



COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

John A. Vitoulkas
County Manager

March 13, 2018

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

I am honored to submit to you the FY2018-19 Proposed Budget for Henrico County. The Proposed Budget is balanced within available resources at our current **real estate tax rate of 87¢**, maintaining the County's standing as having the lowest tax burden of any large locality in the Commonwealth of Virginia. Even though we are experiencing a resurgent local economy, affirmed by improving signs at state and national levels, this budget uses conservative revenue estimates.

The resources projected in this budget are allocated in a prudent, strategic manner to this County's highest funding priorities. As stated during the Board Retreat on January 12, 2018, those priorities are the following:

- ✓ Honoring Prior Funding Commitments;
- ✓ Enhancing the County's Economic Development Efforts;
- ✓ Allocating Funds for the County's Core Service Areas, primarily Education and Public Safety;
- ✓ Maintaining Competitive Compensation and Benefits for the County's Employees; and
- ✓ Maintaining the County's Fiscal Structure.

The budget for FY2018-19 proposes to meet these priorities in several ways. First, the Proposed Budget **fully funds the budget request of the Henrico County School Board**. The funding reflects \$21.4 million in new, overall incremental resources provided to our school system, including continued implementation of the Achievable Dream Academy and CodeRVA; an effort to reduce class sizes; an extension of planning periods; the addition of student supports; and full implementation of the Gifted Young Scholars Program at Wilder Middle School and STEAM integration at all of the County's middle schools.

The Proposed Budget honors prior commitments to Public Safety while funding several new endeavors. A total of \$10.1 million in overall incremental General Fund resources will be allocated to support a variety of Public Safety initiatives. **Nearly ¾ of the total revenue increase for FY2018-19 is strategically allocated to Education and Public Safety.**

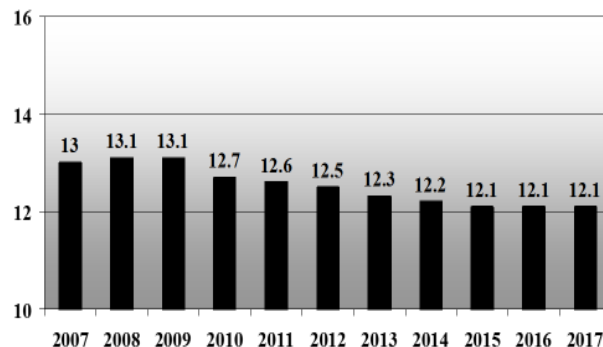
The Proposed Budget continues tax relief efforts from the FY2017-18 budget by **increasing the full exemption threshold from BPOL taxation to \$300,000**. The budget adds \$500,000 to tax relief in recognition of the rising costs of these programs and the enhancement of the eligibility criteria for the County's REAP program for qualified senior and disabled citizens.

This budget rewards eligible general government and Henrico County Public Schools' employees with a 2.4% merit-based salary increase, effective July 1, 2018. **Henrico will lead the Richmond region in starting pay for police officers, firefighters, correctional deputies, and teachers.** In addition, employees who have worked for six or more years will be eligible for an additional 0.6% increase, for a total salary increase of 3.0%. As shown below, Henrico has led the region in employee salary increases over the past four years. This budget will continue this trend.

Salary Increases in Metro Richmond FY15 - FY18					
Fiscal Year	Henrico	Chesterfield	Hanover	Richmond GG	Richmond Sworn Police/Fire
FY18	2.5%	2.0%	2.0%	0.0%	Varied ⁽¹⁾
FY17	2.4%	2.0%	2.0%	0.0%	2.5%
FY16	2.0%	2.0%	2.0%	2.0%	2.5%
FY15	3.0%	1.0%	2.0%	0.0%	0.0%
Total:	9.9%	7.0%	8.0%	2.0%	5.0%
(1) Richmond sworn Police and Fire employees were moved to a step based on length of service					

Henrico leads the region in employee compensation, yet it operates as one of the leanest local governments in the Commonwealth. This is largely due to its efficient workforce. Much is expected from County employees, with a low ratio of 12.1 employees per 1,000 population, and, in turn, employees are highly valued. We hire fewer employees than others -- we expect the most of them -- our formula for success is simply different. This is a premise that works, and we must continue to attract the best and the brightest to this workforce.

