE assessments (2.1%); RE tax rate of .75¢ for GF, .25¢ for Storm Water Fund, and 2¢ for the Trans Tax Fund (C&I Tax) \$3.6m

CAPITAL FUND HIGHLIGHTS

Total spending from all sources in the Capital Fund is \$26.2m, a reduction of \$8.7m. Transfers from the General Fund to the Capital Fund have been increased to \$7.9m from the 2016 level of \$6.5m. There were \$2.9m in cuts made from the proposed FY17 CIP list.

Increased General Fund support for street maintenance (overlay and curb and gutter) has been added in the amount of \$747k over current year levels due primarily to underfunding in past years. Sidewalk maintenance (brick, asphalt, handicapped ramps) is being funded in the amount of \$262k annually for FY17 and beyond. Repair of Jermantown Road is being planned in three annual phases, beginning in FY17. The total is \$420k with the first year amount of \$60k. This is a General Fund funded improvement, no state or federal funding is available.

No vehicle purchases will be financed in FY17; all purchased pay-as-you-go.

School CIP spending supported by the General Fund will increase from \$250k to \$430k in FY17.

Replacement/reinvestment of software applications for Personnel and Finance is included at \$50k, the first of a two year program costing \$250k.

Also recommended for funding in the CIP is \$35k for the Green Acres future use study and \$40k for the Van Dyck Park master plan and storm water study. Both initiatives are funded significantly below requested levels due to funding constraints. Playground equipment replacement is fully funded at \$120k. The CIP provides minimal funding, for recommendations of the Parks and Recreation Master Plan recently completed.

STORMWATER FUND HIGHLIGHTS

City Council's continued support of setting aside 2 cents of the Real Estate Tax rate has enabled the City to initiate a comprehensive storm water program which has had minimal funding in the past. With approximate expenditures of \$2m (including state funding and anticipated grants) in FY17, the following elements will be initiated or continued:

- Outfall stabilization
- Street related storm drainage infrastructure
- Relining and replacing storm drainage pipes
- Compliance with MS4 Permits
- Inspection of Private and Public BMP's
- Salary expense for Administration of the Program

As we discussed with City Council last year, we believe the 2 cent funding would be inadequate going forward. In order to boost funding in small increments, Council approved funding to 2.25 cents for FY17. Unfortunately, there is no funding provided in FY17 for needed storm drainage work at Foxcroft Colony or Mosby Woods Condominiums. Perhaps funding can be recommended in FY18 or FY19. The issues related to whether the City should participate in these two projects and, to what degree are unresolved.

UTILITY /WASTEWATER FUND HIGHLIGHTS

This fund provides for all phases of the City's wastewater system to include collection, treatment, and administrative and billing functions.

The adopted Wastewater utility rate increase of 10% over the rate in the current fiscal year. The average family's quarterly bill will increase from \$150 to \$165 with the increase. With this increase the City's rate would still rank among the lowest priced wastewater utility rates in Northern Virginia. It is anticipated that the City will have to continue to increase rates for the foreseeable future. The City expends approximately \$2m per year for the treatment of 1.2B gallons of wastewater generated by City residents and businesses annually.

In FY17, the City will make a \$4m payment to Fairfax County as an annual installment for the City cost of the Noman Cole wastewater treatment plant expansion and improvements. In addition to this cost, the City will expend another \$7.7m on operational costs/line maintenance and debt service.

The City Council will have opportunities to continue the discussion concerning the proposed sewer laterals 'insurance' program which is intended to help City residents avoid the full cost of expensive sewer lateral repair work.

TRANSPORTATION TAX FUND HIGHLIGHTS

- Transportation Fund includes revenue from the C&I Tax (or City match) and NVTA 30% funding
- Transportation Fund must be used on transportation projects that increase capacity (C&I), reduce congestion, or for "public transportation purposes" (NVTA 30% Money)
- Anticipated Transportation Tax Revenue in FY 17 is approximately \$4.5m
- In FY 17, Transportation Fund will fund both existing and new projects
- Existing projects: Kamp Washington construction, Northfax, CUE operations
- Adopted new projects: Old Town sidewalk spot widening, Fairfax Blvd sidewalk, Railroad Ave sidewalk, traffic signal preemption (with Fire and PD), Streetlight improvements

OLD TOWN SERVICE DISTRICT FUND HIGHLIGHTS

- Established in FY 2000 to help fund infrastructure improvements downtown. District "sunssets" in 2020 unless extended by City Council
- City levies a 6 cent per \$100 of assessed value on all properties in the district
- The levy generates approximately \$191k per year
- The City pays about \$1.2m debt service on downtown infrastructure and about \$400k annually in special services to the downtown area not provided generally to other areas of the City

TRANSIT FUND HIGHLIGHTS

- The CUE system annual expenses are \$4.1m.
- Revenues come from these areas to support the CUE system:
 - CUE Ridership Farebox \$550k
 - GMU Partnership \$750k
 - Transportation Tax Transfer in \$1.9m
 - DRPT (Pass Thru) \$3.2m
 - NVTC \$828k
- CUE Ridership is projected to decline to about 800k trips from a high of 1m in the past. This translates into a loss of \$50K in farebox revenue in FY17. Fares in FY17 remained unchanged.

CONCLUSION

One of the themes of this adopted budget is that, while much progress is being made in improving the basic infrastructure of the City in areas such as streets and sidewalks, storm water system maintenance and wastewater system upgrades and maintenance, there are still areas that will need additional resources. The recommendations contained in the Parks and Recreation Master Plan and the Green Acres Center future use plan are two such areas.

Another theme of this budget is funding to address employee compensation. We appreciated City Council's decision last year to conduct a compensation study and, when the study is completed this spring, we hope to be able to address recommendations. The Council adopted FY 2017 budget includes \$200,000 to fund the potential cost to implement the City's "Employee Compensation Study" recommendations. The City's best resource is its employees and we must remain committed to paying our employees fairly. We expect above average performance of our employees, and therefore the City needs to pay competitively.

Several Department Heads requested additional employees to keep pace with the work load. Following is a list of requested employees that were not funded. Cost of these positions is estimated at \$420k annually.

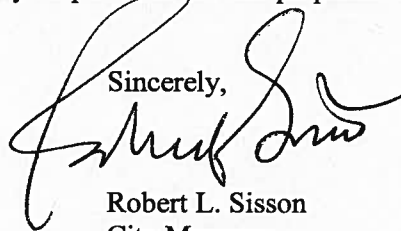
- Personnel
- Cable TV
- Public Works
- Marketing
- Treasurer
- Fleet Maintenance
- Safety Officer
- Video Producer (part-time to full-time)
- Transportation Planner
- Cultural Arts Coordinator (part-time to full-time)
- Treasury Technician
- Administrative Assistant III

While it is disappointing that a real estate tax rate increase was required to balance our General Fund budget, we know that City residents will continue to enjoy good value for tax dollars invested. It is a fact that, even with higher rates, the City continues to be among the lowest overall-taxed jurisdictions in Northern Virginia.

The work plan embedded in this adopted budget will enable the City's team of employees to continue to deliver high quality services efficiently.

I want to express my appreciation to David Hodgkins, Director of Finance/Assistant City Manager and Kerry Kidd, Budget Manager, who are primarily responsible for the preparation of the adopted budget document.

Sincerely,



Robert L. Sisson
City Manager