



COMMONWEALTH OF VIRGINIA

COUNTY OF HENRICO

John A. Vithoulikas
County Manager

March 2, 2022

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

I am proud to present to you the FY23 Manager's Proposed Operating and Capital Budget. The plan, as presented, is balanced with a real estate tax rate of 85 cents – a 2 cent decrease from the current rate of 87 cents. This reduction is on top of the historic tax relief this County's taxpayers are receiving at this moment through the real estate tax relief refund the Board adopted on February 22, 2022. This is the seventh time the real estate tax rate has been reduced in the past 44 years while not having been increased – a testament to Henrico's commitment to permanent tax relief.

The budget before you balances tax relief with maintaining Henrico's position as the pay leader in the region by rewarding our employees who play a critical role in our community's success. Whether it is the police officers keeping our community safe, firefighters responding at a moment's notice to an emergency call, a teacher preparing their students for the jobs of tomorrow, or custodial staff maintaining a clean environment for everyone who steps foot in a County facility, Henrico employees excel at their jobs daily. Therefore, we will continue to be the pay leader with **a 5% salary increase included in this budget proposal.**

Local government's two biggest functions are providing a safe community and preparing children to be productive members of our society. This budget continues to put these priorities first and foremost by allocating over 78% of the General Fund budget to Education and Public Safety. The budget includes 22 new police officers, 11 firefighters, and 84 new teaching positions. Including enhancements to the apparatus/bus/vehicle replacement programs and new resources in the capital budget, a total of nearly \$91 million in new resources will be allocated to these vital areas in FY23.

With over \$2 billion in infrastructure needs identified over the next five years in the County's Capital Improvement Program (CIP), the FY23 capital budget lays the foundation for a general obligation bond referendum in November 2022. The total of the referendum is \$511.4 million over six years with projects proposed for education, public safety, recreation, and drainage and flood mitigation. To get the first year of proposed bond projects shovel ready, a total of \$20 million is allocated for three education projects and two general government projects.

Revenues

The projected revenues in the FY23 proposed budget total \$1.2 billion and reflects an increase of \$90.7 million, or 8% when compared to the FY22 approved budget. Local revenues reflect nearly \$62.4 million of that increase while State & Federal revenues account for \$28.3 million of the increase.

General Property taxes account for \$578.4 million of the FY23 proposed budget and reflect an increase of \$47.1 million, or 8.9% when compared to the FY22 budget. Of that total, Real Estate accounts for \$415 million and is based on a real estate tax rate of 85 cents per \$100 assessed value – a 2-cent decrease effective for tax year 2022.

FY23 General Fund Revenues				
Category	FY22 Approved	FY23 Proposed	FY22 to FY23	FY22 to FY23
General Property Taxes	\$531.3M	\$578.4M	\$47.1 M	8.9%
Other Local Taxes	\$170.6M	\$195.1M	\$24.5M	14.3%
Permits, Fees, and Licenses	\$6.8M	\$6.8M	\$0	0.0%
Fines & Forfeitures	\$2.1M	\$2.1M	\$0	0.0%
Use of Money & Property	\$11.3M	\$2.4M	(\$9.0M)	(79.0%)
Charges for Services	\$3.7M	\$3.8M	\$0.1M	1.1%
Miscellaneous Revenues	\$8.3M	\$8.1M	(\$0.2M)	(2.9%)
Total Local Revenues	\$734.1M	\$796.5M	\$62.4M	8.5%
State Aid for Schools	\$299.1M	\$324.6M	\$25.5M	8.5%
State Gasoline Tax	\$48.5M	\$50.2M	\$1.6M	3.4%
All Other State & Federal	\$46.4M	\$47.6M	\$1.2M	2.5%
Total State and Federal Revs.	\$394.0M	\$422.3M	\$28.3M	7.2%
Total General Fund Revs.	\$1,128.2M	\$1,218.9M	\$90.7M	8.0%
Transfers/Cash Reserves	(\$144.2M)	(\$155.3M)	(\$11.1M)	7.7%
TOTAL NET REVENUES	\$983.9M	\$1,063.5M	\$79.6M	8.1%

