



COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

John A. Vithoukas
County Manager

May 12, 2020

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

In the days following the introduction of the FY2021 Proposed Budget in March, the financial landscape has shifted dramatically. Our local economy has been stunted by the health crisis stemming from COVID-19 and the subsequent actions from our federal and state governments to flatten the curve. As many people sheltered in place and many businesses closed their doors, our consumer revenues have taken an inverted curve that mirrors that of the virus. Even still, our employees have continued to provide core services for our community – albeit in somewhat different ways – as we have continued to work our way through this new reality. The workforce has responded demonstrably; our frontline employees continue to provide services to our most vulnerable and nearly 1,800 employees have been teleworking daily during this period. In these times, we are intentional to make every decision with our residents and their needs in mind, especially as tens of thousands of them are now without work and unsure of what their futures hold.

The original budget proposal envisioned further progress in education, enhancements to our public safety capabilities, a coordinated response to the addiction crisis in our community and rewarding the hard-working public servants who make Henrico the great locality it is. While much of that progress must be paused as we weather this storm – those priorities remain intact. And, as we begin to rebuild, those initiatives will again come to the forefront, ready to be deployed as revenues allow.

With that as a backdrop, I am relieved to say that the FY2021 budget is rebalanced, within the available revenue projections. Most notably this plan reflects nearly \$100 million in reductions from the original proposal, which was no small feat in the face of an immediate health and economic crisis. The approach to this revised budget is fairly straightforward – to provide the Board with a framework that will ensure our residents and businesses are supported, our workforce is protected, and that core service delivery is not impacted while providing as much flexibility to the Board as possible to adjust the strategies to meet those goals moving forward.

The Fiscal Impact of a Pandemic

The timing of this health crisis creates an issue not just for FY2021, but for the fourth quarter of FY2020 as well. Until March, the County was on pace to exceed revenue estimates by nearly \$48 million. That outlook is substantially different today. While we will still meet the original revenue estimates, the differential is now less than half of the original projection. That is troubling because the county budgeted significant uses of one-time reserves for capital projects in FY20, the biggest component more than \$26

million of meals tax reserves for the J.R. Tucker High School and Highland Springs High School replacement projects.

That significant use of fund balance paired with declining revenues could, if left unchecked, amount to a reduction in the County’s reserves of \$60 million. Some use of fund balance was anticipated, but a reduction of this magnitude must be met with a response to minimize the impact. Knowing that, in March the County implemented a spending freeze, hiring freeze, and began evaluating what existing projects had balances that could be recouped to soften impact to the bottom line. With those combined efforts, the goal is to minimize the reduction in fund balance to something commensurate to the planned use for the high school projects noted above.

Those savings efforts are complicated by the fact that the County is having to spend substantial resources to combat the coronavirus for the benefit of our residents and our employees. Some of those added financial exposures have included the purchases of substantial quantities of personal protective equipment, additional cleaning and supplies, and testing kits to ensure access to testing for our workforce. The County even ran a program, Nourish Henrico, that provided meals to first responders at local restaurants, to support locally owned restaurants who were struggling to keep afloat.

Revised FY21 Revenue Estimates

FY21 General Fund Revenues					
Category	FY20 Approved	FY21 Original	FY21 Revised	Original to Revised \$ Change	Original to Revised % Change
General Property Taxes	\$487.3 M	\$517.8 M	\$499.1 M	(\$18.7 M)	(3.6%)
Other Local Taxes	\$168.6 M	\$173.9 M	\$139.4 M	(\$34.5 M)	(19.8%)
Permits, Fees, and Licenses	\$5.3 M	\$5.5 M	\$5.3 M	(\$0.2 M)	(3.7%)
Fines & Forfeitures	\$2.1 M	\$2.1 M	\$2.1 M	(\$0.0 M)	(0.2%)
Use of Money & Property	\$8.2 M	\$9.3 M	\$3.3 M	(\$6.0 M)	(64.6%)
Charges for Services	\$4.1 M	\$4.2 M	\$3.8 M	(\$0.4 M)	(8.5%)
Miscellaneous Revenues	\$11.2 M	\$13.4 M	\$8.1 M	(\$5.3 M)	(39.5%)
Total Local Revenues	\$686.7 M	\$726.2 M	\$661.1 M	(\$65.0 M)	(9.0%)
State Aid for Schools	\$278.5 M	\$292.6 M	\$261.3 M	(\$31.3 M)	(10.7%)
State Gasoline Tax	\$47.0 M	\$47.7 M	\$47.0 M	(\$0.7 M)	(1.5%)
All Other State & Federal	\$49.1 M	\$49.2 M	\$48.1 M	(\$1.1 M)	(2.2%)
Total State and Federal Revs.	\$374.6 M	\$389.1 M	\$356.4 M	(\$33.2 M)	(8.5%)
Total General Fund Revs.	\$1,061.3 M	\$1,115.7 M	\$1,017.5 M	(\$98.2 M)	(8.8%)
<u>Transfers/Cash Reserves</u>	<u>(\$142.7 M)</u>	<u>(\$153.2 M)</u>	<u>(\$118.4 M)</u>	<u>\$34.8 M</u>	<u>(22.7%)</u>
TOTAL NET REVENUES	\$918.7 M	\$962.5 M	\$899.1 M	(\$63.4 M)	(6.6%)