From 'Trends':
Employees per Capita
(Employees per 1,000 Population)



The Proposed Budget increases GRTC bus transit service by expanding operating hours, including weekend service, for three routes. **This is the largest bus transit expansion proposed for Henrico County in over 25 years.**

Community maintenance efforts will be enhanced by a new **“Community Revitalization Fund”**. This \$2.0 million fund will serve as a resource for improvement of older neighborhoods in our community and will have the flexibility to immediately address urgent problems.

The Proposed Budget continues to **strengthen the County’s fiscal structure** in FY2018-19. Ongoing revenues will be allocated to the County’s Technology Replacement Fund. The budget embarks on a multi-year effort to minimize the annual, mid-year amendment for the County’s Risk Management Fund. This budget also seeks to minimize the use of reserves in the Central Automotive Maintenance operation. Finally, the Proposed Budget sets aside **\$1.0 million in the “State Revenue Stabilization Reserve”** to make a total of \$3.5 million available to potentially offset the impact of an impending recession. This is in addition to the significant improvement of the County’s reserves over the past five years.

Fund Balance – General Fund (in millions)



Continued conservative revenue estimates, mindful spending, and careful planning of fund balance use have allowed the County's General Fund balance to continue improvement. It should also be noted that the County's fiscal approach requires that the unassigned fund balance equal 15% of General Fund expenditures.

The Proposed Capital Budget continues funding the 26 projects overwhelmingly approved by voters in the November 2016 General Obligation Bond

Referendum. The projects include planning and design for the renovation of Tucker High School and for a new elementary school in the Brookland magisterial district; the replacement of the Fairfield Library; the planning of the construction of Staples Mill Fire Station; the beginning of Phase II construction of Greenwood Park; and the expansion of fields at Dorey Park. The Capital Budget also provides an additional \$9.3 million of funding to complete the conversion of high school athletic fields to natural synthetic turf.

The Capital Budget includes \$4.9 million for the extension of Woodman Road and \$507,000 toward the planning costs for improvements to Oakley's Lane. This is in addition to the continuation of the \$2.3 million for stormwater improvements, \$2.5 million for sidewalk improvements, and \$1.0 million in motor vehicle license fees to provide local funding for road construction.

In addition to the approved General Obligation Bond Projects and resources for Public Works projects, the Capital Budget includes \$8.5 million to renovate and expand the Circuit Court facilities. It also provides \$3.8 million for renovation of the space in the Human Services Building vacated by Recreation and Parks. Additionally, the Capital Budget includes the maintenance efforts of our school division with \$2.5 million in roof and mechanical funding combined with \$9.0 million for Meals Tax projects and \$5.0 million for general government facility maintenance projects.

General Fund Revenues – A Reflection of Local Economic Improvement

The total estimated General Fund revenues for FY2018-19, prior to transfers, are \$1.0 billion, which represents an increase of \$42.7 million or 4.4%. Net of transfers and uses of fund balance, the County's overall General Fund is growing by 3.8%.

As you can see in the chart to the right, the majority of revenue growth can be attributed to a few sources: real estate tax, personal property tax, local sales tax, and State Aid for Schools. Hotel/Motel Tax receipts, Meals Tax