The 2-cent rate decrease is in addition to the 2-cent real estate tax relief credit the Board authorized on February 22, 2022, which utilizes surplus real estate tax collections from FY21 to pay to current real estate property owners a tax credit based on their 2022 values. This “2+2” tax relief package is warranted because of the historic increases in real estate assessments. The total assessments as of January 1, 2022, reflected an increase of \$5.4 billion – the largest increase in the County’s tax base ever recorded. Residential reassessments increased \$3.2 billion, or 10.4%. Commercial reassessments increased \$1.8 billion, or 13.2% compared to 2021 values. Apartments, warehouse and industrial properties, and hotels all had reassessment levels that exceeded 20% while office properties had reassessments decrease \$106 million. Finally, new construction added over \$540 million to the tax base, with \$309 million from residential properties and \$231 million from commercial properties. While reassessment increases of this nature are not sustainable – the value of real estate typically tracks with inflation – the fundamentals of this real estate market (high demand, low supply) differ from those that fed the real estate bubble of the 2000s.

Total revenues from personal property taxes are projected to increase by \$14 million in FY23. The increase is reflective of the current market for vehicles as the value of personal vehicles rose by 18%. While vehicles are known to depreciate annually, supply chain issues leading to a scarcity of new vehicles have increased the value of used vehicles significantly. The estimate for personal property does account for the establishment of a lowered rate for biotechnology equipment as an economic development effort.

Other local taxes are estimated over \$195 million in FY23 and reflect increases in sales tax collections, the recovery of hotel/motel taxes, and meals taxes. The estimate for sales tax is \$80.3 million in FY23, reflecting the significant rise in collections in the past 8 months, as each month has increased by at least 13% when compared to the same month last year. It is worth mentioning the FY23 estimate is less than the current projection of \$85 million for FY22 because, as of this writing, the General Assembly is considering the elimination of the local portion of sales tax levied on groceries and personal hygiene products. Meals tax collections will total \$28 million, which reflects the full restoration of ongoing revenue for operating (\$10 million), debt service (\$9 million), and maintenance capital (\$9 million). Finally, the current year projection for hotel/motel taxes warrants the restoration of the pre-pandemic estimate of \$14 million in FY23 as sports tournaments have reopened and family travel is picking up.

State revenues in FY23 will total \$422.3 million, an increase of \$28.3 million over the FY22 approved budget that is based largely on the Governor's proposed biennial budget. The bulk of the increase is in the area of education. A review of the competing budget proposals within the legislature suggests the current estimates are sound and will be met and exceeded by actual collection in the upcoming year. Conservative estimates are in place for the other areas of State aid as gas tax payments are level with FY21 actuals and payments for offices funded by the Compensation Board are projected to increase by 2.7% from FY21 actuals.

Maintaining Our Position as the Pay Leader

Last year, this County provided its employees with "generational" pay increases. A minimum of 4.4% was provided to all eligible employees, with market and longevity increases providing some employees with compensation adjustments above 15%. The intent behind these increases was to make it clear that Henrico would not be surpassed when it came to pay. This is not something we can compromise on as we ask our employees to do so much daily with operating at efficiency levels not seen since the 1980s.

<u>5% Salary Increase by Area</u>	
Education	24,226,335
General Government	15,032,264
Water & Sewer	567,200
Total	39,825,799

The FY23 budget builds on the foundation set by the 2021 pay adjustments. First and foremost, the FY23 budget provides a 5% merit-based salary increase to all employees. This recommendation is not taken lightly, as its cost is nearly \$40 million across all funds including general government, HCPS, and the Water & Sewer Enterprise Fund. Additionally, the FY23

budget provides funding to Henrico County Public Schools to begin the implementation of the **Instructional Career Ladders program**. This is a first-of-its-kind approach to provide teachers the opportunity to earn more through a career development program that ultimately pays off in better teachers providing better instruction to students in the classroom.

Education

The budget for Henrico County Public Schools, including the General Fund, School Cafeteria Fund, State & Federal Grants, and debt service for Education projects, totals \$762.9 million in

FY23. The General Fund alone totals \$602.7 million, an increase of \$41.7 million and reflects 56.7% of the total General Fund budget.