The revised FY2021 General Fund revenue estimates, as shown in the table above, total just over \$1.0 billion and reflect bottom line reduction of nearly \$44 million when compared to the FY20 budget, and a staggering reduction of almost \$100 million from the original FY21 proposal in March. Overall, across the board declines in revenues are anticipated, with the greatest impact projected in consumer-driven lines such as sales, occupancy, and meals taxes. These consumer areas account for \$37.6 million, or more than 38% of the revenue reductions. Some of these projected declines are breathtaking, but have recently been validated as March meals tax and occupancy collections are down 33% and 50%, respectively, compared to the prior month.

The revenues shown remain within the bounds of the existing tax structure, holding the real estate tax rate at 87 cents – a hallmark of Henrico’s ability to provide the lowest residential tax burden of any large

locality in the Commonwealth. Further, the exemption level for BPOL taxes will be increased to \$500,000 of a business's gross receipts. This tax relief is even more critical in this recessionary environment, assisting our small businesses amid this downturn and ensuring they continue to thrive as we recover together. With this increase, approximately 15,000 or 78% of the applicable businesses will be exempt from BPOL taxes in Henrico County.

State and Federal revenues have been reduced \$33.2 million in the updated proposal. Finance staff anticipates the Commonwealth putting forward additional reductions that have not yet been announced. As we watch what happens in the capitol, notable assumptions are missing from the Commonwealth's projections as it relates to sales taxes, even though the Secretary of Finance noted in March that sales taxes would be impacted. At the state level, there have also not been adjustments made to lottery proceeds, despite lottery sales being down \$45 million or 28% in March. Our approach is to hedge against a worst-case scenario when it comes to outside funding, as demonstrated by our state revenue estimates that are considerably more conservative than what has been put forth by the state itself, to date. Further, this revised budget does not assume any resources from federal stimulus efforts as not enough details have been released to comfortably include them at this time – and knowing, that we cannot and will not spend one-time dollars on ongoing operating expenses.

With the cautionary approach to revenues that we have taken, it is my hope that we are adopting a plan that will represent the floor of this economic environment. If, and when, additional revenues materialize, this plan will be amended to account for them.

Strategic Approach to the Expense Side of the Plan

Balancing a budget with a nearly \$100 million revenue decline in just over a month was no small undertaking. A careful, thoughtful, and strategic approach was deployed to do so. The first step – which arguably was the easiest and the hardest – was to remove all new initiatives from the original plan for FY2021. In addition, the County still had some cost increases that could not be avoided for items like changes in VRS and healthcare rates, staff for the Staples Mill Firehouse who were already brought on board, and three positions in the Commonwealth's Attorney's Office as those were approved by the Board of Supervisors in December. These increases total \$13.3 million making the offsetting cuts, to accommodate those costs paired with the projected revenue loss, even deeper.

The Board of Supervisors and School Board met several times to strategize about the year ahead, and out of those discussions the collective boards provided input on their priorities which ultimately drove all other balancing decisions. Underscored by the need for substantial flexibility, those priorities include:

- Limiting the impact and financial burdens on our residents,
- Helping our small businesses survive during these difficult times,
- Protecting the workforce by maintaining jobs and avoiding pay reductions, and
- Ensuring continuity of service delivery for core services – namely, Education and Public Safety.

In order to balance the budget with these pillars intact, substantial cuts to operating and capital budgets were necessary. A minimum reduction of 5% to operating budgets for every department, including schools, was required. Additionally, certain departments were able to identify savings beyond that, resulting in some disproportionate reductions in certain lines like library materials and event funding in Recreation.

To further reduce the budget without impacting service levels, hundreds of vacant, non-public safety positions will be frozen for the duration of FY21 to achieve \$5.7 million in savings. For HCPS, a total of

\$4.5 million in savings will be realized through a similar strategy of holding non-instructional positions vacant and other personnel related adjustments. These strategies do mean that we will be asking our existing employees to continue to do more as we bridge the gap.

