



COMMONWEALTH OF VIRGINIA  
COUNTY OF HENRICO

John A. Vithoukas  
County Manager

March 8, 2016

The Honorable Board of Supervisors  
County of Henrico, Virginia

Honorable Members of the Board:

I am pleased and proud to submit to you the FY2016-17 Proposed Budget for Henrico County. The budget before you recommends additional resources that meet the needs of this County's citizens and businesses for not just the immediate future – but for the foreseeable future - while also providing additional funding for the County's core services and addressing its most pressing needs. Within an economic environment yielding growth in the County's resources, the budget before you further strengthens the County's economic development efforts by making the cost of business recruitment and expansion more affordable, as well as cutting aircraft taxes, all while maintaining the real estate tax rate of 87 cents, the lowest by far of any large, urban locality in Virginia. It also strategically places resources into a reserve to protect the County from future economic contraction, as mixed signals continue in the national and global economies. Funding has been allocated to the County's public safety efforts, providing for additional police officers and firefighters, as well as funding for critical infrastructure and equipment necessary to keep the County's public safety employees safe. Further, the budget before you lowers classroom sizes in our schools and provides funding to address critical renovations at a number of aging schools.

The Proposed Budget will further strengthen the County's economic development efforts by lowering the cost of infrastructure for both commercial and residential development with across-the-board reductions in water and sewer connection fees. Further, the final allocation of funds for the Cobbs Creek Reservoir can be found within the proposed budget. This project will ensure the County's businesses and citizens' demand for water are met for at least the next 50 years – a rarity for localities not only in Virginia, but in the entire nation. By maintaining the lowest real estate tax rate of any urban jurisdiction in Virginia – one that has not increased in 38 years – combined with this Board's decision to cut the County's machinery and tools tax rate by 70 percent in calendar year 2015 and the County's already business-friendly full BPOL tax exemption of the first \$100,000 of receipts and low business personal property tax structure, this continued focus on economic development will yield positive results for many years.

Balancing the budget before you with estimated General Fund revenue growth of 3.5 percent required strategic focus on the County's most critical needs. In fact, **nearly 80.0 percent of all incremental General Fund revenue growth has been allocated to our school system and public safety efforts**. With only a small slice of the revenue pie available outside these two critical areas, this budget prioritizes funding for specific initiatives, with specific highlights as follows:

1. The budget rewards all General Government and Schools employees with a 2.4 percent salary increase, to be made effective July 1, 2016 for the County's hard working employees;

2. The Proposed Budget reflects \$26.7 million in overall incremental new General Fund resources provided to our school system, including \$10.8 million in funds to address the planning phase of the renovation of a number of aging facilities, and recommends funds to reduce class sizes;
3. It directs substantial funding to a number of public safety efforts, including full-year debt service funding and three additional positions associated with the replacement communication system project. Within the area of Police, ten new police officer positions are recommended – the fourth year of a five-year commitment – as well as one position and sufficient resources to add a new Police Athletic League (PAL) program at Baker Elementary School. Within the Division of Fire, ten new positions – nine firefighters and one captain – are recommended for the opening of the new Short Pump Firehouse (Fire Station #19), as well as three additional firefighter positions – the first year of a proposed three-year commitment to add nine firefighter positions – necessary to alleviate staffing pressures and reduce minimum staffing-related overtime costs within the Division. Further, sufficient funding is recommended to replace all self-contained breathing apparatus (SCBA) equipment necessary to bring this critical life safety equipment up to industry standards;
4. It funds the County’s federally mandated Chesapeake Bay TMDL requirements with identified current, ongoing revenues of just over \$2.3 million, the second year of this annual commitment without the imposition of a stormwater tax. With projects and initiatives already completed, Henrico County has already exceeded the 5.0 percent minimum reduction requirement for the first five years, three years ahead of schedule;
5. It provides positions and operating dollars necessary for the opening of the new Varina Area Library, and annualizes costs associated with the recently opened Libbie Mill Area Library and new Short Pump Park, all of which were approved by the citizens in the March 2005 GO Bond Referendum;
6. It creates a Revenue Stabilization Reserve in the County’s General Fund Balance to mitigate the impact of future economic contraction and potential subsequent local and State revenue declines;
7. It recognizes \$3.5 million in General Fund revenue associated with the Shops at White Oak Village as a result of meeting the obligations necessary to complete the ten-year Community Development Authority (CDA) debt requirement one year earlier than planned. This is the third of three CDA’s that the County has been involved in wherein debt obligations have been met ahead of the pledged schedule. The other two were Short Pump Town Center and Reynolds Crossing.