Category	FY19 General Fund Revenues		Difference	% Change
	FY18 Approved	FY19 Proposed		
Real Estate Tax	\$305.5 M	\$323.8 M	\$18.3 M	6.0%
Personal Property Tax	\$120.0 M	\$124.0 M	\$4.0 M	3.3%
Local Sales Tax	\$64.3 M	\$67.0 M	\$2.7 M	4.2%
Business Licenses (BPOL)	\$32.5 M	\$33.2 M	\$0.7 M	2.0%
Hotel/Motel Tax*	\$12.0 M	\$12.6 M	\$0.6 M	5.0%
Meals Tax	\$23.0 M	\$27.0 M	\$4.0 M	17.5%
<u>All Other Local Revenues</u>	<u>\$60.1 M</u>	<u>\$61.3 M</u>	<u>\$1.2 M</u>	<u>2.0%</u>
Total Local Revenues	\$617.4 M	\$648.9 M	\$31.5 M	5.1%
<i>* Hotel/Motel Tax revenues are dedicated to the Greater Richmond Convention Center</i>				
State Aid for Schools	\$254.2 M	\$263.8 M	\$9.6 M	3.8%
State Gasoline Tax	\$45.2 M	\$46.1 M	\$0.9 M	2.1%
<u>All Other State & Federal</u>	<u>\$47.3 M</u>	<u>\$47.9 M</u>	<u>\$0.6 M</u>	<u>1.3%</u>
Total State and Federal Revs.	\$346.7 M	\$357.9 M	\$11.2 M	3.2%
Total General Fund Revs.	\$964.1 M	\$1,006.8 M	\$42.6 M	4.4%
Transfers/Cash Reserves	(\$124.5 M)	(\$134.9 M)	(\$10.4 M)	8.4%
TOTAL NET REVENUES	\$839.7 M	\$871.9 M	\$32.2 M	3.8%

revenues, and State Gasoline Tax revenues are each dedicated for a specific purpose—the Greater Richmond Convention Center, education, and road maintenance, respectively. Outside of these resources, minimal revenue growth continues to be experienced, particularly in State Aid for General Government. Lastly, even though the BPOL exemption is proposed to increase from \$200,000 in gross receipts to \$300,000, this revenue is still projected to increase.

Excluding the FY2014-15 budget, which contained the first full year implementation of the Meals Tax, the 4.4% growth projected in the FY2018-19 Proposed Budget is the largest budgeted growth in General Fund revenues since the FY2008-09 budget. This reflects improvements in the economy at all levels. Consumer confidence is at levels not seen since the recession. Inflation and wages are improving, and unemployment rates are back to prerecession levels. This has translated to positive trends in local revenues.

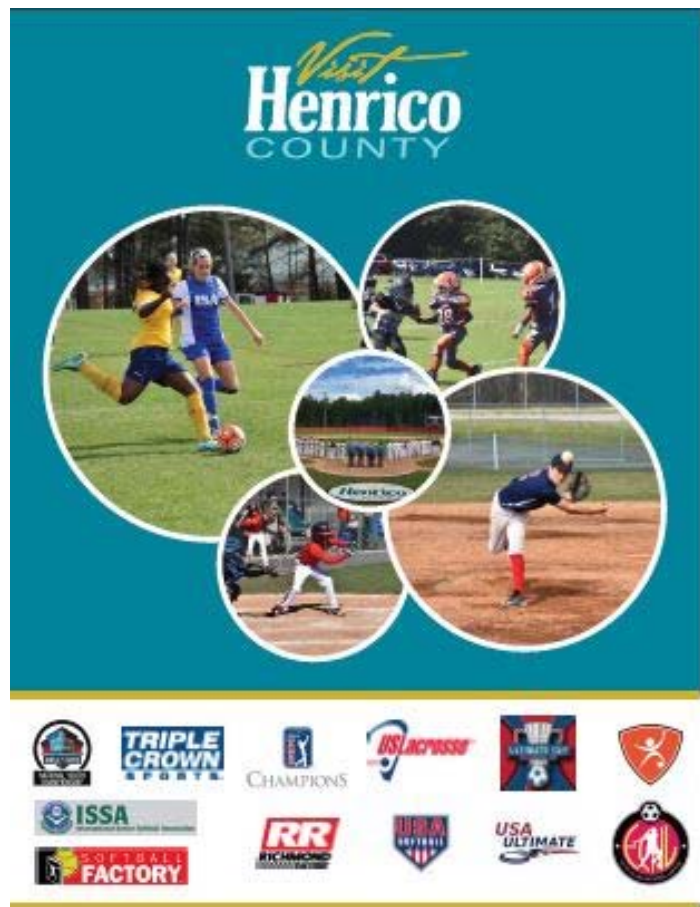
Real Estate Growth Exceeds Expectations, But for How Long?

Real estate tax revenues in the Proposed Budget reflect an overall increase of \$18.3 million from the current fiscal year estimate. The total real estate tax base, inclusive of new construction and reassessment, increased by 6.0%. Reassessments increased 4.7%, and new construction accounted for an increase of 1.3% in the tax base. For 2018, the ratio of residential to commercial value remains 69% residential to 31% commercial.