On April 14, we announced the longest budget public hearing in Henrico's history. We opened an email address, budgetfeedback@henrico.us, that will remain open for cost saving strategies and suggestions for the duration of FY21. That strategy has already proven productive as we have received hundreds of responses, many of which are bringing forward legitimate strategies for the county to explore. As a complement to that feedback mechanism, a team of more than 40 employees have volunteered to vet each suggestion that comes through and to work throughout the next year to craft additional cost savings strategies for the Board to consider. In fact, this revised plan includes one strategy that came directly from that public feedback, a voluntary retirement incentive program that is estimated to save \$1.5 million in FY21.

Finally, the largest savings comes on the capital front. Nearly \$23 million in cash-funded capital projects are being deferred from the original FY21 Capital Improvement Plan. Make no mistake, however, that once the economy rebounds, we will be poised to continue pushing these critical infrastructure projects forward.

One of the biggest changes as we move ahead will be the nearly constant budget touchpoints that are planned through a quarterly appropriation process. What you are adopting is a framework that provides a roadmap for how we will operate throughout the fiscal year. On July 1, the Board will appropriate only a quarter of the total budget - requiring staff to work diligently to remain within existing resources, to constantly evaluate programs and services, and to provide the Board the opportunity to reevaluate the plan every 90 days before making the next quarter appropriation.

We Will Emerge Stronger, Together

Without doubt, the revised FY2021 Budget is not the plan we had hoped for, but it is exactly the plan we need to navigate this turbulent environment. And, while our resources for the coming months remain limited, we will continue to deliver the core services our community relies on and remain mindful of the continued impacts this event will inevitably have on our residents.

This budget would not have come together without the many hours of hard work by staff. Henrico County employees are again asked to serve with significantly fewer resources, and their efforts will see us through this. I would like to thank you, our dedicated Board of Supervisors, for your input and guidance in this most important process. And I also extend my sincere gratitude to our strong Superintendent and School Board for working hand-in-hand with us during this extended budget process.

While our local economy has been devastated over the past two months, unlike anything we have ever seen, I know that our community is resilient and will rebound from this. It is in times like these where we can truly exemplify The Henrico Way and demonstrate our collective hearts for service. We will emerge from this event stronger, together.

Respectfully submitted,



John A. Vithoukas
County Manager



COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

John A. Vithoulkas
County Manager

March 10, 2020

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

I am honored to submit Henrico County's FY2020-21 Proposed Budget. The Proposed Budget is balanced within available resources, meaning there is no change to the **real estate tax rate of 87¢**. Having no increase in the rate for the 42nd consecutive year further cements the County's commitment to maintaining the lowest tax burden of any large locality in the Commonwealth. Providing top-flight services at a low cost is, in fact, Henrico's DNA. At the end of the day, the resources allocated in this budget belong to the residents, and it is our job to provide the greatest value for their investment.

The Proposed Budget continues to emphasize strategic investments in education and public safety, both top priorities for our residents, with more than 86% of the incremental revenues in the FY2020-21 budget invested in those core services. And, with this proposal, Henrico continues to lead the region as with the **highest starting pay for entry-level police officers, firefighters, and teachers**. In addition, the FY2020-21 budget continues the prior year teacher retention efforts adopted by the Board of Supervisors and the School Board by implementing a teacher "**Career Ladder**" program to both further develop our teachers' talents and reward them for "**best in class**" performance.

Across all agencies in the County, our employees are the one constant for the excellent services provided. Attracting and retaining employees who exemplify "The Henrico Way" is critical in meeting the expectations of our residents. As such, **65% of the General Fund budget increase** is dedicated to compensating the workforce. Henrico has fewer employees serving our residents in total by any metric. As we ask our employees to do more, this Budget rewards their exemplary efforts with a **3% merit-based salary increase** for all General Government and Schools' employees.

In addition, the Proposed Budget recognizes the biannual increase of contribution rates to the Virginia Retirement System (VRS) and the ever-rising costs of health care. VRS contribution rates increased for both teachers and General Government employees and account for \$4.6 million of the budget increase. For FY2020-21, the County's share of health care premiums increased \$5.6 million, which minimizes the burden on the employees while remaining diligent to build appropriate reserves in the Healthcare Fund.