Total cost increases in the FY2016-17 Proposed Budget funded with current revenue streams total \$43.3 million, which can be seen in the chart to the right. That being said, total incremental revenue growth estimates in the Proposed Budget only totals \$31.9 million. Within an environment of limited revenue growth and in an effort to fund all necessary service requirements, this budget identifies \$11.4 million in expenditure cuts necessary to provide the Board with a balanced budget that accomplishes the many initiatives detailed in this narrative. Further, as a direct result of departmental efficiencies achieved by our valued employees and lowered staffing requirements in a number of agencies, 11 vacant positions are being reclassified and moved to areas of critical need, including six within our school system.

<b>FY17 Cost Increases Funded with Current Revenues*</b>	
<b>Expense</b>	<b>FY17 Increase</b>
Cost of 2.4 percent Raise	\$12.9 million
Annualize Partial-Year Raise from FY16	\$4.0 million
Communication System - Debt Service & 3 Positions	\$3.5 million
50 New Teaching Positions – Lower Class Size	\$3.3 million
Healthcare Increase	\$3.0 million
VRS Increase – Teachers	\$2.5 million
Fund One-Time Costs from FY16 – New Facilities	\$2.1 million
Elementary School Infrastructure Refresh	\$1.1 million
Increase School Bus Replacement Funds	\$1.0 million
Additional Local Funds to Children’s Services Act	\$1.1 million
Additional Funds to Technology Replacement Fund	\$1.0 million
Addition to Revenue Stabilization Reserve	\$1.0 million
Positions in Sheriff’s Office Previously Approved by Board	\$0.9 million
10 Additional Police Officers (Year 4 of 5)	\$0.7 million
Hotel/Motel Tax Estimate to Convention Center	\$0.8 million
Other Cost Increases – Schools and General Government	\$4.4 million
<b>Total Cost Increases – FY17 Proposed Budget</b>	<b>\$43.3 million</b>
<i>*Does not include cost increases funded with planned one-time resources, such as the first-year costs of the new bond projects, which were funded through the Bond Project Reserve.</i>	

As we continue to find ourselves in an economic environment that continues to produce moderate revenue growth for the County – every additional dollar of revenue must be stretched farther to best serve Henrico citizens and address core service demands. This is not a new concept for Henrico County, which has always prided itself on being a lean, well-managed local government. This annual plan continues to reinforce this Board of Supervisors’ strategic priorities, namely schools, public safety, and economic development. I hope it is clear that the inherent strategy in the budget before you reflects those priorities.

### Addressing Aging School Facilities

The budget before you begins the process of addressing a significant concern within our schools system – aging facilities. More than half of Henrico County’s 72 schools are 50 years or older, and while a number have experienced substantial renovations over the past 15 years, many more remain. In fact, in looking at the FY2016-17 through FY2020-21 five-year Capital Improvement Program requests from the School Board, 15 of the 29 specific project requests were for substantial renovations to aging schools, totaling \$257.9 million over the five-year period. The average age of the 15 schools to be renovated is 57 years.

