

City Manager's

Budget Message

FY 2015 Budget

FY 2015 Adopted Budget Highlights

- City of Fairfax water customers became retail water customers of Fairfax Water in January 2014 when the City bought into Fairfax Water's system and sold its water utility assets to Fairfax Water and Loudoun Water; the City's Water Utility effectively ceased operations at that time and is not included in the FY 2015 budget.
- Expenditures for all funds total \$168,367,130, a decrease of 7.8% from FY 2014 due to the City's transition out of the water treatment and distribution business
- General Fund revenues and expenditures of \$127,972,470, an increase of 1.9% over FY 2014
- Capital Fund expenditures for General Fund supported projects of \$5,544,098 representing 4.3% of General Fund expenditures
- A 2.0¢ real estate tax rate decrease to \$1.04 per \$100 of assessed value, which includes 2.0¢ dedicated to the Stormwater Fund and a first time allocation of 0.28¢ dedicated for a school tuition reserve (committed fund balance in the General Fund); average residential tax bill to increase 2.5%
- Fully funds the Commercial and Industrial Real Estate Tax Fund in FY 2015 with a transfer of \$1,279,814 in excess proceeds from the sale of the City's water utility assets
- One cent on the real property tax rate is equivalent to \$564,000
- Real estate residential assessments increase an average of 4.5% for CY 2014; commercial assessments decrease an average of 0.1% for CY 2014 (excludes new construction)
- Assessed value of all real property equal to \$5,517,062,000, an increase of \$176,429,000 or 3.3%
- Provides a 3.5% merit raise for eligible employees at \$285,000 (General Fund) and a 0.5% market adjustment (COLA) at \$143,000
- Includes a net increase of 4.5 full-time equivalents (FTEs)
- Provides \$45,000 to resume production and delivery of the Cityscene newsletter to residences and businesses
- Wastewater utility rate increase of 10.0% to support the City's share of capital project costs required for the Noman M. Cole, Jr. Wastewater Treatment Plant; Water rates remain unchanged
- Use of \$1,946,175 Unassigned General Fund Balance
- Repayment of \$500,000 to the Unassigned General Fund Balance representing final payment on \$1,000,000 originally borrowed from the fund in FY 2013; resulting General Fund Balance equal to City policy of approximately 10.0% (\$12.8 million) of General Fund expenditures

Guide to the Budget Document

OVERVIEW

The City's budget serves as a financial and policy plan that guides decisions made during each fiscal year. The budget is the single most important document we have for establishing control over the direction of change and determining the future of the City. It lays the groundwork for what we hope will be our community's continued future prosperity. Within the pages of the document, the reader will find:

- A fiscal plan
- Revenue and expenditure summaries
- Policy statement
- Goals and objectives
- An annual operating program
- A long range planning guide
- A management tool to ensure financial control
- Performance measures to ensure accountability and evaluate performance

Not all narratives will contain each of these components, but rather only those that are applicable.

BUDGET PREPARATION PROCESS

The development of the City's Operating Budget involves three phases: formulating budget requests, City Manager executive review and proposal, and City Council review and adoption. Each of the three phases is summarized as follows:

Formulating Budget Requests: September – December

- The formative stage of every budget begins in the Fall.
- Work with the City's Budget Committee throughout the entire budget process
- City Council sets guidelines for the budget in November, which provides the framework for developing the new budget. In addition, the City Manager briefs the City Council on the financial summary of the previous fiscal year, and a projection of the current and upcoming fiscal years.
- City agencies assess their budgetary needs and submit requests to the Budget Committee. Requests are typically due in the middle of December.
- Revenue estimates are derived from a review of current and projected economic indicators, current and proposed Federal and State legislation, knowledge of future events in the City and a review of historic trends.

City Manager Executive Review and Proposal: December – February

- Requests from departments are reviewed and evaluated for priority.
- Meetings are held between the departments and Budget Committee to discuss budget requests. Based on estimated revenues, funding is requested by the City Manager for the programs and services required to maintain an essential level of service or to provide for enhancements to programs identified as priorities by City Council.
- City Manager proposes the budget to City Council on the last Tuesday of February
- By law, local government budgets must be balanced; i.e., expenditures may not exceed revenues.

City Council Review and Adoption: March – May

- City departments provide department budget presentations.
- City Council advertises the proposed real estate tax rate (mid to late March)
- Council reviews the proposed budget and a minimum of two public hearings are held to provide the public with an opportunity to comment to ensure the budget is responsive to citizen needs.
- After careful deliberation, the proposed budget, as modified for additions and deletions, is enacted by City Council as the adopted budget. In addition, City Council adopts the real estate tax rate, all other rates and levies, and the budget appropriation resolution.
- The budget can only be amended by the City Council after proper notice and a public hearing.
- The Adopted Operating Budget takes effect on July 1, the beginning of the fiscal year.

The Capital Improvement Program (CIP) follows a similar process whereby departments submit estimates, which are evaluated for priority and funding. The initial proposed CIP is issued in November and presented to the City Council and the Planning Commission in a joint work session for discussion. The Planning Commission holds a public hearing on the CIP and issues a memorandum to the City Council with recommendations. The City Council holds a series of work sessions and public hearings on the CIP and defers action until adoption of the operating and capital budgets in April/May. The City Manager refines the initial proposed CIP based on an evaluation of operating funding requests and available resources. A capital budget (the first year of the CIP) is included in the operating budget— together they become the adopted budget. The CIP document contains all detailed project and budgetary information for the full five year period.

FY 2015 Adopted Budget – City of Fairfax, Virginia

BUDGET REVIEW SCHEDULE

The following dates were scheduled for City Council review and approval of the budget, but are subject to change per City Council:

Date	Action Item
February 25, 2014	City Council Meeting – City Manager Presentation of Proposed Budget
March 11, 2014	Work Session – Mark-up
March 18, 2014	Work Session – Staff Presentations
March 25, 2014	City Council Meeting – <i>Consider Real Estate Tax Rate to be Advertised*</i>
April 1, 2014	City Council Meeting – Public Hearing on Budget & Work Session – Mark-up
April 8, 2014	City Council Meeting – Public Hearing on Budget & Work Session – Mark-up
April 22, 2014	City Council Meeting – Public Hearing on Budget & Work Session – Mark-up
April 30, 2014	City Council Meeting – Public Hearing on Real Estate Tax Rate & FY 2015 Budget Adoption (Note: WEDNESDAY MEETING)

* Required 30 days advance notice prior to public hearing on real estate tax rate if assessments are to increase greater than 1%.

ORGANIZATION OF THE BUDGET

The City's financial operations are budgeted and accounted for in a number of funds. Fiduciary funds (i.e. City retirement funds) are not included. A fund is a separate accounting unit. All of the following funds are adopted (through appropriation resolutions) and included in the budget book as part of the City's annual budget review:

General Fund — This fund is used to account for all general operating expenditures and revenues; this is the City's largest fund. Revenues in the general fund are primarily from property taxes, sales tax, the business license tax and State aid.

Capital Fund — Each year, the City adopts a five-year Capital Improvement Program (CIP) that serves as a blueprint for the long-term physical improvements the City wishes to make. The Capital Fund is funded through transfers from the General, Stormwater, Transportation Tax, Cable, Downtown, and Wastewater funds, the Northern Virginia Transportation Authority

(NVTA), Federal and State aid, bond issues, and private donations. The current year CIP is included as part of the annual budget.

Stormwater Fund — This fund was established to carry out major stormwater projects. Two cents on the real estate tax rate is dedicated for project funding. This is a separate Capital Fund.

Cable Grant Fund — This fund receives its revenue from cable television fees. The revenue can only be used for cable television equipment. This is a separate Capital Fund.

Old Town Service District Fund — This fund was established to fund services and commercial projects in the Old Town District. The City levies an additional 6 cents per \$100 of assessed value on all properties in this district.

Utility Fund — Wastewater services are accounted for in the Utility Fund, which is an enterprise fund. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

Transit Fund — The Transit Fund is used to account for operations of the City's transit system. The City's transit system owns and operates the CUE bus system and funds the City's share of Washington Metropolitan Transportation Authority (WMATA) costs. Although set up as an enterprise fund, a transfer of money from the General Fund in the past and the Transportation Tax Fund starting in FY2013, into the Transit Fund covers a portion of the expenses of this fund.

Transportation Tax Fund — This fund levies an additional 5.5 cents per \$100 of assessed value on all commercial and industrial properties. This fund also accounts for "30%" monies received from the NVTA pursuant to HB2331. The revenue collected is to be used exclusively for approved transportation projects and transit costs.

BUDGETARY BASIS

The budgets of the General and Capital funds (including Stormwater, Old Town Service District, Cable Grant, and Transportation Tax) utilize the modified accrual basis of accounting under which revenues are recorded when measurable and available to finance operations during the year. Expenditures, except for interest, are recorded when the liability is incurred. Interest is recorded when due. Budgets of the Wastewater and Transit funds utilize the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is incurred. The budget basis of

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accounting does not materially differ from that used for financial reporting (all funds), with the notable exceptions of depreciation and amortization, and debt service reporting in the enterprise funds, which are more appropriately illustrated in the City's Comprehensive Annual Financial Report (CAFR).

Council Goals*

Economic Development:

- Capture opportunities for economic development and advance the economic health of the City through balanced business expansion, retention, attraction, incubation, and placement to progress a business environment conducive to maintaining the quality of life to which our residential and business communities have become accustomed.