FY2020-21 Revenue Assumptions

FY21 General Fund Revenues					
Category	FY19 Actuals*	FY20 Approved	FY21 Proposed	FY20 to FY21 \$ Change	FY20 to FY21 % Change
General Property Taxes	\$484.4 M	\$487.3 M	\$517.8 M	\$30.5 M	6.2%
Other Local Taxes	\$186.8 M	\$168.6 M	\$173.9 M	\$5.4 M	3.2%
Permits, Fees, and Licenses	\$7.8 M	\$5.3 M	\$5.5 M	\$0.2 M	3.4%
Fines & Forfeitures	\$2.1 M	\$2.1 M	\$2.1 M	\$0.0 M	0.2%
Use of Money & Property	\$16.5 M	\$8.2 M	\$9.3 M	\$1.1 M	13.1%
Charges for Services	\$4.4 M	\$4.1 M	\$4.2 M	\$0.1 M	3.1%
Miscellaneous Revenues	\$14.5 M	\$11.2 M	\$13.4 M	\$2.2 M	20.0%
Total Local Revenues	\$716.5 M	\$686.7 M	\$726.2 M	\$39.4 M	5.7%
State Aid for Schools	\$269.7 M	\$278.5 M	\$292.6 M	\$14.2 M	4.9%
State Gasoline Tax	\$49.0 M	\$47.0 M	\$47.7 M	\$0.7 M	1.5%
All Other State & Federal	\$49.7 M	\$49.1 M	\$49.2 M	\$0.1 M	0.1%
Total State and Federal Revs.	\$368.4 M	\$374.6 M	\$389.1 M	\$14.9 M	4.0%
Total General Fund Revs.	\$1,084.9 M	\$1,061.3 M	\$1,115.7 M	\$54.0 M	5.1%
<u>Transfers/Cash Reserves</u>	<u>(\$205.5 M)</u>	<u>(\$142.7 M)</u>	<u>(\$153.2 M)</u>	<u>(\$10.5 M)</u>	<u>5.7%</u>
TOTAL NET REVENUES	\$879.4 M	\$918.7 M	\$962.5 M	\$43.9 M	4.8%
*FY19 Actuals reflect PPTRA as a local revenue for comparison purposes					

General Fund revenues for FY2020-21 are planned at \$1.1 billion, which represents an increase of \$54.0 million or 5.1%. Net of transfers and uses of fund balance, the County's overall General Fund is proposed to increase by \$43.9 million, or 4.8%. While 5.1% budget growth is healthy, it is important put to this into context, noting that the **FY2020-21 Budget is only projected to be 2.8% higher than actual revenues from FY2018-19**. This exemplifies conservative revenue estimations, which allows the County to build reserves and provide increased resources for pay-as-you-go capital projects.

Real estate tax revenues in the Proposed Budget are anticipated to be \$368.0 million and reflect an overall increase of \$22.8 million over the FY2019-20 Budget. The total real estate tax base, inclusive of new construction and reassessment, increased by 6.1%. **Residential reassessments increased 3.7%**, with **commercial reassessments increasing 6.6%**. New construction in 2019, both commercial and residential, added \$585.9 million to the real estate tax base.

As shown in the chart above, most of the revenue growth can be attributed to local resources, isolated in real estate taxes, personal property taxes, and local sales tax. In the area of State Aid, the FY2020-21 budget conservatively estimates resources, showing an increase of \$14.9 million. Minimal growth continues to be expected in State Aid for General Government, as it is largely dragged down by the continued deterioration of the Communications Sales and Use Tax. A net increase of \$14.2 million is anticipated in State Aid for Education, which is more than 95% of the total State Aid increase. While Aid from the Commonwealth represents approximately one-third of all General Fund revenues, Henrico must continue to be extremely cautious when appropriating these funds as aid to localities is often the first place to be scaled back during hard times.

Finally, it has been 11 years since the end of the last recession. And, while the national economy has embarked on the longest period of economic growth in modern times, the economy is cyclical in nature. Cautionary signs are evident as we look ahead, particularly with the macroeconomic impacts of the COVID-19, or coronavirus, and in consumer spending categories, and those metrics will continue to be monitored year-round by finance staff.

Fiscal Stewardship as the DNA

This budget makes several notable steps forward in the areas of fiscal stewardship, both in ensuring the structural sustainability of our budget and in mindfulness related to the tax burden being placed on our residents and businesses. The Proposed Budget continues tax relief efforts for both businesses and residents, **increasing the full exemption threshold from BPOL taxation to \$500,000** and adding \$500,000 for real estate tax relief for seniors and disabled residents in recognition of the rising costs of these programs. Let it not be lost, however, that even with a higher BPOL exemption, revenue is still projected to increase. Focusing on the bottom line for our customers, the Public Utilities' budget ensures the safety of drinking water to County residents and the safe transfer of sewage to the County's Wastewater Treatment Center by maintaining the system's current infrastructure with \$3.05 per month increase for the median residential customer.

The Proposed Budget places additional focus on structural needs in FY2020-21 by adding additional ongoing revenues to the County's Technology Replacement Fund and attempting to eliminate the annual, mid-year amendment for the County's Risk Management Fund. With the County's Technology Replacement Fund, all general government employees have the computer equipment necessary to perform their duties. This budget adds \$250,000 in ongoing revenues for a total of \$3.0 million, which provides an adequate replacement cycle to ensure all employees are working with current technology. On the Risk Management Fund front, \$4.3 million is added to this budget and marks the third of a multiyear effort to bring fiscal structure back to this operation. Additionally, aggressive efforts to limit expense growth will continue to be explored in FY2020-21.