The increase in the real estate tax base reflects current market conditions. However, recent data regarding new and existing home sales nationally suggest the market could be slowing down as home sales were down in both December and January. Further, as the Federal Reserve continues to raise interest rates, mortgage rates will rise. This has the potential to make home mortgages less affordable. These reasons prompt us to look cautiously towards 2019.

The Continuing Impact of Visitors

The County's tourism efforts continue to drive growth in sales tax and hotel/motel tax receipts. In fact, during 2016, the County recorded a 3.2% increase from tourism spending and, again, had the fifth highest tourism spending total of any Virginia locality, according to the U.S. Travel Association. Henrico topped all localities in central Virginia and trailed only the counties of Arlington, Fairfax, and Loudoun and the city of Virginia Beach. In fact, since 2011, tourism spending in Henrico County has increased 23.4%. Under the direction of the Board of Supervisors, Henrico has taken steps to highlight our County to the world. In March 2013, the *Visit Henrico* campaign was launched to promote Henrico as a destination for tourists and recreational sports tournaments. The results continue to impress. As a result of prior investments for Greenwood Park and future investments approved by the voters in the 2016 General Obligation Bond Referendum, the impact of visitor spending should continue to grow.



State Funding

In looking at projected revenues from the State in the budget, a net increase of \$11.2 million is anticipated, with the majority of the increase in the area of State aid for K-12 Education. State aid for Schools is increasing \$9.6 million, which is 86.2% of the total State aid increase, while all other sources from the State reflect a net increase of \$1.5 million. While increased aid from the Commonwealth is positive as it represents approximately one-third of all General Fund revenues, Henrico County must continue to be extremely cautious when appropriating these funds due to continued uncertainty in the State's ability to meet its revenue estimates. As of this writing, the General Assembly has been unable to adopt a State budget prior to its Session adjournment and has voted to hold an upcoming special Session to complete this task. Caution in projecting these resources is crucial.

Finally, FY2018-19 will mark the tenth year since the end of the last recession – the Great Recession. While the national economy has embarked on one of the longest periods of economic growth in modern times, the economy is cyclical in nature, and a downturn is inevitable.

Focus on Core Services – Education and Public Safety

The Proposed Budget continues to emphasize strategic investments in the County's top priorities: Education and Public Safety. Again, nearly ¾ of the incremental revenues in the FY2018-19 budget recommendation are allocated to these top priorities.

FY2018-19 Proposed Schools Operating Budget

The overall General Fund budget for Schools is increasing \$15.2 million or 3.2% to \$485.1 million, representing 56% of the entire General Fund budget. However, the debt service for the 2016 Bond Projects, the increase for the School Bus Replacement Program, the addition of local resources to the Children's Services Act program, the Schools' portion of incremental funding for Risk Management, and the addition of a new County Attorney position for special education cases bring a total of **\$21.4 million of incremental General Fund resources to our school system.**

FY2018-19 Proposed Additional Allocation to Schools and Public Safety	
HCPS General Fund Expenditure Increase	\$15.2 M
Meals Tax for G.O. Bond Projects	\$5.1 M
Additional Funding for School Buses	\$0.5 M
Schools' Share of Risk Management	\$0.3 M
Increase in Local Share for CSA Expenses	\$0.2 M
County Attorney for Special Education	\$0.1 M
Total Allocation Increase to Schools	\$21.4 M
Public Safety General Fund Increase	\$8.8 M
Additional for Fire Apparatus	\$0.3 M
Police Vehicle Replacement	\$0.3 M
Line of Duty Increase	\$0.4 M
Public Safety Share of Tech Replacement	\$0.2 M
Public Safety Share of Risk Management	\$0.1 M
Increase in Henrico Share for JRJDC	\$0.1 M
Total Allocation Increase to Public Safety	\$10.1 M
<u>Total Allocation Increase to Schools and Public Safety</u>	<u>\$31.5 M</u>

The budget recommendation also fully funds Schools' cost for a 2.4% merit-based salary increase for Schools' employees, effective July 1, 2018, and an additional 0.6% wage increase for employees who have been with HCPS for six or more years. The additional wage adjustment will address salary compression for those employees who faithfully served in Henrico through the economic downturn. This was a time that included no salary increase for three years and one year of a State-mandated 5% raise to offset employees' contributions towards their VRS retirement benefit. The "5 and 5" raises not only cost the County \$6.0 million that fiscal year and thereafter, but also resulted in a net reduction in employee paychecks.

