

The City of Fairfax

Office of the City Manager



June 26, 2017

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 FY18 Budget Transmittal Message

Dear Mayor Meyer and Members of City Council,

As required by the City Charter and on behalf of the City's management team, I am pleased to present to you the adopted City of Fairfax budget for Fiscal Year 2017-2018. This adopted spending plan reaffirms our commitment to providing citizens with quality services at one of the lowest comparable rates of taxes and fees levied by jurisdictions in Northern Virginia.

The adopted budget is in conformance with the following City Council policy documents which have guided its preparation:

1. City Council Adopted FY18 Budget Preparation Guidelines
2. City Council Term 2016-2018 Adopted Goal Statements
3. City Council Financial Policies
4. Wastewater Fiscal and Operating Policies

Total of all spending for FY18 is projected to be \$172,987,301, an increase of 3.9% over FY17 levels. Adopted General Fund expenditures total \$140,046,071 or an increase of 3.3% over FY17 levels.

The adopted budget includes a .2 cent reduction to the property tax rate. The budget is fully funded and balanced, it includes a .45 cent property tax rate decrease for general operations that is partially offset by a .25 cent increase in the real estate rate for the Storm Water Fund. The adopted real estate tax rate for FY18 is \$1.06 per \$100 of assessed valuation.

We are confident that the adopted budget and the financial operations it supports is consistent with the standards required of the City's creditworthiness rating of AAA, the highest attainable. The AAA rating is considered the gold standard of financial strength and usually reflects a jurisdiction's above-average wealth,

low unemployment, strong property values, consistent adherence to established fiscal policies and an outstanding ability to repay debt.

The following comments are intended to address significant issues impacting the budget preparation and are presented by 'fund'. (Please also see "Adopted Budget Highlights" pp A-2.)

GENERAL FUND

The General Fund is the largest fund in use by the City (81.0% of all expenditures) by far, and accounts for all traditional or core services of the City that are not accounted for elsewhere. General Fund expenditures are projected to grow by 3.3% in FY18.

The broad range of revenue sources comprising the General Fund signals a healthy diversification whereby the City is not relying too heavily on too few revenue types. For example, the revenue provided by the real estate tax is 48.5% of the General Fund which is significantly lower than the percentage in some other surrounding jurisdictions. In the same vein, on the expenditure side of the General Fund, the amount the City expends for education services is at 40%, again significantly lower than some other area governments. Each of these examples comprise a smaller than average percentage of revenues and expenditures than one sees in some area jurisdictions for like categories and which enables, along with other factors, the City to have an enviable comparative tax rate. (More detailed summary at pp. A-28-29)

A key factor limiting greater flexibility in reducing or adjusting General Fund expenditures is that about 60% are 'non-discretionary', meaning they consist of several types of 'fixed' obligations that are contractual in nature, i.e., debt obligations, pension payments, purchases of educational and social services from other units of local governments, etc.

The forecast for General Fund revenues is a mixed picture. Real estate revenue, representing almost half of all General Fund revenues, is projected to increase overall only 1% due to minimal real estate assessment increases. This level of growth in the real estate tax base is the lowest increase the City has witnessed in several years.

Personal property tax revenue is expected to see a significant gain of \$1.1m, or 10% over current year income, due to additional resources being made available to the Treasurer's office in the current year and in the FY18 adopted budget for the collection of past due taxes. In addition, this increase reflects conservative expectations for increased collections using high-tech methods to field-detect and identify non-payers of the car tax.

The one-cent local sales tax revenue represents 8% of General Fund revenues. No increase is projected in FY18 due, in part, to the number of pending or under-construction commercial areas not currently contributing to this revenue source. As these areas are completed and tenants fill the spaces, the City should see a return to normal patterns of growth.

State sales tax and basic aid is projected to show increases of 3% and 7% respectively. BPOL revenue is expected to increase slightly at 1.7%.

There are two extraordinary events that will have a substantial impact on General Fund revenues in FY18. First, FEMA is expected to pay the City for past reimbursable storm expenditures. This income will be recognized in FY18 at approximately \$255k. Second, a recent refunding of a portion of existing City debt, in addition to an annual decline in amortized debt, will result in savings of \$991k from current year.

