

The City of Fairfax

Office of the City Manager



June 19, 2015

The Honorable R. Scott Silverthorne
and Members of the City Council
City of Fairfax
Fairfax, Virginia 22030

RE: City Manager's Adopted FY15-16 Budget Transmittal Message

Dear Mayor Silverthorne and Members of City Council:

In accordance with responsibilities established for the City Manager under the City Charter, I am submitting the adopted budget for the City of Fairfax for the 2015-2016 fiscal year beginning July 1, 2015.

In compliance with City Council policy and sound fiscal practice, the budget is balanced. Further, the adopted budget comports with City Council approved FY16 Budget Guidelines.

The adopted budget sets total city expenditures of \$170,598,944, an increase of 5.8% over the current fiscal year. General Fund spending is \$130,464,802, an increase of 1.9% from current year.

Following are the major themes that have influenced the construction of the FY16 adopted budget.

- 1. STABLE FINANCIAL OUTLOOK.** For FY16, the city's economy is projected to advance with moderate growth. The city's real estate tax base, source of its single largest source of revenue, will see limited growth; overall 1.8%, as a result of assessments increasing approximately \$100M. By contrast, last year's assessment increase totaled \$176M. Commercial assessments are down 1.9%, residential assessments are up approximately 2.91%. Other large revenue sources, sales tax, BPOL, and personal property tax in total are projected to increase modestly.
- 2. BUDGET CONSTRAINED BY NON-DISCRETIONARY EXPENDITURES.** The City's ability to adjust expenses in any fiscal year is constrained by the significant percentage of non-discretionary expense categories that comprise the General Fund budget. Each of the following large expense areas is basically off-limits when analyzing potential expenditure reductions:

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- School Instruction Contract
- Non-Education County Contracts
- Annually Required Contribution to Retirement Systems
- Debt Service

These expenditures comprise approximately 55.4% of total General Fund expenditures. Remaining areas available for reduction of expenditures are therefore reduced to 44.6% of the General Fund budget.

- 3. EDUCATION CONTRACT.** The largest single expenditure of the General Fund for FY16 is the City of Fairfax schools instructional contract with Fairfax County. This expense is expected to be \$46,100,000, an increase of \$660,000 or 1.5%.
- 4. SALE OF THE CITY'S WATER SYSTEM.** The sale of the city's water utility system in January 2014 has resulted in several positive impacts on the FY16 budget and beyond:
 - Water rate reduction scheduled for July 2015 for residential and commercial customers will also reduce the cost of purchased water by the city,
 - Remaining on-hand Water Fund monies are providing leverage as partial tax equivalency for the C&I tax, and
 - City's financial stability is enhanced as result of utility sale.
- 5. INCREASE FOR THE TRANSPORTATION TAX FUND.** The Transportation Tax Fund is used to account for the funds collected by the city under the C&I tax which is currently levied on those property classifications at a rate of 5.5¢ per hundred dollars of assessed valuation. The FY 16 adopted budget includes an increase in the C&I tax of 2¢, equaling 7.5¢ per hundred. Since localities are required to levy a C&I tax of 12.5¢ or equivalent funding to qualify for matching funds, the budget directs the use of other funds (on-hand funds from dormant Water Fund) to achieve C&I tax equivalency between the adopted new rate of 7.5¢ and the 12.5¢ required to maximize the receipt of regional transportation funds. Revenues from the C&I tax, or equivalent from a dedicated source, and matching NVTAs "30%" funds, afford the city transportation infrastructure opportunities not possible in prior years and will have a significant effect on the city's ability to keep pace with the needs of its transportation system. For every dollar of C&I tax or equivalency (up to the 12.5¢ maximum) the city will receive just over one dollar of NVTAs 30% funds. The total estimated annual revenue to be received by the city at the maximum rate (12.5¢ or equivalent) is \$2,250,000. Further, it is recommended that City Council adopt another 2¢ increase in the C&I rate in FY17 and again use on-hand Water Fund monies to make up the equivalency of the 12.5¢.
- 6. RETIREMENT PLAN FUNDING.** The city supplemental retirement plan costs are projected to be reduced \$850,000 from FY15 projections due to the plan's investment performance and actions taken by the city and the Retirement Committee to adjust certain benefits. The Virginia Retirement System costs are projected to stay at the same rate for FY16. The city's total projected costs for both systems will be \$5,967,615 for FY16 versus \$6,715,523 for FY15.