Governance:

- Maintain a high-performing, efficient, and effective governing system through open, multi-modal communication with our residential and business communities; ensure active participation from our diverse citizenry, and a professional, capable City administration collectively creating a model of successful municipal governance to sustain the City as a vital, thriving community.

Neighborhoods:

- Build strong, safe, and secure neighborhoods, and improve residential quality of life through active community participation, improved connectivity through enhanced and inclusive communication, provide a safety net for those in need, well-funded renovation programs, a culture of shared accountability, and robust city services.

Transportation:

- Provide for the safe, efficient, and effective movement of pedestrians, cyclists, motorists, mass transit and commercial vehicles through the City and region by use of a transportation infrastructure with traffic control systems that maximize safety, ease of use, and reliability while minimizing travel time and inconvenience.

Development and Redevelopment:

- Enable appropriate, targeted, sustainable, and transportation-oriented mixed use development and redevelopment that expands on our sense of place, supports our changing demographics, prioritizes housing affordability, and significantly contributes to the economic strength of the City.

*These goals are pending and have not been adopted as of the date of this printing.

Water and Wastewater

Fiscal and Operating Policies^{*}

ESTABLISHMENT OF RATES

1. Water and Wastewater rates and fees shall be established by City Council in a transparent manner consistent with all similar City activities. To that end, customers and residents (the rate payers) shall be given notice of all meetings of the City Council when such discussions and rate settings occur. In the establishment of annual Water and Wastewater rates, the City shall adequately disclose future growth plans and their expected impact on future rates.
2. The City shall annually prepare and include in the adopted budget a three-year future estimated rate schedule.
3. All ratepayers shall be charged uniform rates within their rate class. The determination of rates for the enterprise funds shall conform to standard municipal utility practices.
4. Rates for the enterprise funds, including the timing of rate adjustments, shall be designed to recover fixed and variable costs in such a manner as to ensure cost recovery and rate stability.
5. Rates of the enterprise funds shall be established to 1) ensure efficient and effective operation of the utilities, 2) fully recover actual operating and maintenance expenses incurred during the fiscal year, 3) repay annual debt payments for capital expenses of the enterprise fund, and 4) ensure surplus revenues are reserved to facilitate rate stability for ratepayers

APPLICATION OF THE MANAGEMENT FEE

1. The Water and Wastewater utilities shall reimburse services received from other City departments, including but not limited to, personnel, administrative expenses, equipment and facilities. These services shall be prorated to reflect actual costs and designated as the “management fee”. The Water and Wastewater enterprise funds shall pay the City for, or reimburse the City for materials and services purchased during the fiscal year when consumed.
2. The procedures used to allocate each fund’s share of the management fee shall be reviewed by the City’s auditor not less frequently than every five years. The results of such a review shall be included as part of the documentation for subsequent rate proceedings. Unless otherwise justified by the auditor’s review, the total amount included in the Water and Wastewater enterprise funds for payment to the City, or other entities, for management fee

^{*} Because the Fiscal and Operating Policies were adopted by Council, they cannot be amended without Council action. These policies will be amended at a future date. With the City’s transition out of the water treatment and distribution business in January 2014, policies relating to the Water Fund no longer apply.

expenses may each be increased at a rate no greater than the growth rate of the City's total budget.

RECOVERY OF CAPITAL INVESTMENT

1. Utility physical plant investments in excess of normal and customary repair and replacement will be capitalized and amortized for rate setting over their useful lives, either through depreciation/amortization or sinking fund amortization of borrowings. Normal and customary repair and replacement will be expensed when incurred during the fiscal year. Depreciation and amortization shall conform to standard municipal utility practices.

UNDESIGNATED FUNDS

1. Surplus revenues, also known as Undesignated Funds, will be used in lieu of customer revenues, if possible, when those surplus funds reach a level equal to 100% of the prior year's fund expenses, unless such funds are to be held for pay-as-you-go capital expenses.
2. Surplus revenues shall be invested through the City and the interest earned shall be credited to the respective Water and Wastewater funds. Surplus revenues shall not be transferred from their respective Water and Wastewater accounts to be used for non-utility purposes.

Council Adopted Financial Policies

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the City, in April 2000, the City Council initially enacted a comprehensive set of Financial Policies, as detailed below. The goal of these policies is to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Fairfax. Revisions to the financial policies were incorporated per recommendations by the Budget Committee and approved by the City Council in November of 2008.

Budgeting Policies:

1. The City's annual operating budget, capital budget and Capital Improvement Program (CIP) shall be coordinated with, and shall be in concert with, the City's Comprehensive Plan.
2. The City shall adhere to the following guidelines in preparing, implementing and executing the annual budget:
 - a. Mayor and City Council shall develop general budget guidelines and provide them to the City Manager by November 15.
 - b. The Capital Improvement Program shall be considered by the City Council prior to its consideration of the annual budget.
 - c. Where appropriate, revenues related to expenditures shall be reflected in the budget documents.
 - d. The Mayor and City Council shall meet with selected boards and commissions in work sessions as part of the budget deliberations to review budget items concerning areas of interest to the boards and commissions.
 - e. The Mayor and City Council shall conduct a quarterly review of the implementation of the budget.
3. Budgeted current revenues must be greater than budgeted current expenditures.
 - a. Significant one-time revenues shall be used only for one-time expenditures.
 - b. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.

4. The target for the General Fund transfer to the Capital Fund shall be at least 5 percent of General Fund expenditures to help ensure adequate reinvestment in capital plant and equipment. This transfer percentage incorporates the City's use of annual debt service payments toward capital projects.
5. The City shall set utility rates for the Water and Wastewater funds that will ensure industry-standard operation of the enterprise functions.

Reserve Policies:

1. The target for the General Fund balance shall be, at minimum, approximately 10 percent of General Fund expenditures.

Debt Policies:

1. Debt Service Targets
 - a. Annual debt service expenditures shall be less than 9 percent of annual expenditures.
 - b. Outstanding Debt shall be less than 3 percent of assessed valuation.
2. The term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Revenue/Cash Management Policies:

1. The City shall develop an aggressive economic development effort in order to lessen the impact of any future real estate rate increases.
2. The City shall maintain a diversified revenue base in order to shelter City finances from short-term fluctuations in any single revenue stream.
3. Annual City revenues shall be projected by an objective and thorough analytical process.
4. The City shall deposit all funds within 24 hours of receipt.
5. Investment of City funds shall emphasize the preservation of principal with safety, with liquidity and yield being the primary factors considered.

Accounting/Auditing and Financial Reporting Policies:

1. The City shall take necessary action to ensure receipt of the Government Finance Officers Association annual accreditation for the budget and for the comprehensive annual financial report (audit).

2. An independent audit shall be performed annually and a management letter shall be received by City Council. City administration shall prepare a response to the management letter on a timely basis to resolve any issues contained in the letter.

Council Adopted Budget Guidelines

FY 15 Budget Guidelines were approved by the City Council in November of 2013.

Revenue:

- Projected revenues must equal or exceed proposed expenditures. Significant one-time revenues shall be used only for one-time expenditures.
- The City will pursue federal, state and private grants but will strictly limit financial support of these programs to avoid commitments which continue beyond funding availability.
- Sufficient user charges and fees shall be budgeted to support the full cost (operating, direct, indirect and capital) of operations. Market rates and charges imposed by other public and private organizations for similar services should be considered when establishing tax rates, fees and charges.

Operating:

- Continually review City government programs and operations to achieve the most efficient and effective delivery of community services possible.
- The annual budget process shall weigh all competing requests for City resources within expected fiscal constraints. New initiatives shall be financed by reallocating existing City resources to programs and services with the highest priorities or through new revenue sources.
- Establish and initiate funding for a school tuition reserve to absorb unforeseen deficits in future school tuition budgets.

Employee Staffing/Compensation/Administration:

- Consider a fair and affordable market adjustment and performance based increase for employees to retain parity with other local governments.
- The City's budget shall fully fund the Annual Required Contribution (ARC) to the City's Supplemental Retirement Plan, as determined by the City's actuaries.

Capital Improvement Program (CIP):

- Maintain the General Fund CIP transfer to provide the minimum funding required for repairs and maintenance to adequately protect the City's investment in infrastructure. The sources of funding will largely be determined based on the useful life of the project.

Fund Balance:

- Maintain a General Fund balance equal to approximately 10 percent of the general fund expenditures in conformance with the City Council financial policy.
- Any General Fund surplus generated in FY 2014 shall be used to accelerate repayment to the General Fund to conform to City Council’s financial policy of maintaining a fund balance of approximately 10 percent of General Fund expenditures.
- Budget repayment to the General Fund of up to \$500,000 in FY 2015 to conform to City Council’s financial policy of maintaining a fund balance of approximately 10 percent of General Fund expenditures.

Financial:

- Follow the rating agencies and financial advisor directives, in order to maintain the highest possible credit rating.
- Adhere to the Council’s adopted financial policies.