Communication industry taxes collected by the state from City businesses and remitted back to the City are expected to decline by 8% and the City's transient lodging tax collections are expected to decline by almost 30% due to overly optimistic projections in the current year.

The school tuition contract, reflecting the City's largest single expenditure, is projected to see a minimal increase of \$1.4m on a contracted amount with Fairfax County Public Schools of \$48.6m for FY18.

Personnel costs, representing 33% of General Fund expenses, are expected to increase overall by 5%. Included in the adopted budget is a merit step increase of 2.5% for eligible employees, down from 3.5% in prior years, and a cost of living increase, or market adjustment, of 2% for all employees.

The adopted budget reflects additional personnel resources equal to three full time equivalent (FTE) positions. The various departments had requested the equivalent of 5.6 FTE's, however, it was not possible to fund all.

Fringe benefit expenditures increases, mostly attributable to increases in the City's Supplemental Retirement Plan annual required payments and rising health plan costs, will total \$710k in FY18. The implementation of the compensation study recommendations, funded for a partial year in FY17, will be applicable for the full 12 month period of FY18, requiring an additional \$280k.

The value of all contractual services, including non-education contracts with Fairfax County will increase by \$647k over FY17 levels.

The recommended transfer from the General Fund to the CIP Fund is increasing \$699k for FY18, for a total of \$9,074,482. This represents a General Fund commitment to the Capital Improvement Program of 6.5% of total expenditures; City policy requires a minimum of 5% transfer.

UTILITY FUND-WASTEWATER

With the sale of the City's water treatment and distribution system in 2014, the Wastewater Fund is the remaining enterprise activity in this fund. Due to the increasing costs of contracted wastewater treatment services, debt service on City borrowing for maintenance of the in-city collection system and payments to Fairfax County for treatment plant upgrades and maintenance, the City wastewater rate is to increase 10% for FY18, the same level of increase that has been implemented in each of the past several years. Due to the level of ongoing improvements by Fairfax County in the Noman Cole Water Treatment Plant (WTP) and assumed continual changes in the regulatory environment, it is likely that capital debt payments to Fairfax County will be ongoing for an undetermined number of years. Expressed another way, as plant upgrades are paid for, additional required funding for new rounds of WTP upgrades will take their place. This cycle may be the norm for the foreseeable future.

While the City's annual wastewater rate increases have been significant and recurring, other jurisdictions are experiencing and projecting even higher rates. (One large jurisdiction in the area recently announced a 500% increase over the coming decade for wastewater treatment.) While the adopted rate increase of 10% is disappointing, the good news is that City residents reap the financial advantage of an economy-of-scale dividend due to their ownership of a small portion of the Noman Cole WTP. Over time, the City's investment in this plant will translate to much lower wastewater treatment rates than if the City were to construct and operate its own WTP. As an indicator of the benefit of this relationship, the City's combined water and wastewater rates are ranked comparably low. (See page A-36.)

In January, 2017, after a period of study and public input, the City Council passed an ordinance creating the wastewater lateral repair and replacement program which took effect in April, 2017 (Page E-15).

This innovative program will charge a fee on each commercial and residential wastewater account to be used solely for reimbursing residents a portion of the cost of the repair of a wastewater lateral in the City ROW. Wastewater customers in the City of Fairfax are currently responsible for all costs associated with the repair of a wastewater lateral in the City ROW, in addition to that portion on private property. This program is intended to function as a type of insurance against the high cost of lateral repair.

TRANSIT FUND

The Transit Fund accounts for the operations of the CUE bus system, which has provided unexcelled quality transit services since 1985. No increases in fares are recommended in FY18.

CUE boarding's are projected to decline to approximately 700k in FY18, following trends regionally and nationally. CUE boarding's reached their peak in the 1990's at over a million per year.

The City will continue to carefully monitor CUE operations in order to adjust to changing regional patterns and usage of transit. Potential changes in the regional partnership at WMATA and with our local partner, GMU, may significantly impact the financial health of the CUE system.