This Budget also minimizes the use of reserves in the Central Automotive Maintenance (CAM) operation, which is a nice parallel to the significant improvement of the County's General Fund reserves over the past five years. The strengthened CAM budget increases the hourly labor rate and fuel markup. This is the third year of a phase-in to more accurately project and cover costs within the fund. All of these efforts reinforce Henrico's reputation as a well-managed locality and its position as **one of just 48 counties nationwide to achieve a triple-AAA bond rating.**

Our Future: Henrico County Public Schools

The Proposed Budget for FY2020-21 **provides more than \$36 million in new resources for education.** Those funds will be deployed strategically to reduce class sizes and provide additional student and teacher supports in the classrooms. In addition to the recommended pay increase, the budget also includes a targeted adjustment of \$255,000 for 143 of our most senior teachers. Proposed funding will also extend planning periods and continue implementation of the Achievable Dream Academy and CodeRVA. The Proposed Capital Budget for Schools fully funds projects to **replace J.R. Tucker and Highland Springs high schools simultaneously** by appropriating all available capital meals tax resources. To best position our schools for a redistricting plan that meets the needs of the division for many years to come, the budget adds capacity in the northwest corridor of the County by providing **\$45.5 million in FY2020-21 for an eight-classroom addition at Hungary Creek Middle School and a new elementary school** located within the Fairfield magisterial needed to accommodate residential growth.

The overall General Fund budget for Schools is increasing \$27.9 million, or 5.4%, to \$542.4 million. That total continues to represent more than 56% of the County's General Fund budget. With the improvement in scores on the Standards of Learning (SOL) assessments occurring, we turn our focus on improving the physical environment of our school facilities. Additionally, with the increasing diversity of our school community and the growing tally of supports needed, now is the time to invest further in the students who will represent the future of the County.

In 2018 the County committed to providing \$3.2 million per year of incremental resources over a three-year period to **reduce class sizes and support teachers’ efforts in the classroom**. The FY2020-21 Budget marks completion of that initiative with the final increment of \$3.2 million being made available to reduce class sizes and provide additional teacher supports, including 15 permanent substitute teacher positions. In addition to this prior commitment, the recommended plan continues other multi-year program enhancements **including the addition of \$3.0 million for 40 elementary school counselors**. This addition is two-fold as it not only addresses the Governor’s proposed staffing standard of one school counselor for every 250 students, but it also provides the necessary resources to accomplish providing **a planning period for every elementary school teacher**. Finally, this budget also converts several temporary library assistants to full-time positions, adds \$137,000 for a position to plan for the opening of the Holladay Elementary School expansion, \$150,000 to enhance residency compliance efforts, \$200,000 for GPS tracking of school buses, \$200,000 for an emergency planning response system, and safety staffing for transportation hubs.

The FY2019-20 Budget provided the basis to begin the implementation of **“Career Ladders”** – a career development program that provides an avenue for teachers to increase their compensation by further developing their skills. This was a key finding of the Salary Compression Committee created by the Board of Supervisors in order to not only provide additional compensation but mitigate future salary compression. The FY2020-21 Budget includes \$3.1 million to begin the implantation of this effort that will further our goals of attracting and retaining the best teachers for Henrico’s children.

Resources Allocated to HCPS in FY21 Budget	
General Fund Budget Increase	\$27.9 M
Increase to School Bus Replacement	\$0.7 M
Increase for Risk Management	\$2.6 M
Local Increase for School CSA Costs	\$1.2 M
Replace One-Time Resources in FY20	\$4.7 M
Debt Service Savings	(\$1.0 M)
Total Resources Allocated to HCPS	\$36.1 M

The increase for the General Fund is only part of the picture when it comes to the resources provided to our school system. Also included in the FY2020-21 Proposed Budget is an increase in funding for the **School Bus Replacement Program**, a significant addition of local resources to the Children’s Services Act program, and the Schools’ portion of incremental funding for Risk Management. These, plus the inclusion of ongoing funding relating to compression adjustments bring a total of **more**

than \$36 million of new resources to bear in our school system.

The County has built a strong partnership with the YMCA of Greater Richmond to build the Henrico Aquatics Center near the Eastern Henrico Recreation Center. This facility has long been a priority of the community and with the construction of the aquatics center now underway, HCPS will have a facility to host VHSL swim meets and have an additional facility in which to teach every second grader in the County how to swim. The FY2020-21 Budget will include \$100,000 to support transportation needs for the swimming program as an essential step toward meeting the Board’s goal of making Henrico drown-proof.

This Budget would not be possible without the strong support of Superintendent Dr. Amy Cashwell and collaborative relationships that have been built with the School Board. I would like to take this opportunity to personally thank Dr. Cashwell and each School Board member for working with me and the Board of Supervisors to ensure the children of Henrico are “life-ready” upon graduation.