Resources Allocated to HCPS in FY23 Budget	
General Fund Budget Increase	41,735,816
Restore Meals Tax For Capital	4,000,000
Debt Service Increase	4,548,451
School Bus Replacement Inc.	1,300,000
Bond Project Planning	13,000,000
Virginia Randolph Renovation/Rebuild	5,000,000
Total	69,584,267

In addition to the salary increases, the FY23 budget includes several allocations to enhance academic growth, provide for the health and welfare of students, and expand equity and opportunity for all students. The budget also expands the Achievable Dream Academy to 7th grade, provides funding for two new specialty centers at Hermitage High School and Varina

High School, continues to implement recommendations from the Holton Report by upgrading Instructional Assistants from part-time to full-time, and adding specialist teachers to work in specific areas.

In addition to what was added for the General Fund, the FY23 proposed budget provides over \$34 million in new resources for a number of HCPS initiatives. Debt service will increase by more than \$4.5 million in FY23 to support the full-year payment of the \$54 million in VPSA bonds issued in the fall that funded the renovation and expansion of the ACE centers at Hermitage and Highland Springs high schools. As noted earlier, the budget includes the full \$9 million of ongoing revenue for maintenance capital projects funded by the meals tax. The 10-year CIP includes \$340.7 million in projects proposed to be funded with general obligation bonds the residents will vote on this November. To make sure the first of those projects are shovel ready, the FY23 capital budget will allocate \$13 million for the planning of the replacements of Jackson-Davis Elementary and Longan Elementary as well as the construction of the Environmental Education Center Living Building to be located at the Wilton property acquired in the fall of 2019. Also included is \$5 million of meals tax reserves for the renovation and partial rebuild of the Academy at Virginia Randolph. This, along with \$5 million in savings from prior approved projects, will fully fund the \$60 million project along with the American Rescue Plan Act (ARPA) funding that was approved in September. Finally, to keep the school bus replacement fund on a 10-year replacement schedule, \$1.3 million is added to the budget to bring the total to \$6 million. All of this is in addition to the continuation of mechanical improvement and roof replacement funding of \$2.5 million that has been in place since 1999 and \$2 million for technology infrastructure added last year.

Protecting the Community

The FY23 budget strategically allocates over \$21 million to an extensive number of public safety efforts. Within the \$15.2 million increase in the General Fund for public safety agencies, a total of 35 new positions are added.

Public Safety Investments in FY23	
General Fund Budget Increase	15,199,711
Police South Station	1,150,000
Firehouse #6 Planning	2,000,000
Apparatus/Vehicle Replacement	1,175,200
Jail Security Projects	1,250,000
E-911 Center Phone System Replacement	450,000
CCP Positions & Drug Testing	133,870
Total	21,358,781

This includes 20 new police officer positions that starts an effort to add a total of 50 new police officers over the next 4 years. This effort began with the approval of the first 10 positions in the February 2022 budget amendment. This budget picks up the full-year cost of these positions

along with an additional 10 positions. The effort to add officers will allow the Police Division to continue to protect our community while also address an increasing number of mental health crisis calls. To complement the new officers' efforts in answering mental health calls, Police will also add another 2 police officers specifically assigned to the Crisis Intervention Team.

The Division of Fire will add 11 positions to begin the staffing plan for Firehouse 23, which could be under construction this winter. Adding the positions this early will allow the Division to have a fully ready staff for the new station once it opens. Finally, the FY23 budget enhances the BLS and CARE programs implemented in FY19. The CARE team will add two positions to a group that visits patients with a history of utilizing emergency services for non-emergency purposes. The BLS effort, which answers lower acuity calls during peak emergency call hours, will expand its hours in FY23.