Within the Proposed Budget, \$10.8 million in meals tax receipts, collected in excess of budget estimates, are recommended to be placed in a separate Education Meals Tax Project Reserve in an effort to begin planning efforts for the renovation of a number of aging facilities, which can be seen in the chart to the right. To be crystal clear, these funds are in addition to the \$9.0 million in current

<b>Projects Being Addressed in FY17 Proposed Budget</b>		
<b>Project</b>	<b>Total Expected Cost</b>	<b>FY17 Proposed Budget</b>
Pemberton ES Renovation	\$15.3 million	\$1.2 million
Crestview ES Renovation	\$13.2 million	\$1.2 million
Skipwith ES Renovation	\$14.2 million	\$1.2 million
Tuckahoe MS Renovation	\$30.9 million	\$2.8 million
Seven Pines ES Renovation	\$13.9 million	\$1.2 million
Chamberlayne ES Renovation	\$14.1 million	\$1.2 million
Glen Allen ES (8) Classroom Addition/Renovation	\$7.5 million	\$2.0 million
<b>Totals</b>	<b>\$109.1 million</b>	<b>\$10.8 million</b>

meals tax receipts in the capital budget before you that are recommended for deferred maintenance projects in school facilities, as well as the \$9.0 million included in the FY2016-17 operating budget for schools. From the information above, the total anticipated cost to complete these seven projects alone exceeds \$109 million. It goes without saying that a long-term plan to fund the construction of these projects, in addition to a number of other school renovation projects, is absolutely necessary. Every dollar of meals tax receipts has been and will be dedicated to our school system. The formulation of that long-term plan will be a major discussion item as this budget is reviewed.

### General Fund Revenues Continue Modest Growth

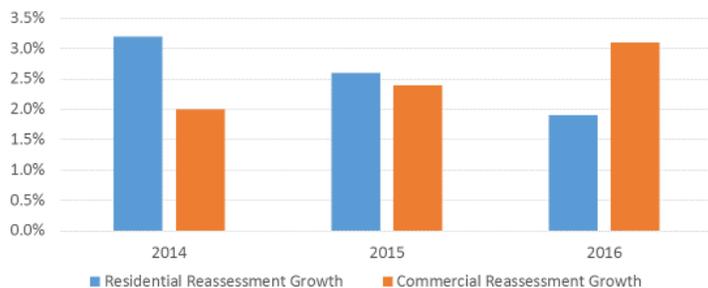
In looking at the budget before you, total estimated General Fund revenues for FY2016-17, prior to transfers to other funds are \$934.1 million, which represents an increase of \$31.9 million or 3.5 percent when compared to the current fiscal year. Net of transfers and uses of fund balance, the County's overall General Fund is growing by 3.2 percent. As can be seen in the chart to the right, the majority of the County's revenue growth can be attributed to a few sources:

<b>FY17 General Fund Revenues</b>				
<b>Category</b>	<b>FY16 Approved</b>	<b>FY17 Proposed</b>	<b>Difference</b>	<b>% Change</b>
Real Estate Tax	\$282.0 million	\$292.0 million	\$10.0 million	3.5%
Personal Property Tax	\$113.1 million	\$115.9 million	\$2.8 million	2.5%
Local Sales Tax	\$58.1 million	\$61.0 million	\$2.9 million	5.0%
Business Licenses (BPOL)	\$30.6 million	\$32.0 million	\$1.4 million	4.6%
Hotel/Motel Tax*	\$10.4 million	\$11.2 million	\$0.8 million	7.7%
<u>All Other Local Revenues</u>	<u>\$79.6 million</u>	<u>\$80.2 million</u>	<u>\$0.6 million</u>	<u>0.8%</u>
<b>Total Local Revenues</b>	<b>\$573.8 million</b>	<b>\$592.3 million</b>	<b>\$18.5 million</b>	<b>3.2%</b>
<i>* Hotel/Motel Tax revenues are dedicated to the Greater Richmond Convention Center</i>				
State Aid for Schools	\$239.0 million	\$250.5 million	\$11.5 million	4.8%
State Gasoline Tax	\$43.3 million	\$44.0 million	\$0.7 million	1.7%
<u>All Other State &amp; Federal</u>	<u>\$46.1 million</u>	<u>\$47.3 million</u>	<u>\$1.2 million</u>	<u>2.6%</u>
<b>Total State and Federal Revs.</b>	<b>\$328.4 million</b>	<b>\$341.8 million</b>	<b>\$13.4 million</b>	<b>4.1%</b>
<b>Total General Fund Revs.</b>	<b>\$902.2 million</b>	<b>\$934.1 million</b>	<b>\$31.9 million</b>	<b>3.5%</b>
Transfers/Cash Reserves	(\$116.4 million)	(\$123.2 million)	(\$6.8 million)	5.8%
<b>TOTAL NET REVENUES</b>	<b>\$785.8 million</b>	<b>\$810.9 million</b>	<b>\$25.1 million</b>	<b>3.2%</b>