CAPITAL IMPROVEMENT PROGRAM FUND

The City prepares a rolling 5 year CIP program and the first year of the program is reflected as the adopted FY18 capital program. The fund has a number of contributing sources that combine into the total expenditure of \$29.9m. The City's General Fund will transfer \$9.1m to the CIP fund which exceeds (at 6.5%) the City's Financial Policy minimum required transfer of 5%.

Original requests from the operating departments totaled \$11.8m. The original level of requests was not sustainable and the budget team, and then the City Council, prioritized the number of submitted requests into the final adopted program (see G-3). The resulting CIP, funded by both the General Fund and non-General Fund sources, will provide a substantial number of needed improvements and equipment to benefit City infrastructure, programs and services.

STORMWATER FUND

Increasing state and federal stormwater regulations have created significant pressures for local jurisdictions. The City established a stand-alone fund several years ago to account for the revenues and expenditures associated with the stormwater improvement program. Jurisdictions in Virginia are now required to meet targets/goals for the reduction of pollutants in storm water discharges which has required dramatic increases in local spending. The City's approach has been to utilize incremental increases in the real estate tax rate as the principal revenue for the Stormwater Fund. In FY18, an increase of a quarter cent, from 2.25 cents to 2.50 cents per \$100 of assessed valuation, has been adopted for the program. The 2.5 cent rate will generate \$1,488,000 in revenue for storm water infrastructure projects in FY18.

TRANSPORTATION TAX FUND

The City Council created the Transportation Tax Fund as part of the FY10 adopted budget. As required in order to qualify for matching funds, in the years since 2010 the City has gradually increased the tax levied on commercial and industrial properties. In 2018, the adopted rate is 10.5 cents on the RE rate for C&I properties which is supplemented by funds from the former Water Fund to equate to the required 12.5 cents tax rate. These funds are to be used solely for transportation and transit purposes.

OLD TOWN SERVICE DISTRICT FUND

This fund was established in 2000 to pay for services and capital projects in the Old Town District. The City levies 6 cents per \$100 of assessed valuation on all properties in the district. Anticipated revenue for FY18 is \$200k. In FY17, a special expenditure of \$50k was authorized for streetscape improvements in the Old Town. In FY18, this amount increased to \$150k for additional streetscape improvements in Old Town. Unless extended, the authorization for the fund expires in 2020.

CONCLUSION

Notwithstanding a sluggish national and regional economy, the adopted FY18 budget is not a status quo, hold-the-line budget. The budget meets and exceeds the ongoing financial requirements of the City and provides increased funding for a number of operational areas.

The City is making significant progress in the area of infrastructure maintenance. Investments in mapping and cataloguing existing conditions in transportation, stormwater, and wastewater systems will pay dividends in more efficient use of maintenance funds.

The year 2017 will be remembered as a special time in the City's history. Several major public works projects are in mid-construction, some decades in planning, requiring several of the City's major thoroughfares to be unavoidably disrupted. Against this backdrop, there are a few approved high-profile redevelopments that have been slow to launch. With some vacant storefronts, delayed redevelopment starts, and more traffic congestion, however temporary, one might be tempted to question the City's economic vitality. The fact is, the City has never experienced such a large amount of public and private investment in its history as is now being made. Some \$400m of public or private construction projects are under construction or in queue lending credence to the City's reputation as a desirable place to do business. Yes, the City is experiencing a physically unattractive phase at present with multiple projects being built. However, in a relatively short time, these completed projects will help position the City for greater economic growth, traffic congestion relief, and increased housing opportunities for new residents. There has never been a period in the City's history when its economy has been better primed for future growth.

It is with this sense of renewed energy and expectation for community advancement that we celebrate our 125th anniversary of incorporation as a town and later, as a City. We are now engaged in the planning for a new Comprehensive Plan that will provide a path forward to 2035. With dedicated and visionary elected officials, a highly educated and involved citizenry and a talented and motivated City workforce, the achievement of that plan is assured.

I want to thank the Mayor and City Council for their leadership and direction. I also want to thank David Hodgkins, Assistant City Manager, and Kerry Kidd, Budget Manager, and each of the Department Directors and their support teams who worked tirelessly to finalize the adopted budget.

Sincerely,



Robert L. Sisson
City Manager

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