Fire & Public Safety 2022 GO Projects	
Firehouse #6 Relocation	13,300,000
Firehouse #1 Relocation	16,000,000
Firehouse #14 Addition/ Renovation	1,500,000
Firehouse #15 Addition/ Renovation	1,700,000
Firehouse #16 Addition/ Renovation	1,400,000
Firehouse #17 Addition/ Renovation	2,000,000
Firehouse #11 Rebuild	15,000,000
Animal Shelter	15,000,000
Public Safety Training Center	18,000,000
Total Public Safety:	83,900,000

Other enhancements for Police and Fire in the FY23 budget include planning funding for both the replacement of the Police South Station and the replacement of Firehouse 6, which is proposed to be included in the November 2022 GO Bond Referendum package. Firehouse and public safety projects in the referendum total \$83.9 million and include two additional firehouse replacement, addition/renovation projects to four other stations, an animal shelter focusing on re-homing animals, and a training center for all public safety agencies. Other

projects in the FY23 budget focused on public safety include security improvements to the jail and the replacement of the phone system in the E-911 center. Finally, to continue to ensure Police and Fire have the vehicles and apparatus necessary to protect our community a total of \$1.2 million is added to their respective programs to bring the annual total for Police vehicle and Fire apparatus replacement to \$7.5 million.

Youth Crime and Victim Prevention Efforts

The number of youth-involved in crime is increasing. While new officers will assist in solving cases a multiprong approach is required to remove juveniles from situations in which they are in harm's way. The FY23 budget puts forth nearly \$560,000 to address youth issues. Of this total, \$269,000 is included to address youth mental health issues within the Mental Health and Developmental Services (MH/DS) budget. This will provide three positions to provide mobile crisis services through the STAR team to address specific incidents as well as manage CSA cases to allow Youth & Family staff to focus on treatment. An additional \$50,000 is allocated to the Virginia Juvenile Community Crime Control Act (VJCCCA) programs to expand programming in the upcoming year. Finally, because of the complexity of this issue, about \$241,000 is allocated in the Non-Departmental budget among 9 different non-profit agencies involved in youth services or youth advocacy.

These funding efforts are only part of the County's approach to addressing this issue. A multi-agency committee, including our partners in HCPS, has been put together to develop other

collaborative solutions with a focus on solutions within the resources we already have, particularly with the resources available to our school division, which has the most prominent contact with our youth.

Economic Development and Community Redevelopment Efforts

To continue to attract better paying jobs and revitalize aging corridors in our community, the FY23 budget advances several efforts. **The first is cutting by 74% the personal property tax rate for equipment related to biotechnology companies.** This aims to attract lab spaces to Henrico. Dropping this rate to \$0.90 per \$100 assessed value, as proposed, would put Henrico at the lowest in this category in the Commonwealth. This, along with the 2-cent real estate tax rate reduction, continues Henrico's track record of reducing the tax burden on businesses to support their success.

On the redevelopment front, there are two funding proposals focused on bolstering current efforts. First, \$2 million is allocated for neighborhood revitalization efforts through the Community Revitalization (CR) Fund. In prior years, the appropriations from the CR Fund have been made throughout the fiscal year in the amendment process, but it is prudent in FY23 to provide the flexibility to move forward as agreements are made. The second proposal to bolster a current effort is the provision of \$750,000 for the Henrico Investment Program (HIP). This funding will provide targeted incentives in specific commercial corridors throughout the County, which could include fee grants, sewer connection credits, and financial and technical assistance.

Continuing Focus on Environmental Quality

The budget supports the County's commitments to be a good steward of our natural resources. The FY23 budget continues to allocate \$2.3 million for efforts to remove stormwater pollutants as set out in our Municipal Separate Storm Sewer System (MS4) permit. Additionally, \$1.8 million is allocated again to rehabilitate streams, conduct minor drainage projects, and acquire land in flood plains in accordance with criteria set forth by Public Works. There is also \$50 million proposed for drainage and flood mitigation projects in the November Bond Referendum to accelerate the improvement of the County's water management. All of these efforts support a healthy watershed system and aids in the improvement of the Chesapeake Bay.

The budget for the water and sewer system is projected to grow by 6.3% in FY23 to provide for clean drinking water to Henrico residents. Part of the increase is 7 positions for the operating of the Cobbs Creek Reservoir that is anticipated to begin the filling process this fall. Another 3 positions will assist the department with designing water and sewer infill projects, which were funded with the County's allocation of ARPA funding. The extension of water & sewer service to areas within the County that are not currently served is another way Henrico is doing what it should to protect the Chesapeake Bay watershed.