real estate tax, personal property tax, local sales tax, business license tax receipts, and State Aid for Schools. In looking at Hotel/Motel Tax receipts and State Gasoline Tax revenues, these two resources are dedicated to the Greater Richmond Convention Center and road maintenance, respectively. Outside of these resources, minimal growth continues to be experienced, particularly in the area of State Aid for General Government initiatives.

#### Real Estate

Residential and Commercial Real Estate Reassessment Growth Since 2014



Real estate tax revenues in the Proposed Budget reflect an overall increase of \$10.0 million from the current fiscal year estimate. For the third consecutive year, after five previous years of declines, the reassessment of real estate in Henrico increased in January 2016. That being said, the rate of increase in residential reassessment has declined in each of the past two years, as can be seen in the graph to the left, in blue, as residential reassessment grew by 1.9 percent in January 2016. This is in keeping with projections that came about

in 2012 that suggested the residential real estate market would not see increases that were seen in the mid-2000's. However, in looking at commercial, the inverse can be seen, as the rate of increase of commercial reassessment has grown the past two years, to 3.1 percent in January 2016. Both the residential and commercial rates of reassessment increase is exactly what this County expected to achieve after the real estate "bottom" was met, and reflects a level anticipated each year for the foreseeable future. The County's efforts aimed at improving the commercial segment of our tax base are key and these changes are an early indicator as to what is possible within this segment of the tax base. With overall increase in the tax base of \$1.1 billion, including new construction, the total tax base is growing by 3.2 percent in January 2016, yet still remains below that of January 2009.

### Impact of Visitors



Growth in sales tax and hotel/motel tax receipts continue to be driven by the County's tourism efforts. In fact, during 2015, the County recorded a 5.7 percent increase from tourism spending, and again had the fifth highest 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. 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 youth and adult recreational sports tournaments. The results continue to impress. The budget before you allocates additional funding towards the completion of the first phase of Greenwood Park, which will only add to the many successes achieved in this area.

### State Funding

In looking at projected revenues from the State in the budget before you, a net increase of \$13.4 million is anticipated, the vast majority of which is in the area of State aid for K-12 Education. State aid for schools is increasing \$11.5 million, while all other sources from the State reflect a net increase of \$1.9 million. Of the overall increase in State funding, nearly 86.0 percent of the increase is within the area of Education and with the topsy-turvy history of state aid, we must be extremely careful when budgeting resources for our highest priority area and relying on revenues which may be altered at any time. While increased aid from the Commonwealth is a 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. The budget before you continues this premise.

Again, within a limited revenue growth environment, one that is anticipated to continue for the foreseeable future, spending decisions must be made regarding the County's critical and core services. The budget before you accomplishes just that, as budgetary increases are focused on the County's school system, our public safety efforts, economic development, as well as opening completed citizen approved referendum projects.

**Focus on Core Services – Nearly 80% of All Incremental Revenues to Schools and Public Safety**

As mentioned, nearly 80 percent of all incremental General Fund revenues have been allocated to a number of schools and public safety initiatives, this Board’s highest priorities. What follows is further breakdown of some of the individual initiatives present within the budget before you:

**FY2016-17 Proposed Schools Operating Budget**

The overall General Fund budget for schools is increasing \$13.9 million or 3.2 percent to \$455.1 million, representing more than 56 percent of the entire General Fund budget. However, the \$13.9 million increase is misleading for a number of reasons. As can be seen in the table to the right, including the funding for renovations and General Fund expenditure increase, the incremental General Fund resources being provided to our school system is actually \$26.7 million. Of the \$26.7 million in additional resources provided to our school system, \$15.2 million or nearly 57 percent reflects local funds, while the remaining \$11.5 million reflects additional funding from the State. Further, expenditure growth within the schools budget, including all funds noted above including operating and capital funding, is actually \$30.0 million, offset by \$3.0 million in attrition savings and an identified \$330,000 in other expense savings.