The FY2018-19 staffing levels recommended by the Henrico County School Board include 60 new positions. Twenty-two of these positions are the beginning of a multi-year effort to provide a planning period for all elementary school teachers, starting with "school improvement"-designated schools. Thirty-four of the remaining 38 positions are new teachers to reduce class sizes or to provide instructional assistants for classroom instruction.

The FY2018-19 budget provides funding for several existing programs within our school system. The Achievable Dream Academy at Highland Springs will begin its second academic year in the fall of 2018,

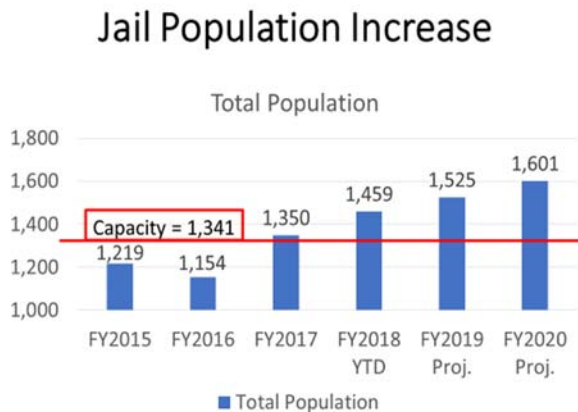
and this budget adds \$270,100 for a new third-grade class. The 2018-2019 academic year will also mark the second operational year for the CodeRVA Regional High School, and the budget includes an additional \$180,000 for 18 additional student slots. This budget also fully implements two programs for which planning funds were included in the current fiscal year. The first is the Gifted Young Scholars Program at Wilder Middle School, which provides gifted County students a comprehensive and rigorous interdisciplinary education through opportunities for leadership, inquiry-based learning, literary and scientific analysis, service learning, arts integration, and problem-based learning that focuses on topics of strength and interest. The second program is the integration of Science, Technology, Engineering, Art, and Mathematics (STEAM) concepts in all middle schools.

Finally, the Proposed Budget includes an additional \$500,000 in current General Fund revenues for the replacement of school buses to minimize the repair costs of the County’s school bus fleet. This brings the school bus replacement fund total to \$3.0 million and continues the multi-year effort to fully fund the School Bus Replacement Fund with \$4.0 million per year.

Supporting Public Safety – Fire, Sheriff, and Police

This budget includes three additional firefighter positions, which concludes the three-year commitment to add a total of nine firefighter positions. These positions will alleviate staffing pressures and reduce minimum staffing-related overtime costs in the Division of Fire. The Vehicle Replacement Fund includes \$1,250,000 for the replacement of Fire apparatus, such as ambulances and fire trucks, as a step to provide adequate funding for this vital, life-saving equipment.

The budget also includes a proposal to alter the response model for less urgent calls for service. The Division of Fire’s EMS and CARE (Community Assistance Resources and Education) programs include a Basic Life Support (BLS) transport program, which will run during peak call hours to relieve the Advance Life Support (ALS) medic units the County currently employs to respond to these calls. In addition, the CARE program would send a Community Response Team to visit patients who do not require emergency services. The initial cost of \$850,981 reflects the first year of a multi-year effort to fully implement these changes designed to provide the appropriate level of response to each emergency call.



Over the past two years, the inmate population in the County’s jail facilities has dramatically increased, largely because of the national opioid crisis. The FY2018-19 Proposed Budget includes multiple approaches for the Sheriff’s Office to address this increase. The addition of \$500,000 will address the rising inmate population’s food costs. This budget also recognizes the full-year cost of \$912,500 for 50 female inmates to be housed in Chesterfield County’s facility. It also includes an increase of \$280,000 to fully fund the Sheriff’s GPS Monitoring program. Finally, the FY2018-19 Proposed Capital Budget includes **\$3.0 million to initiate the accumulation of funds for a County jail expansion.**

The Proposed Budget funds a new, five-year replacement program for the Police Division’s body worn cameras and tasers. The replacement program will cost \$528,072 annually. Replacing the equipment over a five-year period instead of a one-time purchase will save over \$500,000. To account for the 50 police vehicles purchased over the past five years, \$300,000 has been added to the Police Vehicle Replacement Fund to keep these vehicles on a regular replacement schedule. Finally, this budget enhances the Division’s overtime budget by nearly \$550,000 because of increased operational demands.