Community Profile

City Government

Date of Incorporation	1799
Date of City Charter	1961
Form of Government	Council—Manager
City Employees	397.10

Physiographic

Land Area - Square Miles	6.34
Acres of Public Parks & Open Space	188
Paved – Lane Miles	169
Sidewalks	87

Utilities

Telephone	Verizon
Electric	Dominion Virginia Power
Gas	Washington Gas
Water	Fairfax Water
Wastewater	City of Fairfax
Cable	COX Cable / Verizon

Economic Indicators

Largest Private Employers (June 2011)

Fairfax Nursing Center
Inova Fairfax Hospital
Zeta Associates
Fairfax Volkswagen, Honda
Ted Britt Ford Sales
Lockheed Martin, Integrated Microcomputer Systems
The Home Depot

Largest Public Employers (June 2011)

City of Fairfax
Dominion Virginia Power
U.S. General Services Administration
U.S. Department of Homeland Security
United States Postal Service

Taxes

Real Estate Tax Rate

FY 2015: \$1.04 per \$100 assessed value
FY 2014: \$1.06 per \$100 assessed value

Personal Property Tax Rate

FY 2015: \$4.13 per \$100 assessed value
No change from FY 2014

City Finances – Bond Ratings

Moody's Investors Service, Inc	Aaa
Standard & Poor's	AAA

Population

2010 U.S. Census	22,671
2000 U.S. Census	21,498
1990 U.S. Census	19,622

Households

2010 U.S. Census	8,347
2000 U.S. Census	8,035
1990 U.S. Census	7,362

Average Household Size

2010 U.S. Census	2.64 persons
2000 U.S. Census	2.61 persons

Age (2010 Census)

(1-19)	22.4%
(20-34)	22.5%
(35-64)	41.5%
(65 +)	13.7%

Race and Ethnicity (2010 Census)

White	61.4%
Hispanic	15.8%
Asian	15.1%
Black	4.6%
Other/Mixed	3.2%

Note: White, Asian and Black categories include non-Hispanics only.

Source: U.S. Census Bureau

Unemployment

	June 2012	Mar. 2014
City of Fairfax	5.7%	3.8%
Virginia	6.0%	5.0%
United States	8.4%	6.7%

Hotel Industry

	Dec. 2010	Feb. 2014
Number of Hotel Rooms	561	1,138
Occupancy Rate	70%	72%
Average Daily Rate	\$92	\$110

Vacancy Rates

	FY 2012	FY 2014
Office Space	10.4 %	13.6 %
Retail Space	2.8 %	3.7 %
Industrial	<1.0 %	6.7 %

City of Fairfax Employment by Industry

The largest major industry sector was Retail Trade with 19.2% of the employment followed by Professional, Scientific and Technical Services with 18.8%, Health Care and Social Assistance with 14.7% and Accommodation and Food Services with 11.5 %. The following is a listing of major industries and the number employed in those sectors for 2013 in the City of Fairfax.

Industry Group	Employees
Retail Trade	3,699
Professional, Scientific & Technical Services	3,621
Health Care and Social Assistance	2,833
Accommodation and Food Services	2,212
Administrative and Waste Services	1,521
Government	1,207
Other Services (Except Public Administration)	924
Finance and Insurance	873
Construction	581
Arts, Entertainment and Recreation	395
Education Services	364
Information	359
Real Estate, Rental and Leasing	181
Management of Companies and Enterprises	153
Transportation and Warehousing	111
Manufacturing	93
Wholesale Trade	71

*Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages, Second Quarter 2013*

Economic Assumptions and Budgetary Influences

The underlying economic assumptions in this budget are:

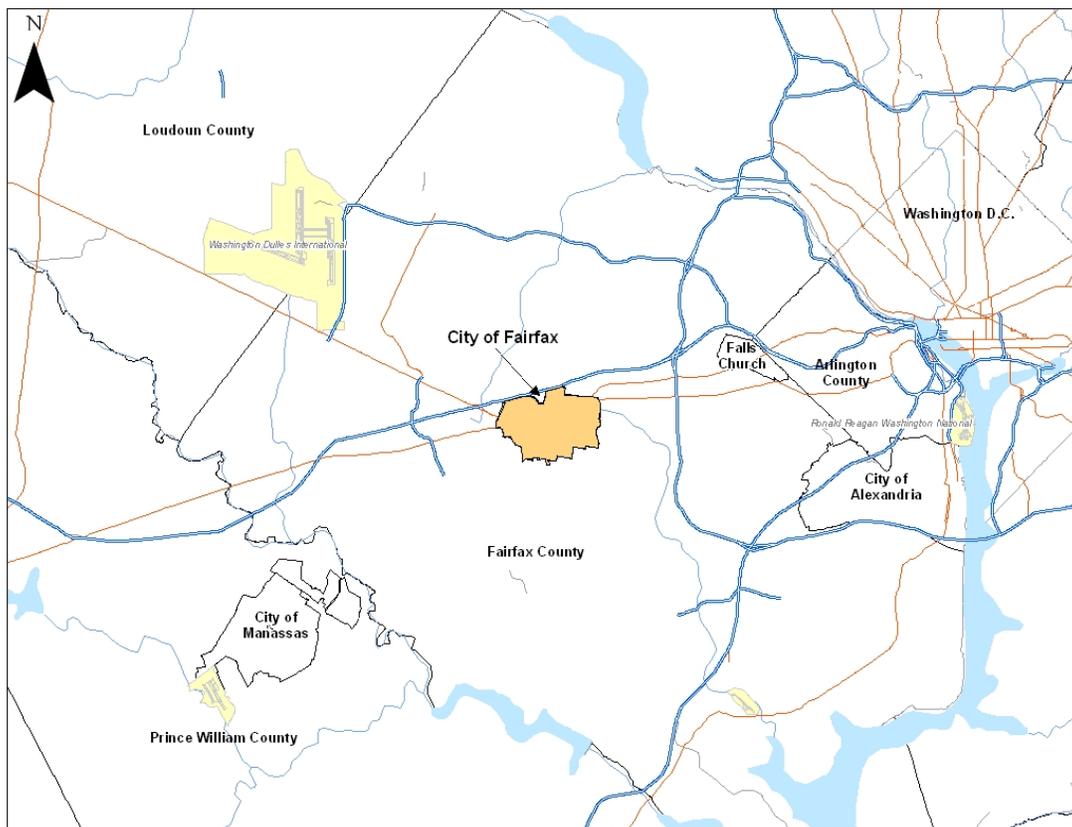
- Increase in residential assessments of 4.5 percent; commercial assessments decreasing 0.1 percent (excludes new construction)
- A stabilizing regional economy as reflected in higher business licenses (BPOL) projected revenue
- State funding projected to increase 3.2 percent
- Non-education Fairfax County contracts to increase 3.1 percent
- School tuition contract with Fairfax County Public Schools to increase 0.6 percent
- Addition of 4.5 full-time equivalents (FTEs) to total employee count; 2.5 FTEs in the General Fund, 1.3 FTEs in the Wastewater Fund, and 0.7 FTE in the Stormwater Fund

Several organization-wide factors have influenced the budgetary decisions in this budget, including:

- The desire to maintain a comparatively low overall tax burden on City taxpayers while meeting the budgetary demands of rising costs
- Continue the high level of services and amenities offered to citizens, including parks, roads, trash and leaf collection services, City Hall services, social welfare programs, etc.
- Continue to address infrastructure needs and concerns that have arisen as a result of past budgetary deferrals due to economic pressures (i.e. roads, storm drainage infrastructure, and facility maintenance)
- Consideration of the short and long-term impact of changing demographics in the City, especially the fluctuating number of school-age children living in the City, influencing the cost of schools as well as the demand for recreation and social programs

Economic Condition and Outlook

An independent jurisdiction of 6.34 square miles, 15 miles west of Washington, D.C., the City of Fairfax lies in the heart of the Northern Virginia area. Bounded by interstate 66 on the north and less than five miles west of the Capital Beltway, the City of Fairfax is at the crossroads of Northern Virginia's major north/south and east/west highways. Fairfax's neighbors include the Vienna/Fairfax GMU station of the regional Metrorail system, and, at the southern boundary of the City, George Mason University (GMU). The City is within 30 minutes of both Dulles International Airport and Reagan Washington National Airport.



The City provides the high level of services that Northern Virginians expect. With a population of approximately 23,000, the City offers high quality government services, low taxes and a strong feeling of community pride. The residential tax burden is among the lowest in Northern Virginia. Businesses also enjoy the City's low tax rates with business license rates that compare favorably with those of other Northern Virginia jurisdictions. Forbes called the City of Fairfax "a great place for entrepreneurs" and stated the City's sole-proprietors-per-capita ranks in the top 1% nationwide. The Atlantic identified the City as one of the nation's top jurisdictions for its high concentration of "creative class" workers.

The City is one of the few places in Northern Virginia where a small-town sensibility still exists. In an effort to nurture this environment, plans are underway to make the pedestrian environment even more hospitable with wider sidewalks, landscaping, boulevard-style developments, bike trails and other improvements. Add the proximity of George Mason University, many historical buildings and an active artistic community, and the sum is a locale with a unique sense of community. In 2009, the City of Fairfax was ranked third by Forbes magazine in their article titled "America's Top 25 Towns to Live Well." The City is proud of this accolade based on the quality of services provided to the citizens, and the significant investments made to its schools, parks, public buildings, and land purchases as part of open space preservation.

Over 230,000 square feet in existing retail centers are currently undergoing renovations or have planned for future improvements or redevelopment. An additional 133,365 square feet of office space is undergoing significant exterior and interior improvements. Multiple high-end residential projects are planned, under construction, or already on the market.

The City remains dedicated to the redevelopment of the Route 50/29 Corridor. The Route 50/29 Corridor is the City's economic engine, providing nearly 40% of all tax revenues generated from the community. Known as Fairfax Boulevard, the City, in partnership with the Economic Development Authority and the Planning Commission, is aggressively pursuing multiple redevelopment opportunities. The City also remains committed to the Fairfax Boulevard Master Plan, which identifies three main commercial centers prime for redevelopment. These locations are Fairfax Circle, Kamp Washington and Lee highway (Route 29) to include Jermantown Road, at the western portion of the corridor. The potential impact of multifamily and mixed-use developments is currently being considered at multiple locations.