<b>FY2016-17 Proposed Additional Allocation to Schools</b>	
General Fund Expenditure Increase	\$13.9 million
Prior-Year Meals Tax Receipts to Capital	\$10.8 million
Local Funding for School Buses	\$1.0 million
Increase in Local Share for CSA Expenses	\$1.0 million
<b>Total Allocation Increase to Schools</b>	<b>\$26.7 million</b>

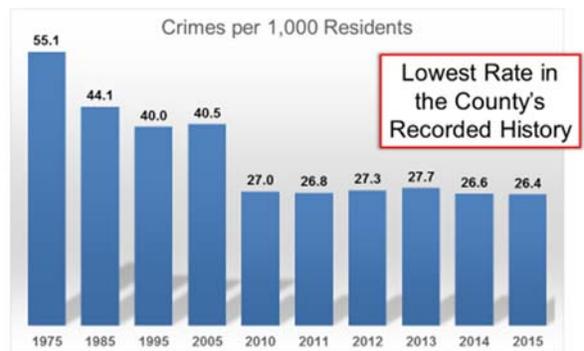
Several items within the allocation for schools are necessary of note, including a total of \$7.8 million that has been included in Schools’ allocation for a 2.4 percent salary increase for all schools employees, effective July 1, 2016. Further, an additional \$1.0 million in current General Fund revenues has been included for the replacement of school buses, creating a school bus replacement fund that now totals \$2.0 million in the budget before you. With a fleet approaching 700 buses, it is paramount that a systematic replacement cycle be created. These funds are intended as a permanent allocation, with additional funding necessary in future years.

The Proposed Budget also includes \$3.3 million for an additional 50 teaching positions, 27 to accommodate anticipated student enrollment growth and an additional 23 teaching positions intended as the first year of a multi-year effort to reduce class sizes. Further, the school system has identified funding for an additional eight positions to remain vacant in a “reserve” capacity to maintain flexibility in addressing specific classroom size issues throughout the fiscal year.

**Public Safety - Police**

The proposed budget before you includes ten new Police Officers in Patrol Operations to increase service coverage, the fourth year of a five-year commitment of adding ten new positions per year. The goal in adding these fifty positions within five years is to attain a goal of 90 percent service area coverage. You can see in the chart to the right that in 2014, the first year of the five-year commitment to add ten Police Officers per year, crimes per 1,000 residents were at the lowest level recorded in the history of Henrico County at that time. In 2015, the second year of the five-year commitment, crimes per 1,000 residents dropped yet again, and the County achieved a new record low.

**Henrico Crime Statistics**



The budget before you also includes full-year funding for the planned debt issuance of \$39.1 million for the replacement of the County’s 800 MHz radio communication system, a debt issuance in which this

Board has previously authorized. This debt is expected to be incurred in FY2015-16. This project is anticipated to cost in excess of \$55 million, and will be funded with a combination of debt financing and pay as you go funding. The cash component of this system comes from a designation within the County's General Fund Balance which has been planned and accumulated over the past four years. This pay as you go funding will come before the Board of Supervisors via the budget amendment process this summer, as the cost of the system is refined. In addition to the debt service funding, the budget before you also includes three positions, two of which are partial-year funded in FY2016-17, necessary to support the additional infrastructure required as part of the communication system replacement.

In FY2014-15, two Police Support Technician positions were hired to support the Police Athletic League (PAL) program. In FY2016-17, one additional Police Support Technician will be added to support the expansion of the program to the Varina district, at Baker Elementary School. These Police Support Technicians safety lessons/programs and assist students with homework during the afterschool program, as well as mentoring and supporting PAL summer camp. The PAL Police Support Technicians assist with a variety of other programs including open basketball gym events and chess club, which are open to all Henrico County youth.