Enhancing Transportation and Regulating Stormwater

A key attribute of any thriving community is a well-functioning transportation network. The ability to move people and goods throughout the area is vital to the County's economic development efforts. The Proposed Budget makes several efforts to enhance the County's transportation network, including expansion of bus transit service; construction of new roads; and maintenance of the third largest road network in the State, behind the road systems of the Commonwealth and the City of Virginia Beach. The budget also continues to fund the County's sidewalk improvement and stormwater programs.

In an effort to connect our residents with jobs and essential services in the community, the budget enhances bus transit within the County. The allocated \$1.2 million will expand the service hours and include weekend service on three routes—the Seven Pines route (Route 7), the Laburnum Connector (Route 91), and the Pemberton Route (Route 19). The new hours of operation will be 7:00 am to 11:00 pm Monday through Saturday and 10:00 am through 10:00 pm Sunday. In addition, the Pemberton Route will be extended from Pemberton Road to West Broad Marketplace in Short Pump. A sufficient level of bus ridership is essential to justify the commitment of such substantial public funds for these expansions. The review of bus ridership is an annual exercise, and this plan attempts to increase that potential ridership.

This Capital Budget also makes several investments in the County's road network. First, \$4.9 million is allocated for the extension of Woodman Road from Greenwood Road to Brook Road. This will provide improved access to the Virginia Center Commons area, Interstate 295, and the planned River Mill subdivision development. Second, \$507,000 will fund the planning of improvements for Oakley's Lane, which includes widening, realigning, improving drainage, and adding a new bridge over Gillie's Creek. Finally, the Proposed Budget increases the amount of Motor Vehicle License Fee for capital funding to \$1.0 million to provide local funding for road construction. This is another step to identify additional ongoing revenues for new road construction.

The FY2018-19 Capital Budget continues to provide \$2.5 million of local resources for sidewalk improvements. These local dollars will be leveraged for State and Federal funding, like we did with the \$19.0 million for all of Public Works' projects in FY2017-18. The 19 miles of sidewalks and multi-use trails to be constructed over the next four years will build on the 22 miles of sidewalk constructed since FY2013-14.

In the environmental area of Public Works, the budget maintains the \$2.3 million for Chesapeake Bay clean-up requirements, continuing to delay any need for a stormwater utility fee. Due to efforts undertaken since FY2015-16, including the large vehicle wash facility and other planned projects, the County has achieved a reduction of 16% in the three pollutants identified in the stormwater management permit. The permit requires a reduction of 5% in the first 5 years. The future stability of the \$2.3 million annual funding source offers another economic development advantage for our county. The Proposed Budget continues to separate this County from others as we have not have imposed a stormwater tax on our residents or businesses like many other localities have.

November 2016 Bond Referendum

The FY2018-19 Proposed Budget continues to include capital and debt service costs related to the overwhelming approval of the \$419.8 million 2016 Bond Referendum. The projects in the Capital Budget are listed in the chart to the right. The bonds to support these projects will be issued in the fall as interest rates for triple AAA rated localities remain historically low.

Bond Projects in the FY2018-19 Capital Budget	
Tucker HS Renovation	\$10.0 M
Brookland Area ES	\$5.0 M
Fairfield Library	\$24.0 M
Greenwood Park Phase II	\$10.0 M
Staples Mill Fire Station	\$2.0 M
Dorey Park	\$2.0 M
Total, FY2018-19 G.O. Projects	\$53.0 M

Efforts are underway to ensure construction can commence on two of these projects once bond funding is made available. The land for the new elementary school in the Brookland district and the Staples Mill Fire Station

have both been identified, and the planning and design of Fairfield Library, funded through savings from the Libbie Mill Library and Varina Library projects, is underway. Every effort will be made to complete these projects as quickly as possible.