Downtown Fairfax continues to use civic engagement, arts resources and leveraged partnerships, such as George Mason University, to advance the commercial viability and vitality of Old Town. Planning for other underutilized properties in the downtown continues to evolve; understanding

that, enriched by the presence of students, artists, arts and historical organizations, the downtown attracts a greater volume of visitors and residents and, as the economy strengthens, will continue to add new commercial and business owners into the community.

Local Economy

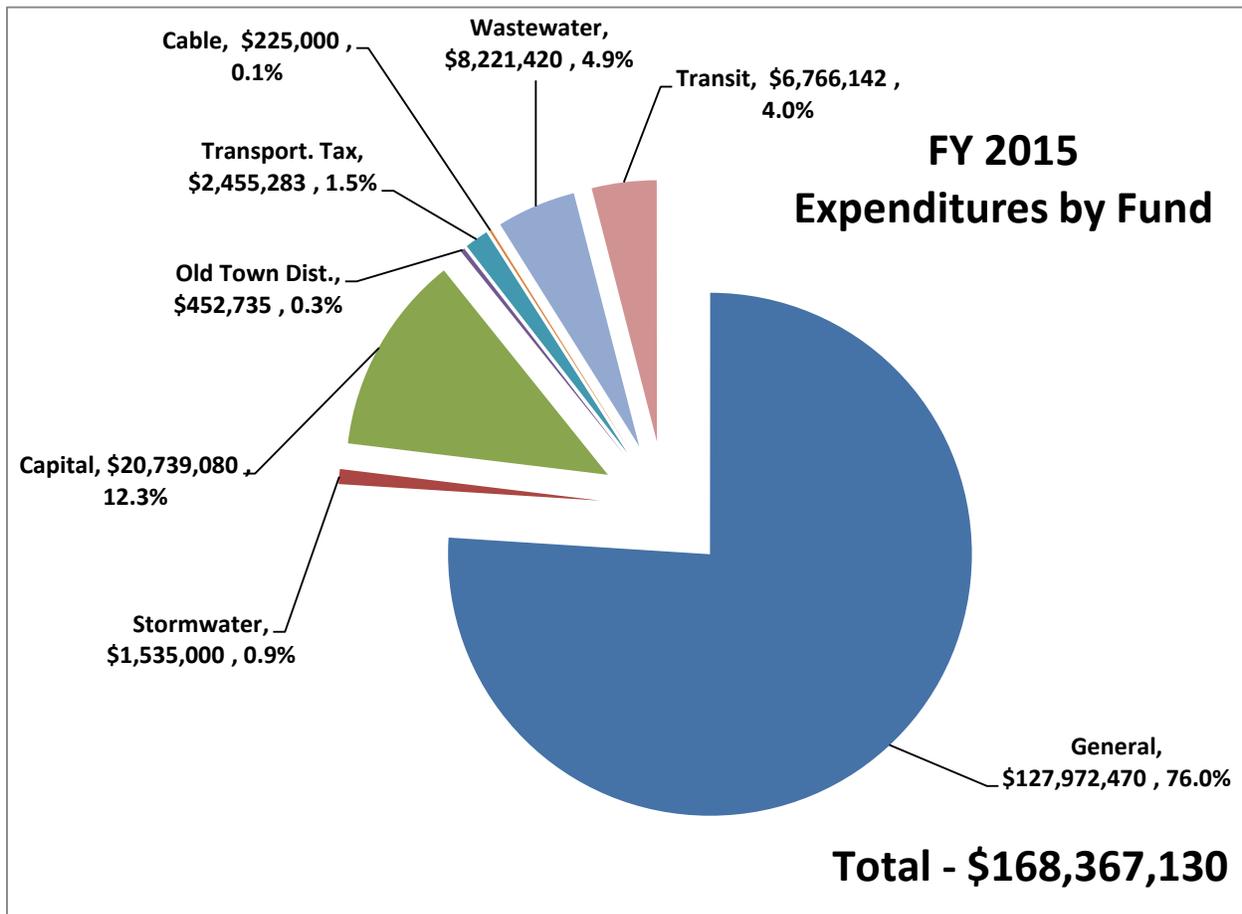
The City provides its citizens with high quality services at a reasonable cost. The overall residential and commercial tax burden is among the lowest in Northern Virginia.

The City's economy consists of two primary markets: the residentially based market and the non-local market or export base (spending dollars in the City which are earned elsewhere). The residentially based market is driven by the spending of City residents and adjacent neighborhoods and therefore is a function of the local businesses to capture this local spending. The non-local market includes the hospitality sector, federal contractors and other professional services, and retail activities catering to outside markets. Also of note: George Mason University's contiguous location affords the City economic opportunities where non-local events may spill over to the benefit of the City's economy as well.

The City's economy is well prepared to serve City residents as well as residents of the surrounding trade area. There are over 4 million square feet of office space in the City, with a vacancy rate of 13.6 percent, and 3.2 million square feet of retail/service space, with a vacancy rate of 3.7 percent. The City enjoys a lower commercial vacancy rate than the surrounding county and the greater Washington, D.C. region. Because of its constrained geographic size and residential character, the City's commercial market remains a niche market reflecting buildings with smaller footprints and heights and lower rental costs. These differences are promoted as a competitive advantage when recruiting for businesses to fill commercial space.

Overview – All Funds

Expenditures for all funds total \$168,367,130. Less fund transfers to the Capital Budget (\$7,188,370), net expenditures total **\$161,178,760**. This is a decrease of 8.0 percent over the prior year, due to the City’s transition out of the water treatment and distribution business. Further details follow in the accompanying sections of the budget book.



Note: Percentages may not total due to rounding; sums may differ immaterially due to rounding

Cash Management / Fund Balance

Financial policies recommended by the City’s financial advisors, the City’s auditors, and as adopted by the City Council, require an unassigned fund balance equal to a minimum of approximately 10 percent of General Fund expenditures. More than being key to maintaining the City’s bond rating, an adequate fund balance allows the City to cope with revenue shortfalls, to pay for unbudgeted expenditures or unanticipated needs, to pay for other one-time large expenditures, and provide for adequate cash flows to absorb fluctuating expenditures and revenues during the fiscal year. For FY 2013, the City Council budgeted for a fund balance below the City policy of 10% to offset the cost of a judgment against the City regarding a large tax bill adjustment. The fund was reduced by \$1,000,000 in FY 2013 with reimbursement scheduled for FY 2014 and FY 2015. The actual ending fund balance for FY 2013 was 13.7% of expenditures as the result of a real estate tax increase for CY 2014. The Adopted FY 2015 Budget results in a 10.0% fund balance after the final \$500,000 reimbursement is made.

The following chart provides a history of the City’s General Fund Balance:

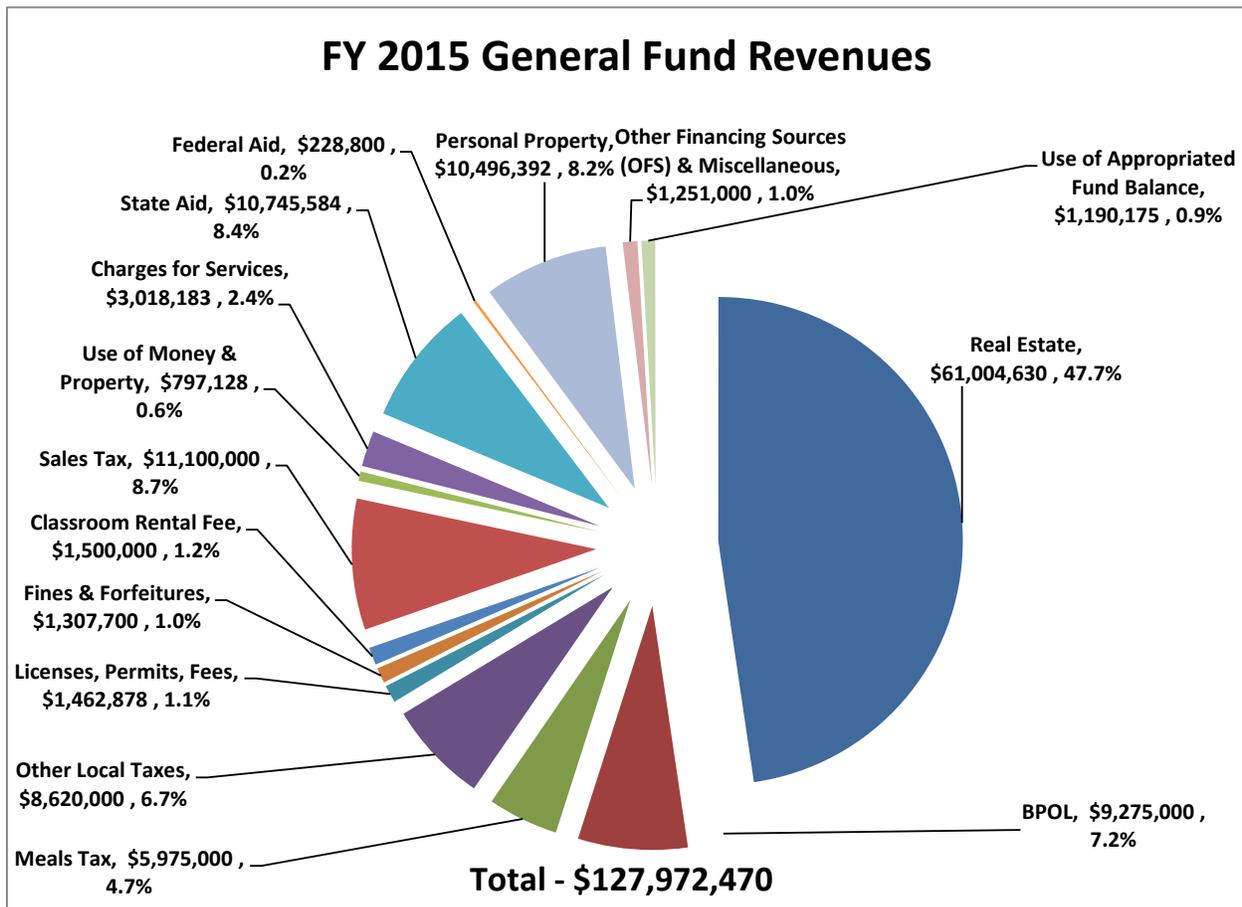
General Fund - Fund Balance		
Fiscal Year	Amount	% of Expenditures
2015*	\$12,811,826	10.0%
2014*	14,258,000	11.3%
2013	16,288,209	13.7%
2012	13,205,665	11.4%
2011	15,171,679	13.8%
2010	15,569,907	14.1%
2009	14,420,568	13.1%
2008	15,834,008	14.8%
2007	14,612,497	14.6%
2006	14,278,483	14.6%
2005	12,534,246	11.3%
2004	10,975,387	13.4%
2003	10,456,564	13.9%