#### Public Safety - Fire

The budget before you includes ten new positions – nine firefighters and one captain – attributed to the opening of the new Short Pump Firehouse on the corner of North Gayton and Kain Roads (Fire Station #19). The nine firefighter positions are sufficient to begin operating the County's sixteenth emergency medical services (EMS) unit. An additional 24 positions will be necessary as part of the FY2017-18 Proposed Budget to complete staffing of the new station. This budget plans for the accommodation of those positions.

In addition to the positions associated with the Short Pump Firehouse, the Proposed Budget includes a recommendation to add three additional firefighters, the first year of a three-year commitment to add nine firefighter positions to alleviate staffing pressures and reduce minimum staffing-related overtime costs in the Division. Further, one position is being added to the Division of Fire to assist the district chiefs in maintaining minimum staffing. This position will also handle special event requests from the public for EMTs, will manage the ride-along program, and complete background checks on observers.

Finally, within the capital budget before you, \$1.7 million has been identified to replace the current inventory of self-contained breathing apparatus (SCBA) equipment, many of which are ten years old or older and are at the end of their useful life. The replacement of this equipment will improve firefighter safety and will allow the Division of Fire to meet current industry standards.

#### Chesapeake Bay TMDL Permit Requirements

Beginning in FY2015-16, \$2.3 million in real estate tax revenue resulting from new construction in 2013 was placed in a reserve account with the intent of establishing a permanent funding source for any future Chesapeake Bay TMDL permit requirements, and thus delaying any need for a stormwater utility fee. The budget before you continues this initiative for the second year. That being said, with all efforts underway, including the large vehicle wash facility that will open this summer and other planned projects, the County has already exceeded its five-year goal of five percent minimum reduction in pollutants. 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 that have not looked for alternate solutions and possibilities and therefore have imposed this tax on residents and businesses. At this writing, I believe Henrico may be the only locality in the State that continues to look for solutions that meet our TMDL requirements outside of a stormwater tax and we may be the first that has reached our five-year milestone, three years ahead of schedule.

### Revenue Stabilization Reserve

The budget before you includes a recommendation to create a Revenue Stabilization Reserve in the County's General Fund Balance, beginning with \$1.0 million in FY2016-17. The intent of this Reserve is to set aside funding on an annual basis to appropriate at a later date should the County encounter future economic contraction, which could impact both state and local resources. In addition, because of our strong history of exceeding revenue estimates annually, I do expect additional funds to be placed into this reserve as we conclude this budget.

### Reduction in Aircraft Personal Property Tax

The Proposed Budget includes a recommendation to reduce the personal property tax rate on aircraft in the County, from \$1.60 per \$100 assessed valuation to \$0.50 per \$100 assessed valuation. This reduction makes Henrico more competitive in the Commonwealth of Virginia, as well as the lowest effective aircraft tax rate in Central Virginia. With Richmond International Airport, the major airport in Central Virginia, located within Henrico County borders, lowering and maintaining a competitive aircraft tax alleviates pressures on large corporations headquartered in Henrico County, and also boosts the attractiveness of Richmond International Airport as an economic development hub for future relocation of businesses to Henrico.

### Varina and Libbie Mill Area Libraries

The budget before you includes funding for nine new positions and sufficient annual operating funding attributed to both the Libbie Mill and Varina Area Libraries. These positions are in addition to the 37 positions that were added in the previous two fiscal years for these two facilities. The operating costs associated with these two new facilities will be completely funded in the Proposed Budget.

### Connection Fee Reductions

The budget before you recommends an across-the-board reduction in all water and sewer connection fees effective July 1, 2016, the result of a recently completed rate study. These reduced connection fees will lower the cost of new construction on both residential and commercial properties. Connection fee reductions for specific categories range from 9.5 percent for a single-family dwelling to 71.2 percent for a dormitory, with reductions of various sizes for all categories, and will make developing residential and commercial properties less expensive in Henrico County. This is a critical component of our economic development strategy and one that is entirely intentional. Without continued economic development, our formula for success will falter and these reductions were validated by a study undertaken this year by what may be the nation's premier rate consultant, who was hired to ensure our connection fees were warranted and in line with our anticipated development in the future.