Economic and Community Development Efforts

The Proposed Budget includes recommendations to improve our local economy. On the tax side, the recommendation is to increase the BPOL tax exemption threshold from \$200,000 to \$300,000. The \$100,000 exemption was set in 2000, which was at the end of a four-year phase-in. Increasing the exemption to \$300,000 would make Henrico even more attractive to prospective businesses than other large localities in Virginia and would exempt an additional 900 existing business from paying the tax. **The tripling of the BPOL exemption will eliminate the tax for over 2,300 businesses over a two-year period.**

In the area of sports tourism, the budget provides the second half of operating funds for Phase I of Greenwood Park. The first phase of this facility, which recently opened, adds four NCAA-sized multi-purpose natural synthetic turf athletic fields to the County's complement of fields. This budget also funds the operating costs to maintain the first three high school fields that are currently being renovated. In addition, the Capital Budget includes \$9.3 million from unspent tourism-generated funds to complete the conversion of high school athletic fields to natural synthetic turf.

The estimated untapped economic value turned away because of insufficient field capacity is \$52.2 million. The expansion of field capacity in Henrico is crucial to attracting new sports tournaments to the region, and Greenwood Park and the high school athletic field conversions will help meet current demand. However, this is not the lone reason to renovate these fields. Citizen use is paramount in the design, and the renovated high school fields will be available to residents when not in use for school or tournament purposes.

Other economic development enhancements in the FY2018-19 Proposed Budget include \$50,000 to support potential GO Virginia initiatives and \$300,000 to support the expansion of the Culinary Institute at Reynolds Community College. The funding for GO Virginia, which promotes private sector business growth through regional collaboration, will be used to match state grants for approved economic development proposals. The funding for the Reynolds project enhances workforce development efforts, which clearly benefits the region's economic development strategies.

The budget also enhances the County's community revitalization efforts in two ways. First, the budget creates a "**Community Revitalization Fund**". This \$2.0 million fund will be flexible to assist in the redevelopment of older neighborhoods, such as purchasing abandoned homes or directing funds to 501(c)3 organizations that work to improve older neighborhoods. The Board will be asked to appropriate each use from this fund, as this recommendation creates a designation in the County's fund balance that will require future appropriations. The second proposal is the creation of a "Housing Advocate" position that will serve as a liaison between County agencies and residents who are seeking services to improve their living environments.

These initiatives will build on the successes of the prior efforts, including the reductions of the personal property tax rate for data centers in 2017, the airplane personal property tax rate in 2016, and the machinery and tools tax in 2016; the undertaking of the Cobbs Creek Reservoir project; and the reduction of water and sewer connection fees in 2016. These initiatives combined with our exceptionally low real estate tax rate will cause Henrico to stand out to new business prospects.

Adding Fiscal Structure

The Proposed Budget for FY2018-19 provides resources to bring further fiscal structure – ongoing revenues for ongoing expenses – to the County's budget. Each structural initiative continues a multi-year effort to re-establish this fiscal structure, as this must be balanced with the need to provide for our core services.

First, the budget continues to provide ongoing revenues to the County's Technology Replacement Fund. Established in FY2000-01, this fund ensures all general government employees have the computer tools necessary to complete their jobs. This budget adds \$250,000 in ongoing revenues for a total of \$2.5 million, which minimizes the use of the fund's reserves.

Second, the Proposed Budget adds \$500,000 of ongoing revenues to the County's Risk Management Fund. This is a multi-year effort to minimize the necessity of a budget amendment from the Risk Management reserve each December for this area, which totaled \$5.8 million this past year.

Finally, the budget makes several changes related to the County's Central Automotive Maintenance (CAM) operation to attempt to minimize the use of its reserves. This budget first allocates funding to Fire and HCPS to more fully fund the costs of repairing fire apparatus and school buses – an area in each budget that requires budget savings to cover each year. To assist in minimizing these repair costs, this budget also continues to attempt to fully fund their replacement funds as discussed earlier. Finally, CAM has not adjusted their labor and fuel mark-up rates in some time to minimize costs to other departments during the recession. The Proposed Budget includes an \$5 increase to CAM's hourly labor rate and a 1¢ fuel markup. This will be the first year of a three-year phase-in to more accurately reflect these costs.