* Estimate

General Fund Revenues

Overview – General Fund

General fund revenues equate to \$127,972,470 for FY 2015, which represents an increase of 1.9% (\$2,373,072) over FY 2014. The following chart provides a summary overview of revenues by category for FY 2015.



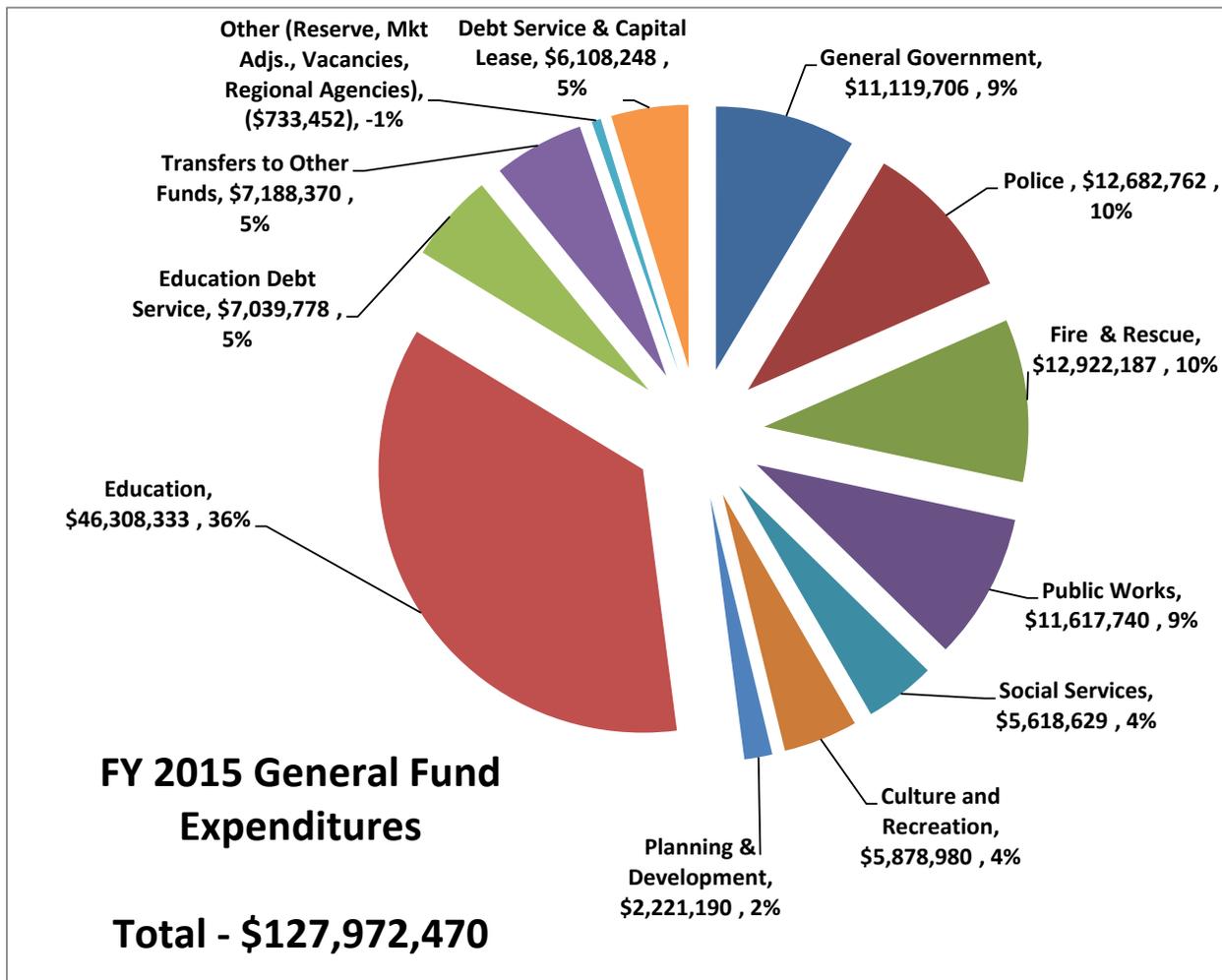
Note: Percentages may not total due to rounding; sums may differ immaterially due to rounding

The Use of Appropriated Fund Balance in the amount of \$1,190,175 (use of prior year’s surplus, \$1,946,175, offset by the repayment to the General Fund, \$500,000, and school tuition reserve, \$256,000) is from the FY 2014 estimated Unassigned General Fund balance. The estimated ending Unassigned General Fund Balance in FY 2015 is equal to 10.0 percent (\$12.8 million) of General Fund expenditures.

General Fund Expenditures

Overview- General Fund

The City’s General Fund expenditures are budgeted at \$127,972,470 for FY 2015. The largest spending category remains Education, followed by the Fire Department, Police Department, and Public Works. The “Transfers to Other Funds” category notes the General Fund transfers to the Capital Budget, Old Town Fund, Stormwater Fund, and Transportation Tax Fund.



Note: Percentages may not total due to rounding; sums may differ immaterially due to rounding

General Fund Revenue and Expenditure Changes - FY 2014 to FY 2015

The following chart highlights the major changes in expenses from last year’s budget:

FY 2015 General Fund Expenditure Changes	
Increase / (Decrease) in Expenditures	\$ Change
Reduction in Management Fee	723,551
Increase in Personnel Costs:	
VRS Retirement Plan	208,032
City Retirement Plan Costs	429,477
Merit	285,000
COLA	143,000
FTE Additions	186,000
Compensation and Fringe Adjustments	33,964
All Other Changes	542,477
Contract Services	288,478
School Tuition Contract	251,760
County Contracts - Non Education	143,718
Debt Service	(862,385)
Total Increase / (Decrease) in Expenditures	2,373,072

The following chart highlights the major changes in revenues from last year’s budget:

FY 2015 General Fund Revenue Changes	
Increase / (Decrease) in Revenues	\$ Change
Real Estate Taxes	992,375
Sales Tax	950,000
Business Licenses (BPOL)	555,000
Personal Property Taxes	349,392
State Aid	339,719
All Other Changes	643,578
Permits & Fees	47,369
Fines & Forfeitures	(61,000)
Charges for Services	(192,047)
School Tuition Reserve	(256,000)
Use of Surplus/Undesignated Fund Balance	(995,313)
Total Increase / (Decrease) in Revenues	2,373,072

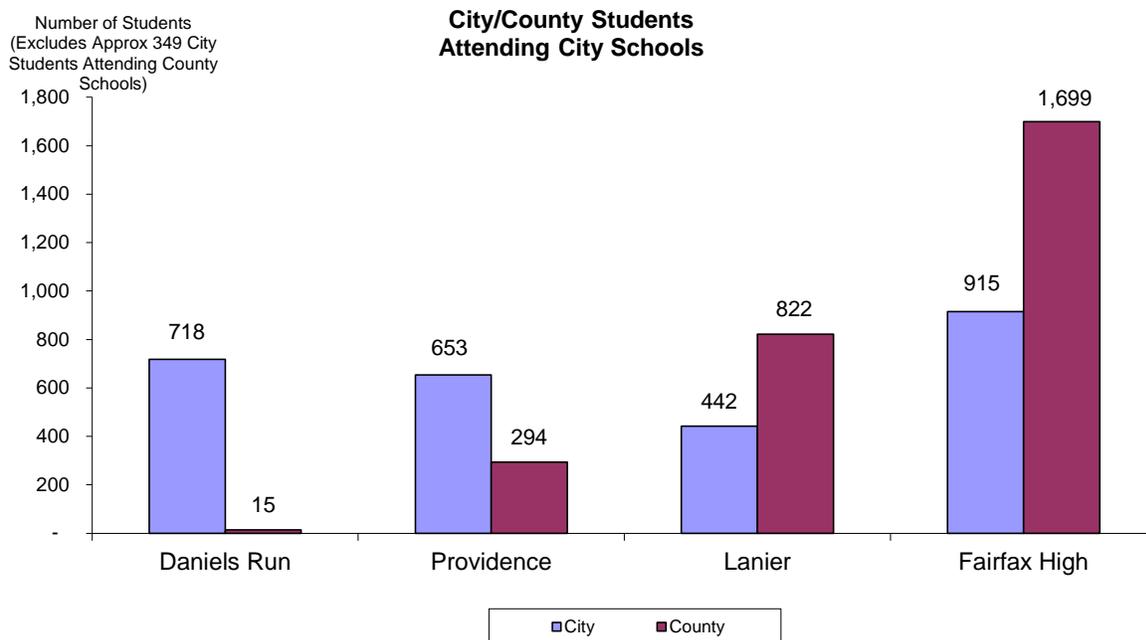
Education

The total budget for the schools is \$53.3 million, an increase of 0.4% (\$0.2 million). Administrative costs account for \$0.8 million, and combined debt/lease payments equate to \$7.0 million. The largest portion of this budget is the school tuition contract with Fairfax County Public Schools, budgeted at \$45.4 million, an increase of 0.6% (\$0.25 million) over FY 2014 budget. The following chart highlights the historical costs associated with the school tuition contract.