Strategic Focus on Public Safety

Maintaining a safe and secure community is key to the quality of life provided in Henrico. After education, funding for the County’s public safety agencies is the highest priority. In fact, more than 86% of the revenue increase for FY2020-21 is strategically allocated to Education and Public Safety. The Proposed Budget honors prior commitments to Public Safety while funding several new endeavors with a total of

\$10.6 million in incremental General Fund resources. Additionally, the Capital Budget includes additional funding for the Staples Mill Firehouse and the replacement of the Police South Station.

In the Division of Fire \$318,000 is recommended for cost increases related to personal protective equipment, extrication equipment, maintenance and repairs for station exhaust systems and bay doors, and medical supplies. This is in addition to the \$3.3 million in annual funding provided for apparatus replacement to upgrade fire engines, ladder trucks, ambulances, and other equipment on a regular schedule. Providing the necessary, proper equipment to our firefighters is crucial to maintaining the level of excellence the citizens have come to expect.

This holds true for our police officers, as well. The FY2020-21 Budget includes \$200,000 for enhancing the ballistic equipment program and the provision of tactical equipment. Boosting these important equipment programs will go miles in making sure our officers are as safe as possible when responding to the most difficult of circumstances. In Police's vehicle replacement fund, \$400,000 is included to address the increasing costs of police vehicles to maintain their regular replacement schedule. There is also an increase of \$20,400 for additional training for communication officers in using the new emergency dispatch software. There are two additional Police positions proposed in this budget - a Latent Print Examiner and a Crime Analyst. Both civilian positions will free up a sworn officer to be redeployed in the field.

In response to the increased workload put upon the Commonwealth's Attorney's Office from both diversion efforts and digital evidence review, the Proposed Budget recognizes the three new attorneys approved by the Board in December 2019. In addition, the budget picks up the cost of upgrading the software utilized to review the body worn camera footage, which allows for viewing multiple cameras at one time to view an incident from multiple vantage points. The Proposed Budget also begins to fund the recommendations from **the Recovery Roundtable**, which over the course of nine months explored the County's current approaches to substance abuse disorders and determined what changes were possible to create a more comprehensive approach to this important issue. The proposal allocates a total of \$840,586 in new resources to multiple agencies for the first year of a multi-year approach strengthen the County's response to addiction.

Sustainability as an Emerging Area of Emphasis

The Proposed Budget expands the County's commitment to environmental stewardship. Over the past couple of years, Henrico has seen the effects of changing global weather patterns and the impacts they have on our community. Historic rainfall revealed flooding conditions that have created stress on homeowners, businesses, and public infrastructure. Fortunately, the County has made significant progress with its MS4 Permit requirements, as significant pollutant reductions have been achieved and the County is well on its way to achieve the permit goals for 2025. Knowing that, this budget redirects stormwater funding in FY2020-21 to allow for **property acquisitions to mitigate flooding effects**. Additionally, the proposal includes \$500,000 to walk streams and remove debris to reduce the effects of further flooding.

The FY2019-20 budget noted increasing costs to process recyclable materials resulting from international buyers refusing to take certain materials due to contamination and their inability to utilize contaminated materials. Despite these challenges, there is still strong interest in continued recycling efforts that minimize the amount of refuse from Henrico County that enters a landfill. The region is in the process of securing the next contract, which will become effective in FY2024. It is the County's goal to ensure that with that new agreement the County could expand its program to townhomes, condominiums, and apartments while also transitioning from 24-gallon bins to 96-gallon carts. To do this will undoubtedly require an infusion of resources. While a staff proposal is being finalized and formalized, it is likely that

an annual recycling fee of around \$24 per household would allow the programs to continue, as envisioned, without significant additional subsidies from the General Fund.

Maintaining an attractive community where people want to live is a vital aspect of the County's economic development efforts. Over the past two years, the County has made many efforts to improve communities including adding a Housing advocate and the Housing Advisory Committee, changing the County's ordinances to provide additional tools to address blighted properties, and expanding the ReInvest programs. The County has also assisted in rehabilitating 15 % of the subsidized apartment units in Henrico. One effort that has made an immeasurable impact since its inception has been the creation of the **Community Revitalization Fund**, which has leveraged private and nonprofit investment in distressed communities. Noting the successes seen over the past year and a half, this budget identifies an additional \$1.0 million to continue this momentum.

Finally, this budget recognizes the creation of the County's newest sanitary district to provide street lighting to the Montezuma Village neighborhood along with funding to cover the ongoing electricity and maintenance costs.