7. **ADDITIONAL EMPLOYEES.** Departmental managers requested a number of additional positions for FY16. Due to budgetary constraints, only one additional FTE position has been approved: a park maintenance employee needed to help maintain the recently completed downtown park and other sites.
8. **PAY AND CLASSIFICATION STUDY.** The budget includes a pay and classification study in FY16 at an estimated cost of \$45,000. The past 7-8 years of pay adjustments were dependent on scarce funding and several years passed without merit pay being available. This created pay compression between employees and the perception that the pay plans need attention. It has been a number of years since the city conducted a thorough pay study, relying instead on in-house analysis and spot adjustments which have worked reasonably well; however, it is time for a thorough review by a compensation professional.
9. **EMPLOYEE COMPENSATION ADJUSTMENTS.** Compensation adjustments approved in the FY16 adopted budget for city employees are a 3.5% merit step (\$313,000) for eligible employees and a 1% market adjustment (\$270,000).
10. **DEBT SERVICE.** The city's total debt service payment for FY16, including educational debt is \$13,089,299 a decrease from estimated FY15 of \$111,848. This expense represents 10.0% of General Fund spending. The city's debt load remains a significant burden; however, it is well within state law limitations.
11. **FUNDING FOR STORMWATER: REGULATORY COMPLIANCE, NEW CONSTRUCTION AND MAINTENANCE.** The Storm Water Fund was created in 2014 to enable a more focused approach to city storm water infrastructure maintenance with a dedicated funding source. Two cents from the real estate tax has been set aside for this fund for the past two years and it is approved to stay at that level for FY16. However, projected workload and increasing project expenses may result in requests for additional personnel resources and funding in the FY17 budget.
12. **INCREASES IN NON-EDUCATION CONTRACTS WITH COUNTY.** Non-education contracts with Fairfax County will increase \$646,000 primarily reflecting increased jail contract costs.
13. **WASTEWATER RATE INCREASE NECESSARY.** With the phase out of the Water Fund, the Wastewater Fund will continue to exist and function as an enterprise system, as before, since the city will continue as the operator and owner of the wastewater system. By contract with the city, Fairfax Water bills and collects fees from city residents for the city-provided wastewater services; then those fees are remitted to the city. The city will continue to set the annual rate for wastewater collection and treatment. As earlier projected, the approved rate increase for wastewater services is 10% for FY16. Annual increases in the wastewater rates in the 10-12% range will be necessary over the next several years to generate sufficient funds for debt service related to the city's share of improvements at the Noman Cole Wastewater Plant, with the estimated city share at \$40M, as well as to pay for ongoing capital needs of the in-city wastewater collections system. With the reduction in water rates in July, the combined water and sewer bill for city residents

will likely be among the lowest in Northern Virginia, even with the wastewater rate increase.