Fiscal Year	Final Tuition Bill (excludes Classroom Rental Fee)	ADM
2015*	\$45,427,757*	3,077*
2014*	45,175,997*	3,077*
2013	43,361,720	3,107
2012	40,392,677	3,081
2011	37,927,714	2,976
2010	37,380,696	2,905
2009	37,625,873	2,764
2008	37,806,032	2,771
2007	34,188,018	2,766
2006	32,785,342	2,745
2005	30,679,214	2,784
2004	27,291,210	2,767
2003	26,534,379	2,751

* These figures are reconciled to actual amounts after the close of the respective fiscal year and may be adjusted

City students comprise a majority of the total population at both Daniels Run and Providence Elementary Schools at 98% and 69%, respectively. Lanier Middle School and Fairfax High School statistics note that City students represent 35% of their schools’ populations.

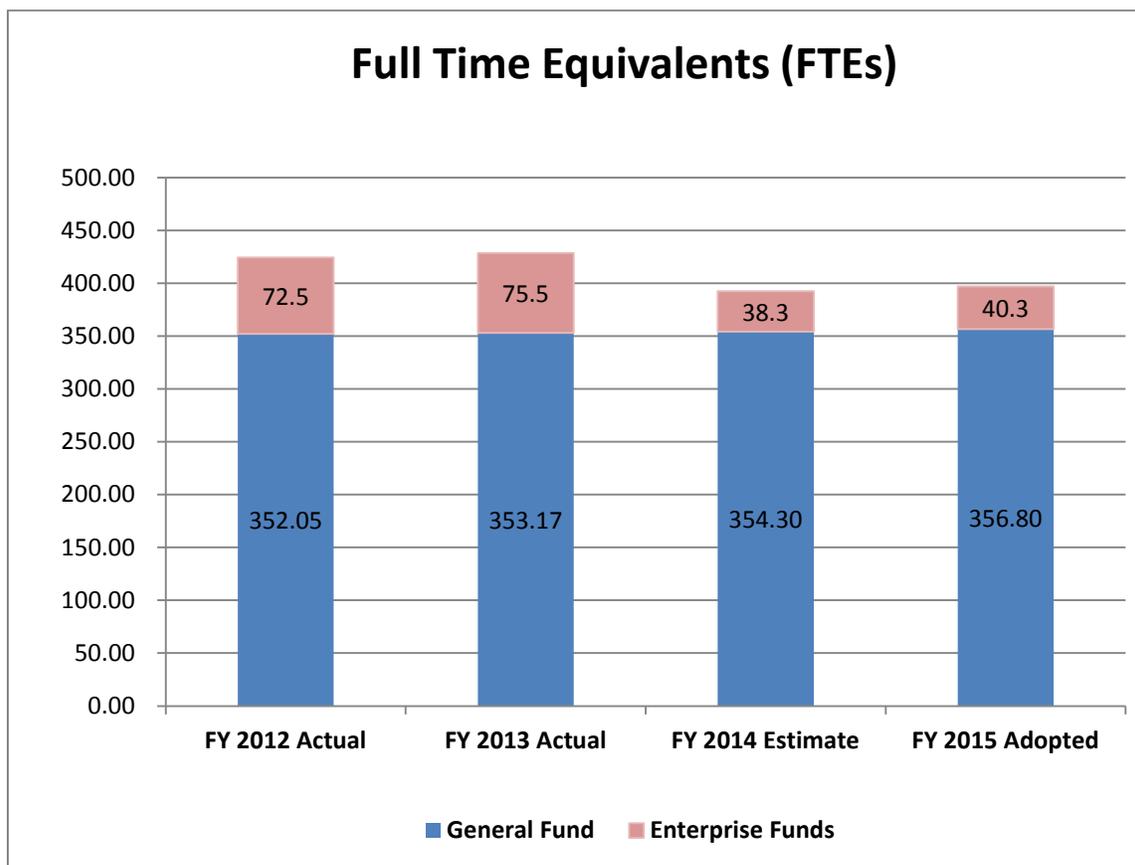


FY 2015 Adopted Budget – City of Fairfax, Virginia

Employees, Salaries and Fringe Benefits

The FY2015 budget provides for a 3.5% merit (step) increase for eligible employees, and a 0.5% market adjustment (COLA). Employee benefits remain unchanged; however, FY2015 retirement costs in the General Fund are projected to increase by 10.5% (\$0.6 million) due to the increase in the number of City employees and significant volatilities experienced by the investment markets in the past several years.

The FY2015 budget includes an increase of 4.5 (2.5 General Fund, 1.3 Wastewater Fund, 0.7 Stormwater Fund) full-time equivalents (FTEs) to assist with increased workloads. These additional FTEs also reduce temporary help costs and/or generate additional revenues. The overall City-wide decrease in FTEs is a result of the City's transition out of the water treatment and distribution business in 2014.



Contract Services

Expenses for county and regional service contracts make up 41.8 percent of the City’s General Fund expenditures. The City contracts with Fairfax County for many services, the largest of which is the City’s School Tuition Contract.

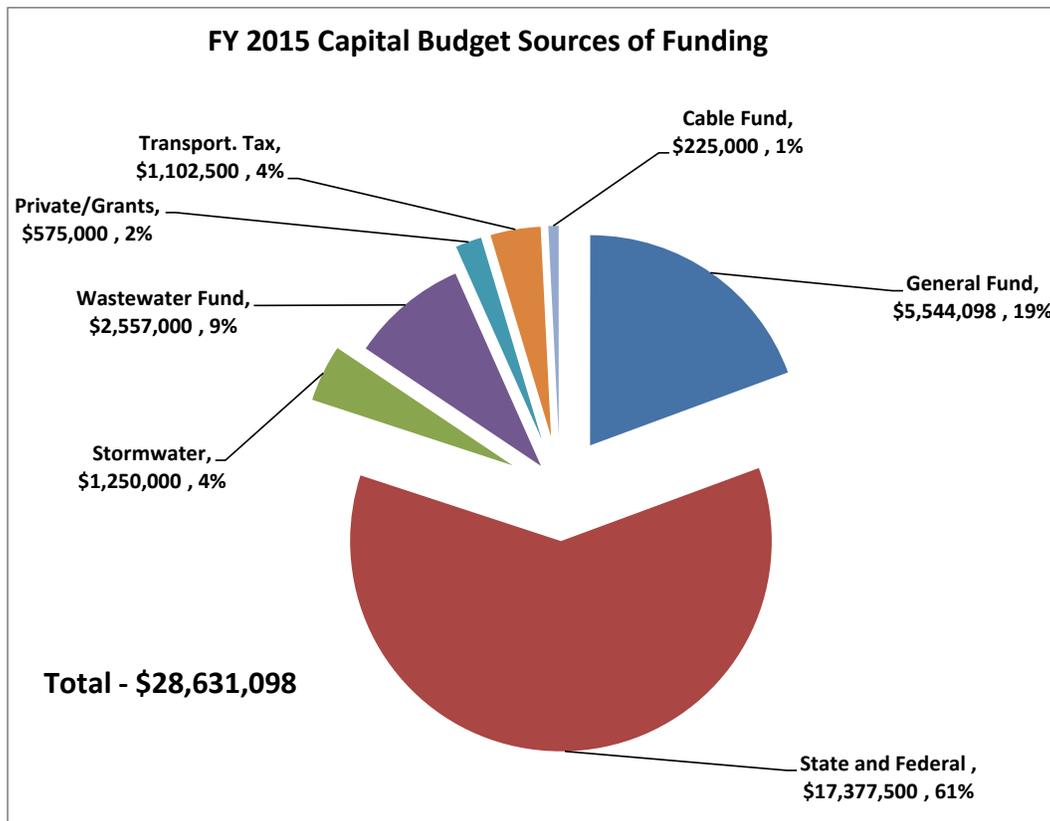
City-County and Regional Service Contracts		
	FY 2014 Budget	FY 2015 Adopted
City-County Contracts:		
School Tuition Contract	\$45,175,997	\$45,427,757
Library Services	792,033	797,334
Joint Court Service	279,763	269,918
Juvenile and Domestic Court	451,204	447,860
Commonwealth Attorney	78,071	77,114
Jail and Custody Service	1,301,289	1,361,136
Fire & Rescue – Suppression	132,713	132,713
Refuse Disposal	450,000	450,000
Extension - County Agent	43,700	47,795
Social Services	1,624,251	1,720,656
Health Department	1,123,984	1,166,628
Subtotal City-County Contracts	51,453,005	51,898,911
Regional Agencies:		
Community Services Board	1,336,100	1,453,677
Council of Governments	22,890	16,586
Health Systems Agency	2,350	2,350
Area Agency on Aging	44,477	46,701
Legal Services of NoVa	21,945	23,042
NoVa Community College	1,878	1,894
NoVa Regional Commission	16,602	17,334
NoVa Regional Park Authority	42,618	44,431
Volunteer Center	6,000	7,046
Subtotal Regional Agencies	1,494,860	1,613,061
Total Contract Services	\$52,947,865	\$53,511,972

Capital Fund

The adopted Capital Improvement Program for FY 2015 totals **\$28,631,098**. The significant decrease in the Environment category is due to the City’s transition out of the water treatment and distribution business in 2014. The chart below summarizes the City’s proposed capital improvement plan and compares to the adopted FY 2014 program.