Also within the Water and Sewer Fund, the FY2016-17 Proposed Capital Budget includes the final appropriation for construction of the Cobbs Creek Reservoir. The Proposed Budget also includes the annual 5.0 percent increase in water and sewer rates necessary to provide water and sewer service to all residents and businesses. Further, this funding allows the County to continue offering a 38 percent discount on water and sewer rates for the more than 20 percent of customers that now use a water volume of 7 ccf or less per month.

### Permit Review Enhancement

The budget before you builds upon the effort that began in the current fiscal year to expedite the building permit process. In the current fiscal year, four vacant positions were reallocated from other departments to Public Works (2), Public Utilities (1), and Planning (1) to enhance the permit review process. The Proposed Budget fully funds these positions within these specific areas. The adjustments made here have resulted in expedited plan review procedures that allow for more timely execution of building permits.

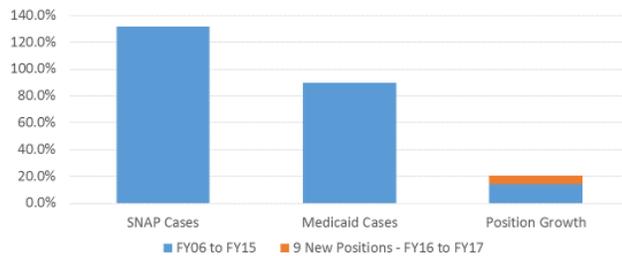
### Modernizing Planning Ordinances

The Proposed Budget includes sufficient funding to begin the process of modernizing the County's 55-year old zoning ordinance and 60-year old subdivision ordinance. Within the budget, \$230,000 has been included for the first year of this three-year effort. The project was recommended by the Board's adopted 2026 Comprehensive Plan, and would provide flexibility for economic development, make regulations easier to read and understand, simplify the development processes, update the districts and uses, update and clarify development standards, and promote environmentally friendly development.

### Social Services Workload

The Proposed Budget recommends four additional positions within the Department of Social Services, utilizing additional State funding awarded to the County tied to significant workload increases. These positions are in addition to the five positions approved by the Board of Supervisors via amendment in the current fiscal year. The workload in Social Services has risen dramatically in the past ten years, as indicated in the chart to the right. The Department has absorbed much of this additional workload, as the complement has only grown by 20.0 percent during this time, including the four positions in the budget before you. This continues to be an area of concern and one that is meticulously monitored.

Social Services Workload Increase Since FY06



The Department has absorbed much of this additional workload, as the complement has only grown by 20.0 percent during this time, including the four positions in the budget before you. This continues to be an area of concern and one that is meticulously monitored.

### Cost Savings in the FY2016-17 Proposed Budget

To accomplish the task of balancing each of these necessary cost increases with limited revenue growth, a number of expense reductions were needed, including reclassifying vacant positions from administrative areas to other areas, recognizing savings from expected vacancies resulting from focused hiring practices, eliminating office space leases, and recognition of debt service savings. As previously mentioned, \$11.4 million in cost savings are present in the FY2016-17 Proposed Budget. Examples of these balancing strategies are as follows:

#### Reclassifying Vacant Positions and Recognition of Vacancy Savings

Due to recognized efficiencies, a total of 11 vacant positions have been reclassified to areas of critical need, and therefore are not net additions to the overall County complement. Of these 11 vacant positions, six were recognized by schools within their administrative functions, positions that have been reclassified to teaching positions; and five vacant positions within General Government areas have been reclassified in the current fiscal year for other necessary functions.