14. **CAPITAL FUNDING INCREASED, FAR SHORT OF NEED.** The Capital Improvement Program transfer from the General Fund is approved at \$5,008,106. Requests totaling over \$12M were made by the various departments before prioritization. The city faces significant funding hurdles in the next few years as it grapples with debt amortization and pressure to increase CIP funding.
15. **PARKS SYSTEM CAPITAL NEEDS DETAILED.** During the current year, the Parks and Recreation Master Plan was completed which effectively documents the significant needs, capital and otherwise, of the park system. In an effort to begin to address the deferred needs, the Parks and Recreation Director identified over \$2M in capital maintenance needs in FY16 alone, and some \$14M worth of projects in the 5-year period 2016-2020. Unfortunately, only \$601k in funding could be included for the department's capital needs in FY16. During the budget adoption process, the City Council helped staff examine alternative strategies for achieving the goals of the master plan, whether that continues to be a pay-as-you-go model at an increased funding commitment or the use of pay-go funding as annual debt service on a larger bonded program, or some other method.
16. **INTERNAL COST CONTAINMENT EFFORTS.** Throughout the year, the city staff searches for cost reduction strategies and/or methodologies that will improve services without increasing costs. In other words, there is an effort to look within the organization for cost control before looking 'outside' for tax or fee increases to balance the budget. Following is a list of representative items, some significant, some minor. All are important.
 - Annual Savings on P-Card Use; now in excess of \$40k;
 - Overtime policies refined; savings produced;
 - Printing of business cards restricted to need-only basis;
 - Phase out of most desk top printers and color copying on cost-prohibitive copiers;
 - City Treasurer evaluating alternative investment strategies for greater ROI;
 - Commissioner of the Revenue secured additional funding from state for the DMV facility at City Hall;
 - Retirement Committee reviewing streamlining investment processes for greater ROI;
 - Careful use of "30%" transportation funding to leverage available resources;
 - Sought (and received) permission to use transportation funding to pay for legal expenses on transportation projects instead of payment from General Fund;
 - Use of grants. For example, the city recently initiated a request, subsequently approved, of the VA Attorney General for grant funding in the amount of \$600k, for a portion of the cost of a renovated firing range. Other grants, for a myriad of purposes, are used throughout the year; and
 - Extensive use of sponsorships of publications and events.

17. WHAT ISN'T FUNDED IN THIS BUDGET? The following community needs, requested or documented by city residents for inclusion into the budget, while fully justifiable, could not be addressed due to lack of funding:

- No additional registered arborist included; city has one arborist on staff presently.
- No increase in the Senior Tax Relief program;

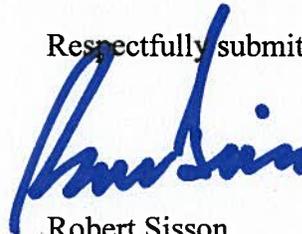
18. 1.2 CENT REAL ESTATE RATE INCREASE APPROVED. The budget preparation process is an intense exercise in attempting to balance a complicated list of needs, usually dominated by capital projects and employee compensation requests, with estimated available revenue. The persistent pattern is that there are never enough resources. After an effort to curtail as many costs as seem reasonable, given community expectations of quality services, and in conformance with City Council policy of a minimum 10% General Fund Cash Balance, the City Council adopted a real estate tax increase of 1.2¢ from the current rate of \$1.04 to \$1.052. Additionally, as mentioned above, the City Council adopted an increase in the C&I tax of 2¢ from 5.5¢ to 7.5¢ per hundred dollars of assessed valuation. Therefore, an owner of commercial or industrial property will pay a combined real estate rate of \$1.127 where a residential property owner will pay \$1.052. There is no increase sought for the existing downtown service district real estate rate.

19. OTHER INCREASES CONTAINED IN BUDGET. There are several relatively minor increases approved in the Rates and Levies Schedule, primarily in the Fire Marshal Permits area, which will generate approximately \$5k in additional revenue.

In summary, the adopted FY16 budget reflects our efforts to address community priorities, to maintain the desired quality of life, and to provide infrastructure, services, and facilities that will support the community's needs. It is also a positive reflection of diverse points of view, having been given careful thought about how to best care for the community in which we live.

We appreciate the dedication given to the budget process by the Mayor and City Council. Finally I want to say thank you to the team of city employees who make the preparation of the budget document possible. A complete list of those individuals is found at page A-35.

Respectfully submitted,



Robert Sisson
City Manager