Finally, the capital budget for water and sewer infrastructure in FY23 totals \$75.5 million and includes many projects to maintain and expand the water and sewer system. To fund both the operating and capital needs, an increase in water and sewer fees is recommended. The monthly

impact of the proposed increase is \$3.16 on the median residential account to secure safe drinking water for our residents.

Keeping Focus on Maintaining and Enhancing Public Infrastructure

Solid infrastructure is key to outstanding services, quality of life, and economic development. The FY23 budget continues to maintain and enhance public infrastructure a variety of ways.

The FY23 capital budget reflects the second contribution of revenues generated through the Central Virginia Transportation Authority (CVTA) for County projects. The estimate for CVTA revenues totals \$27.5 million, which is an increase of \$5 million compared to FY22. The allocation of this resource is \$25 million for prioritized road projects and \$2.5 million for countywide pedestrian and bicycling improvements. An additional \$2.5 million for sidewalks and bike paths from local funding is also included in the budget. Finally, the capital budget includes \$5 million of previously unallocated CVTA reserves for the start of road improvements necessary for the Three Chopt Area Park project, which is one of three recreation projects on the November referendum.

By seeking additional state and federal aid and receiving CVTA and other local resources, the Department of Public Works has seen a significant uptick in the number of projects to manage – from 4 in FY11 to 105 currently. Further, the number of projects will continue to grow in the coming years. To assist with this increasing workload and provide project cost savings by keeping some planning work in-house, 7 new positions are included for Public Works in the FY23 budget.

November 2022 GO Referendum	
Education - 8 projects	340,500,000
Fire & Public Safety - 9 projects	83,900,000
Flood Mitigation & Drainage Improvements	50,000,000
Recreation & Parks - 3 Projects	37,000,000
Total, 6 Years	511,400,000

As noted, the voters will be asked to consider four questions to authorize Henrico to issue \$511.4 million of GO bonds. The plan, as presented, is to issue the bonds over six years to ease the burden of additional debt service required for the proposed bond issues. In fact, total projected debt service costs would only increase \$12.6 million over the six-year period of new bond issues because of older debt being paid off.

Finally, the FY23 capital budget includes funding for technology upgrades through IT and maintenance funding for both General Services and Recreation. These ongoing maintenance programs, along with vehicle replacements for police, fire, and schools, and maintenance and technology infrastructure provided to HCPS make it possible to maintain our public buildings and systems, which keep the County moving.

We Can Do That

Over the past two years, we have faced unprecedented challenges that required extraordinary efforts from all of us. As far as Henrico employees are concerned, they not only had to figure out how to do their regular jobs in a pandemic, but many of them were tasked with finding ways to provide new services we had not considered. From organizing mass vaccinations and testing to

providing information about the public health emergency, and managing County finances in an unfamiliar environment, there was one refrain: **We can do that.**

That attitude remains critical as we prepare to pivot to in a post-pandemic world, in which a new normal is being thrust upon us. While the environment people work in may change, the expectation of excellence from Henrico as a local government will only grow. Therefore, providing the resources to have the right number of employees to excel at service delivery and make sure they are the best paid in the region is critical.

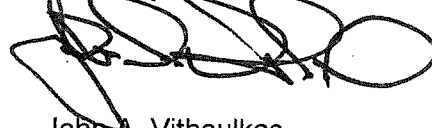
Having the facilities to deliver the expected and new services is also essential to making it happen. The referendum in November, if approved, will give our first responders the best work environments possible and our children the best school facilities in which to learn. It will also create a better Henrico through minimizing flooding impacts and providing new park facilities. If approved, the budget presented to you gives Henrico the opportunity to get to work immediately by having the planned first-year projects shovel ready.

With all that said, I want to take a moment to thank Superintendent Amy Cashwell and her staff for their efforts in helping to craft this fiscal plan. We have worked in lockstep throughout this process and this budget would not be possible without their support.

I would also like to thank the staff for their effort in developing this spending plan. Without their countless hours of hard work and dedication, this plan would not be possible.

In closing, I would like to thank you, our dedicated Board of Supervisors, for your input and guidance through this most important process. Staff and I stand ready to assist you as you consider this budget.

Sincerely,

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