Economic Development Remains Mission Critical

The Proposed Budget includes recommendations to continue the positive momentum of our local economy. On the tax side, the recommendation is to increase the BPOL tax exemption threshold from \$400,000 to \$500,000, making it the highest among our peer localities. By increasing the exemption to \$500,000 Henrico will be even more attractive to prospective businesses and will exempt an additional 500 existing business from the tax. Over a four-year period, the exemption threshold has increased from \$100,000 to \$500,000 and **approximately 15,000 businesses are now exempt from paying BPOL**. New business recruitment and job creation also remain among the County's highest priorities, as evidenced by Henrico now having the second highest number of jobs in the state, trailing only Fairfax County. In addition, the budget includes the creation of a fund to support the creation of a Technology Zone in the Innsbrook area.

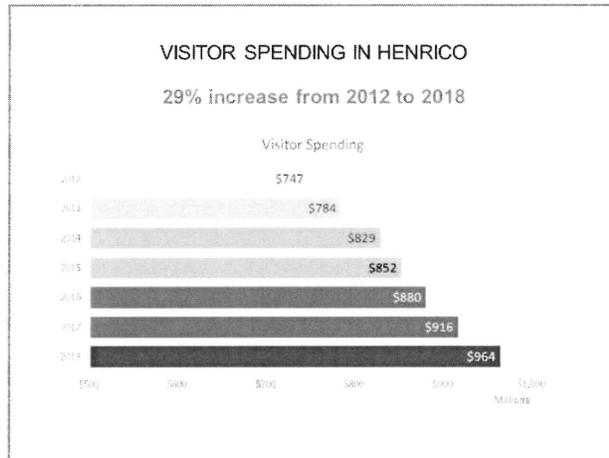
These efforts continue the successes of prior year tax policy changes, including the reductions of the personal property tax rate for data centers in 2017, the airplane personal property tax rate in 2016, the machinery and tools tax in 2016, the reductions in BPOL tax, the undertaking of the Cobbs Creek Reservoir project, and the reduction of water and sewer connection fees in 2016. In addition, Henrico again affirms its practice of not charging a stormwater tax or assessing an ambulance fee. These initiatives, combined with our exceptionally low real estate tax rate, make Henrico stand out to new business prospects.

Since 2012, the County has also focused heavily on development of the tourism sector, specifically in the area of sports tourism. The FY2020-21 Budget includes the initial funding of \$5 million for Taylor Park and fully acknowledges the debt service requirements for the Indoor Sports Facility. The untapped potential for indoor sports has been estimated at \$32.6 million in visitor spending annually. As such, the County entered into an agreement for a public-private partnership to construct an indoor sports facility at Virginia Center Commons, that could also serve as a convocation center for County events such as high school graduations. The \$50 million in bonds to construct this facility were recently sold with an interest rate of 2.35%. This facility will help Henrico tap into new tourism territory and, most importantly, provide a community meeting place large enough to host gatherings such as high school graduations. The total debt service for of \$3.3 million for the project is being covered fully by tourism revenues already collected by the County.

The County's tourism efforts continue to drive growth in sales tax, meals tax, and hotel/motel tax receipts. In fact, during 2018, the County recorded a 5.2% increase in 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 2012, tourism spending in Henrico has increased 29%. Under the direction of the Board of Supervisors, Henrico has taken steps to highlight our County as a destination for tourists and recreational sports tournaments. The results continue to impress. As a result of prior investments for Glover Park and future investments approved by the voters in the 2016 General Obligation Bond Referendum, the impact of visitor spending should continue to grow.

Specifically, the CIP includes \$5 million for the first year of funding for Taylor Park in the Sandston area as well as funding to build-out Glover Park, make improvements to Dorey Park, and the finalize renovations of the high school fields. The expansion of field capacity in Henrico is crucial to attracting new sports tournaments to the region. However, this is not the lone reason to renovate these fields. Citizen use is paramount in the design.



Infrastructure as the Community’s Backbone

The FY2020-21 Proposed Budget continues to include capital and debt service costs related to the overwhelming approval of the \$419.8 million 2016 Bond Referendum. And, as previously mentioned, \$45.5 million in Virginia Public School Authority bonds in FY2020-21 to fund an **eight-classroom at Hungary Creek Middle School** and a **new elementary school in the Fairfield magisterial district**.

The 2016 bond projects included in the FY2020-21 Capital Budget include the first-year appropriations for the Richmond-Henrico Turnpike and Taylor Park. Both projects are anticipated to receive a second appropriation in FY2022. The third project included in the FY2020-21 budget is improvements for Deep Run Park, which will renovate the fields and other amenities available at this busy site. The FY2020-21 Capital Budget does not, however, include the planned \$27 million for the Glen Allen ACE Center. The FY2019-20 budget included \$10 million for the project, but \$8.5 million was transferred to support the replacement of the two high schools in September. HCPS is currently designing the project and, will have a refined cost estimate for this project to be considered later.