These changes are not inclusive of all the other areas where this budget adds structure to the fiscal plan, such as the vehicle replacement fund enhancements and the operating increases in the Sheriff's budget. Each proposal is an attempt to maintain Henrico's reputation as a well-managed locality and its position as **one of 46 counties nationwide to achieve a triple-AAA bond rating.**

Capital Budget

Outside of the 2016 General Obligation Referendum projects, the FY2018-19 Capital Budget brings forward several projects that focus on maintaining the County's infrastructure in a cost-effective manner. This includes \$2.5 million for HCPS' mechanical improvements and roof rehabilitation projects, \$9.0 million of Meals Tax revenues for HCPS' maintenance projects, and \$5.0 million for various general government maintenance projects, including funding for the County's information technology infrastructure. Maintaining vital infrastructure is key to avoiding significant replacement costs in the future, and this is a focus of the Capital Budget.

The Capital Budget also recommends \$8.5 million for the renovation of the Circuit Court. This project will visually refresh the courtrooms and will provide the technologies necessary to conduct twenty-first-century trials. Additionally, this project will add a sixth courtroom in anticipation of an additional judgeship when the caseload statistics support this future need.

Finally, the Capital Budget identifies funds for two additional projects. The first project is the renovation of vacant space in the Human Services Building that formerly housed the administrative functions of Recreation and Parks. This \$3.8 million project will allow the Department of Social Services to expand their operations. The final project included in the County's FY2018-19 Capital Budget is planning funds to expand the Police Division's space for evidence storage.

Water & Sewer

The Proposed Budget for the Department of Public Utilities' Water & Sewer system includes an increase in water and sewer rates necessary to provide service to all residents and businesses while meeting infrastructure demands and the requirements to maintain the AAA bond rating for the Water & Sewer system. This rate increase, which translates to an additional \$6.91 every two months for an average residential account holder, will support operational and capital project needs. Within the operating budget, \$1.8 million will be allocated to debt service costs, which include a \$100 million issuance this spring largely supporting construction of the Cobbs Creek Reservoir. The Capital Budget contains numerous projects to maintain and rehabilitate the County's Water and Sewer system and includes the first year of a multi-year

process of replacing and enhancing the filtration system at the Water Reclamation Facility to meet regulatory requirements.

Summary

The FY2018-19 Manager's Proposed Budget tackles the County's funding priorities on multiple fronts. It fully funds the request of the School Board and supports our employees with a well-earned salary increase. It supports Public Safety operations; it expands the ability of residents to move throughout our borders. Further, this budget makes Henrico County more attractive to businesses and establishes a new tool to revitalize the distressed pockets within our community. This budget moves Henrico forward in every way possible.

The Capital Budget honors the commitments made to County residents by initiating the voter-approved 2016 Bond Referendum projects. In addition, this budget continues to maintain the current infrastructure and provides funding to enhance the County's road and pedestrian network.

The local economy is solid and moving in a positive direction, but every economy is cyclical. At some point soon, we will experience another downturn. Each prosperous year that passes brings us closer to a recession of some sort. Adding structure back to the budget and continuing to improve our cash reserves allows us to begin preparations for the next economic storm.

This budget would not have come together without the many hours of hard work by staff. Henrico County employees have been asked to serve with significantly fewer resources, and because of their efforts and the continued work and vigilant oversight of our Board of Supervisors, this County has continued to be successful in the midst of hard times. The commitment to service is what embodies the "Henrico Way", and I am truly grateful and appreciate of all that our employees do.

I would also like to recognize the Superintendent and the School Board for their efforts that will result in the continued success of our County. I especially want to thank Dr. Kinlaw for his 40 years of public service in education, of which the past 21 have been in Henrico County. He has done so much for our community and our future, and he deserves the best in this next phase of life!

In closing, I would like to thank you, our dedicated Board of Supervisors, for your input and guidance in this most important process. As always, the staff and I stand ready to assist you as you seek to chart the course for the future of our community.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John A. Vithoukas". The signature is stylized and somewhat cursive, with a large loop at the end.

John A. Vithoukas
County Manager