Category	FY 2014 Adopted	FY 2015 Adopted	Change	
			\$	%
Schools	\$395,000	\$481,500	\$86,500	21.90%
General Government	1,810,611	2,326,986	516,375	28.52%
Recreation / Community Appearance	266,951	485,295	218,344	81.79%
Environment	15,643,000	4,092,000	(11,551,000)	-73.84%
Transportation	21,281,000	21,245,317	(35,683)	-0.17%
General Fund Subtotal	39,396,562	28,631,098	(10,765,464)	-27.33%

In addition to the General Fund, funding for the Capital Fund comes from the Wastewater Fund, Federal and State funds (including NVTA 70% funds available under HB 2331), the Cable Fund, privately donated funds, the Stormwater Fund, and the Transportation Tax Fund (includes NVTA 30% funds available under HB2331). The following chart illustrates the sources of funding for the Capital Budget in FY 2015; additional information can be found in Section G of the budget book.



Note: Sums may differ immaterially due to rounding

Wastewater Fund

	FY 2013 Actual	FY 2014 Adopted	FY 2014 Estimate	FY 2015 Adopted
Revenues	\$6,639,339	\$7,220,787	\$7,553,282	\$9,726,232
Expenditures	\$4,905,913	\$6,360,069	\$6,635,025	\$8,221,420
Rate Increase	12%	10%	10%	10%

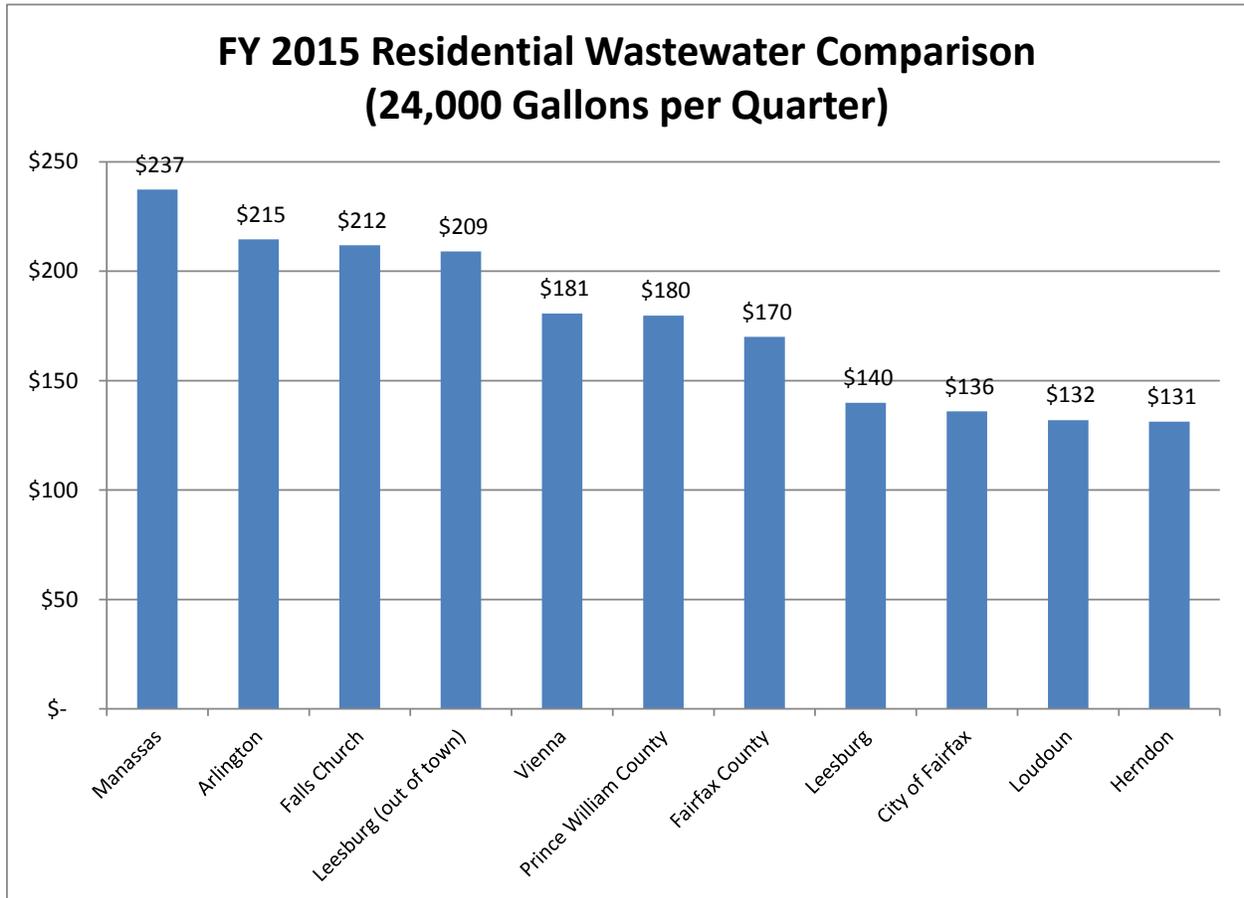
For FY 2015, a rate increase of 10 percent is proposed for the Wastewater Fund in order to keep pace with future operating, capital, and debt service costs as well as building the Wastewater Fund balance to industry recommended levels. In FY 2010, the City was officially notified of planned cost increases related to the City’s cost sharing agreement with Fairfax County for the treatment of the City’s wastewater at the County’s Noman M. Cole Water Pollution Control Plant. This plant is subject to continuing stringent environmental standards to protect the Chesapeake Bay and therefore, numerous process upgrades to reduce nitrogen and phosphorus are mandated. Additionally, there are general capital upgrade costs, unrelated to treatment techniques that must be addressed at this facility. The City’s portion of these upgrades is projected to be approximately \$40.6 million by 2023. The City has successfully financed the first two phases of these costs and has established a payment schedule acceptable to both jurisdictions. Future rate increases to enable repayment of the debt for the Wastewater treatment plant upgrades and modifications will be significant. Establishment of a future rate increase schedule was prepared to match the financial forecast and ensure rate stabilization.

Apart from the financial requirements of the Wastewater treatment facility, in FY 2009 the City undertook an analysis of the Wastewater collection system. Numerous infrastructure recommendations were made by the City’s consulting engineers and financial advisors which resulted in the preparation of a multiyear Capital Improvement Plan. FY 2015 will require \$990,000 for continued wastewater conveyance maintenance to include pipe relining, manhole rehabilitation and an asset management program.

The three-year forecast for Wastewater fee increases is 10 to 12 percent per year. These increases are primarily driven by needed infrastructure improvements, particularly at the Noman M. Cole Water Pollution Control Plant.

FY 2015 Adopted Budget – City of Fairfax, Virginia

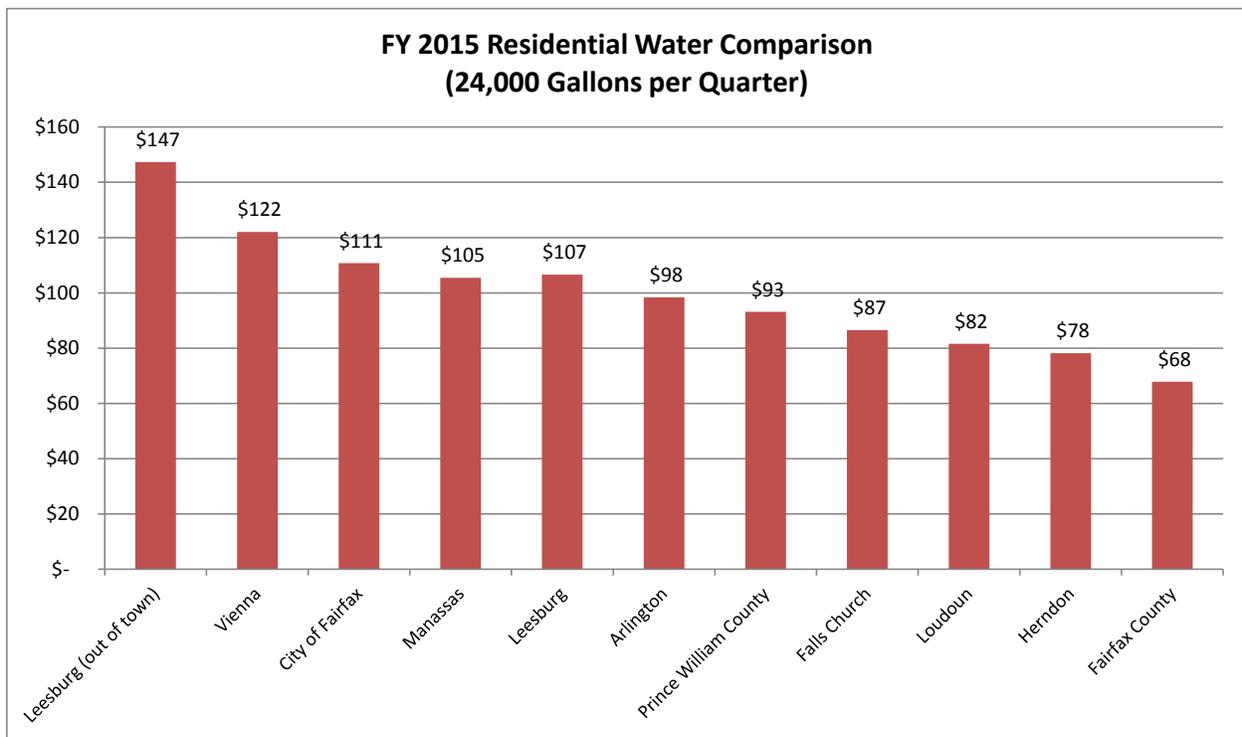
The following chart is a comparison of the average quarterly residential cost for wastewater treatment by local jurisdiction.