Further, the County continues to only hire absolutely necessary vacant positions, and in some cases waiting a period of time before hiring vacant positions, in an effort to preserve funds. In fact, the County continues to hold a revolving number of around 250 vacant positions, across all departments. This practice has afforded the County the ability to budget \$3.4 million in vacancy savings within the General Fund in an effort to cut costs. Schools has also assumed a vacancy savings of \$3.0 million, capturing anticipated retirements of higher salaried personnel. As this practice continues and as Henrico continues to perform as a high performing organization, this County will continue to become even leaner and vacant positions will continue to be considered for either reclassification or elimination.

#### Debt Service Savings

In the budget before you, two significant cost savings are present within the County's debt service requirements in FY2016-17, which have mitigated the impact of the overall increase in

this area associated with the replacement communications system. First, with the final payment made on the James River Juvenile Detention Center in the current fiscal year, the proposed budget recognizes nearly \$700,000 in savings. The budget also includes a substantial drop in annual debt service payments of nearly \$1.9 million associated with the current fiscal year refunding of a number of outstanding bonds as well as typical drop off in overall debt service costs as the County continues to pay down its debts.

#### Other Savings Recognized

Additional savings were needed to balance the FY2016-17 Proposed Budget within limited available resources, with some examples as follows:

- ✓ Approximately \$4.0 million was saved when the County's Virginia Retirement System (VRS) rate was reduced from 15.16 percent to 13.01 percent;
- ✓ A strategic initiative to find permanent County-owned space for services currently operating out of leased space has proven successful to date, and the budget before you includes \$100,000 in lease savings due to the elimination of the North Run lease;

### Summary

Henrico County's local economy is on solid ground, as indicated by a number of economic statistics and moderate revenue growth within a number of areas. While economic growth is clearly positive, this is not the time to assume that this growth will continue. Every economy is cyclical, and we have experienced a recent period of economic growth, albeit slow. On average, since the Great Depression, this nation has experienced a recessionary economic environment every five and a half years. We are now in our eighth year since the end of the last recession, the Great Recession. This is the time to plan for the inevitable downward business cycle, but also to continue to solidify this County's foundation as part of that preparation process.

I opened this Budget Message with a statement about how this budget addresses the County's future needs. This County's single biggest fiscal challenge is large school infrastructure projects. The budget before you begins to address this issue by allocating planning funds for seven major school renovations. These planning funds are the beginning of a coordinated effort to complete major school renovations such as those necessary at Tuckahoe Middle School and J.R. Tucker High School, though a long-term plan is necessary to achieve the many infrastructure needs of our schools. That plan will be put forward for your consideration in the weeks and months ahead.

Other areas in which this budget continues to solidify this County's foundation both now and into the future include the final appropriation of the Cobbs Creek Reservoir, providing this County with water for the foreseeable future. It recommends cutting the aircraft tax and makes recommendations to cut water and sewer connection fees to further improve the County's already welcoming business climate going forward. The Proposed Budget makes substantial investments in our public safety efforts, all of which will benefit this County for years to come. The budget before you continues to allocate resources to its stormwater efforts and addresses its future zoning ordinances. Again, this budget – unlike any budget in recent memory – makes substantial investments in this County's future.

I hope it is quite clear that every dollar in the plan before you was budgeted with limited revenue growth and pressing service demands in mind. The Proposed Budget utilizes resources for the County's critical needs and maintains our forward-looking approach to budgeting. Further, this strategy has allowed the County to reward its hard working employees with a much deserved salary increase. Maximizing the County's limited resources is a trademark of this County's past, current and future success - it is the "Henrico Way." Managing in an environment of slow revenue growth into the foreseeable future, the

actions of the Board of Supervisors over many years, particularly in the past few years, has established a solid footing for the County's finances - one that is sustainable going forward.

I would like to thank the County staff for the many hours of hard work that went into the development of this budget. I would also like to thank the Superintendent and the School Board for their efforts and continued cooperation that will result in the continued success of our County. Henrico County employees have been asked to do their respective jobs with significantly fewer resources. It is only because of their efforts and the continued work and vigilant oversight of our Board of Supervisors that this County has been as successful as it has been during this difficult economic time.

As always, the staff and I stand ready to assist you in making the best possible choices 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