VPSA and G.O. Bonds in FY21 Capital Budget	
Fairfield Elementary School	\$34.0 M
Hungary Creek MS Addition	\$11.5 M
Richmond-Henrico Turnpike	\$5.0 M
Taylor Park	\$5.0 M
Deep Run Park	\$4.0 M
Total, FY2020-21 Bonds	\$59.5 M

Outside of the 2016 General Obligation Referendum projects, the FY2020-21 CIP 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 and \$5.2 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 remains a focus in the Capital Budget.

Elsewhere in the Capital Budget, \$2.9 million is allocated to begin the funding process for an **‘Administration Infill Building’** on the Western Government Center campus. The budget also includes \$5.2 million for the various maintenance programs that keep County facilities running such as roof replacements, mechanical improvements, technology infrastructure projects, and park maintenance. The

Electronic Land Management System (ELMS) project also requires additional funding. Finally, the Capital Budget includes funding to pave the parking lot across Dixon Powers Drive from the Juvenile & Domestic Relations District Court building.

Within the Division of Fire, the Budget includes \$1.8 million for staffing and operating dollars for the Firehouse #20, what will be more commonly referred to as the Staples Mill Fire Station. This fire station will be located on land on the Western Government Center Complex and include four apparatus bays for apparatus operating out of this new facility as well as storing equipment that does not currently have a home. With the fourth bay being added to the scope of this project as well as significant stormwater infrastructure that will not only allow for the construction of the fire station but future development on other parcels near the new station, an additional \$3.0 million is included in the Capital Budget to cover these additional costs.

The Department of Public Utilities' budget includes undertaking significant annual maintenance projects and new projects to meet the County's water supply needs for the next 50 years through the Cobbs Creek Reservoir – a project that will be completed in 2021. The Capital Budget also contains numerous projects to maintain and rehabilitate the County's Water and Sewer system and includes significant improvements and expansion at the Water Reclamation Facility to meet regulatory requirements.

Henrico is one of only two counties in Virginia that maintains its secondary road network, one that is the third largest road network in the Commonwealth. This responsibility has proven to be a key piece of Henrico's economic development strategy as the County is not overly reliant upon other governmental partners to provide the necessary road infrastructure to support continued business expansion. The proposed budget builds upon the efforts of the past to fulfill prior commitments and provide additional opportunities in the future. The Richmond-Henrico Turnpike project widens 1.9 miles of an important road that stretches from Laburnum Avenue to the county line while improving drainage and adding pedestrian paths parallel to this road. In addition, the Proposed Budget includes \$500,000 to continue the justification process for the proposed I-64 interchange at North Gayton Road. This project is important for mitigating traffic congestion in Short Pump on both I-64 and West Broad Street.

The Capital Budget continues the funding efforts for **pedestrian improvements**. The FY2020-21 Budget will build on the 33 miles of sidewalk constructed since 2014. As the Board is aware, the County utilizes the \$2.5 million in annual pedestrian improvement funding to leverage millions in State and Federal funding sources for these improvements that citizens have requested. As such, the plan is to complete an additional 23 miles of sidewalks and trails over the next three years.

Beyond the Proposed FY2020-21 Budget, the General Assembly approved the creation of the **Central Virginia Transportation Authority**. Like the authorities created in the 2013 Transportation Bill, the CVTA will utilize funding from an increase in Sales and Use Tax and Gasoline Tax in the communities within Planning District 15 for major transportation infrastructure projects. To put it simply, the CVTA is an absolute game changer as it will allow Central Virginia to expand its transportation network to avoid congestion issues that plague other parts of the Commonwealth. In addition, the CVTA framework will allow the regional GRTC budget to increase 43%. We are actively working with the other participating localities to quickly establish the framework of the new authority's administration of the funding.

Another Bright Year Ahead

The FY2020-21 Manager's Proposed Budget adheres to our fiscal DNA by addressing the critical priorities within our community while remembering from where the resources to do so come. We continue to do everything we can to make sure our children are afforded the best education available and all residents can work and play in a community that is safe and sustainable. The Capital Budget continues to bring

forward new facilities to keep up with growth and service demands. The budget also keeps an eye on maintaining current infrastructure to avoid costly replacements down the road. This budget continues to put forward tax relief to businesses and seniors and maintain as low of a tax burden as possible – one that is the lowest of any large locality in the Commonwealth.

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 additional structure back to the budget allows us to begin preparations for the next economic storm. This is not our first exercise in this realm. With strong reserves and a history of fiscal prudence, we have a proven track record of navigating the highs and lows of our cyclical economy. This budget is more than a one-year depiction of revenues and expenditures. It has been put forward with the understanding that cycles come and go. Henrico always takes the long view and a multi-year perspective.

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. The commitment to service is what embodies “The Henrico Way,” and I am truly grateful and appreciate all that our employees do.

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', written in a cursive style.

John A. Vithoukas
County Manager