Water Fund

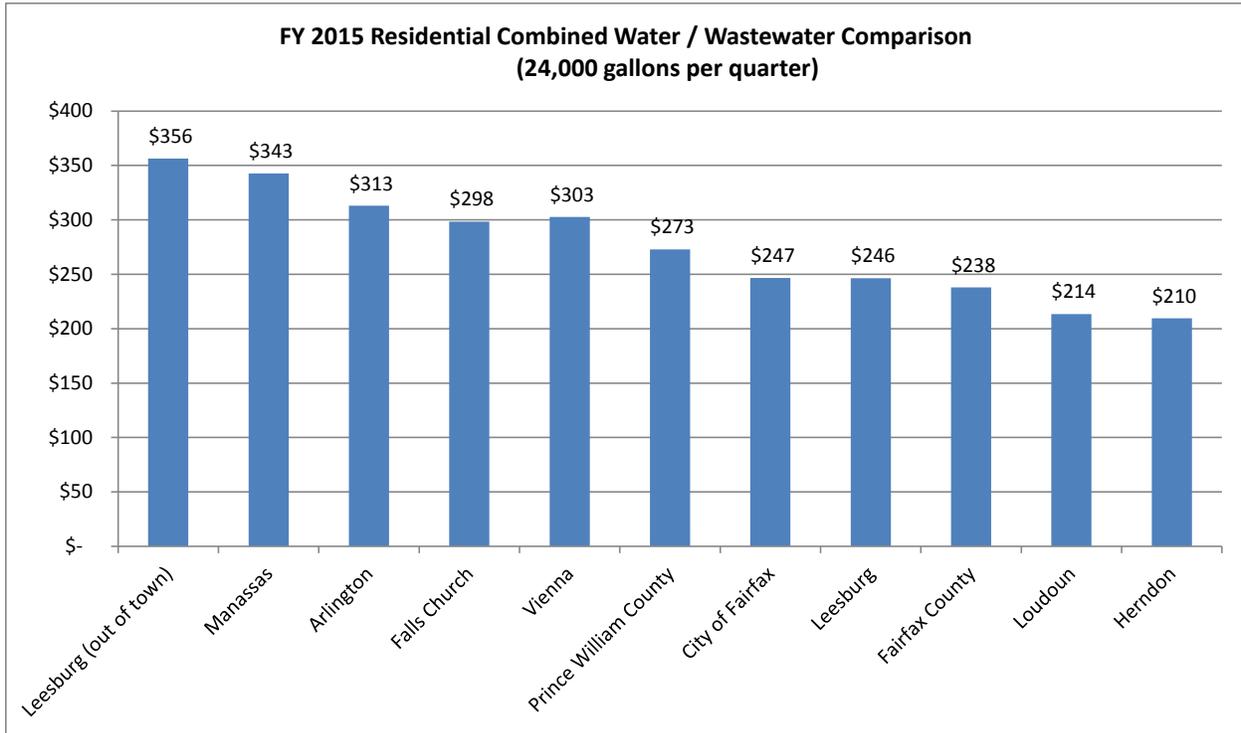
City of Fairfax water customers became retail water customers of Fairfax Water in January 2014 when the City bought into Fairfax Water’s system and sold its water utility assets to Fairfax Water and Loudoun Water. The City’s Water Utility effectively ceased operations at that time and is not included in the FY 2015 budget.

For illustrative purposes, included in this section are charts comparing the average quarterly residential cost for water by local jurisdiction, based on the most current information available from each locality.



FY 2015 Adopted Budget – City of Fairfax, Virginia

The following chart highlights combined charges for both water and wastewater bills. All jurisdictions in the region have a basic charge for their respective water and wastewater rates with the exception of Arlington County. The chart below combines the previous separate water and wastewater charts.

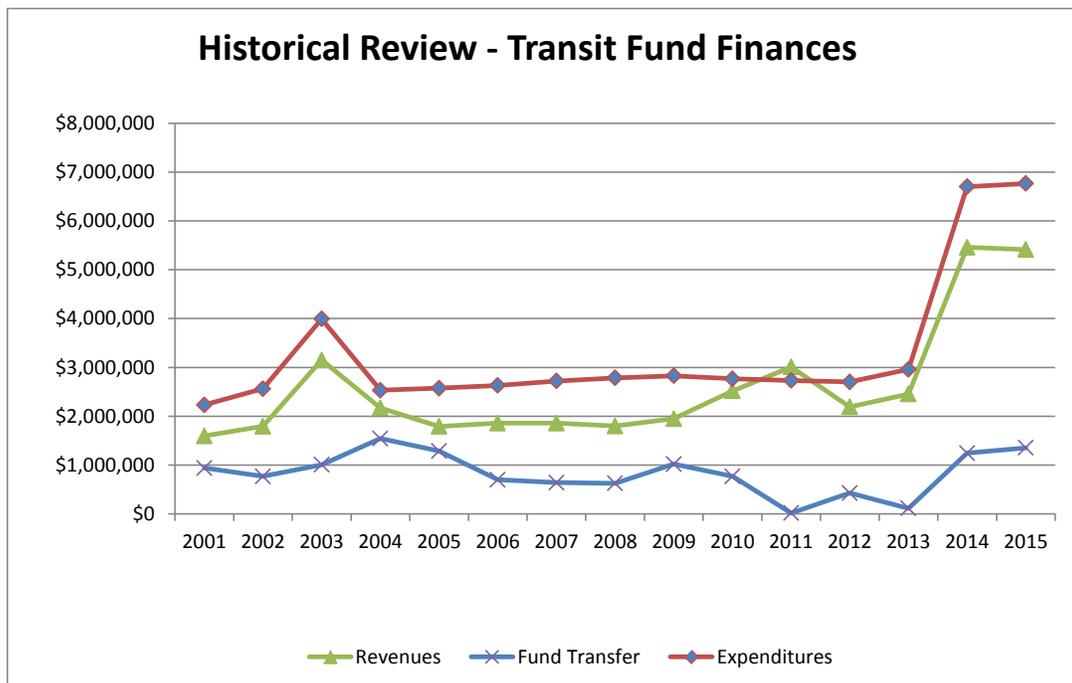


Transit Fund

	FY 2013 Actual	FY 2014 Adopted	FY 2014 Estimate	FY 2015 Adopted
Revenues	\$2,455,437	\$2,285,700	\$2,285,700	\$2,240,007
DRPT	\$0	\$1,800,000	\$3,173,353	\$3,173,353
Expenditures	\$2,958,853	\$4,776,460	\$6,702,609	\$6,766,143
Transfer from Trans. Tax Fund	\$115,181	\$690,826	\$1,243,443	\$1,352,783

The City/University/Energysaver (CUE) bus system provides an alternative transportation mode for City and area residents and George Mason University (GMU) students and faculty throughout the City and to and from GMU and Metro. The City has operated the CUE system since 1985 and provides 12 buses on a fixed route system traveling 441,430 vehicle miles during 30,215 hours of operation each year.

The adopted basic fare (cash or Smartrip) is \$1.75, which matches WMATA’s rate. GMU currently contributes \$720,000 annually to cover the cost of student and faculty ridership. The chart below summarizes CUE’s past financial results. As directed by the Department of Rail and Public Transportation (DRPT) in FY 2014, Transit Fund revenues and expenditures reflect the pass through of funds from DRPT to the Washington Metropolitan Area Transit Authority (WMATA) on the City’s behalf. CUE did not require a subsidy in FY 2011 because an increase in Northern Virginia Transportation Commission (NVTC) support fully funded the Transit Fund’s deficit.



Acknowledgements

The budget is the product of an intensive effort by staff in all City departments. Appreciation is expressed to David Hodgkins, Assistant City Manager / Director of Finance, Jennie Tripoli, Assistant Director of Finance, who have principal responsibility for the preparation of this document. Others who contributed significantly to the preparation and printing include Romelyn Guzman, Melanie Burrell, and Joanna Ormesher. Additional thanks go to each of the Department Directors, the City School Superintendent and staff, the Constitutional Officers and every employee who participated in finalizing materials for City Council's deliberation.

Budget Information Request

Copies of the FY 2015 Adopted Budget and FY 2015-2019 Capital Improvement Program (CIP) are available as follows:

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