

COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO



John A. Vithoukas
County Manager

March 14, 2023

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

I am proud to present to you the FY24 Manager's Proposed Operating and Capital Budget. The plan, as presented, is balanced with a real estate tax rate of 85 cents with one primary focus – **people**. The proposed budget provides a historic pay increase of **8.2%**. This increase not only rewards the hard-working employees but also enhances starting salaries across the board to continue to bring in the best people to meet the needs of our residents, business community, and visitors who come to Henrico for work and play. This budget also gives us the flexibility to ensure we are the pay leader in local government employment so we can be **better every day**.

Providing tax relief is a long staple of Henrico County. In the storied tenures of Patricia O'Bannon and Frank Thornton – trailblazing public servants in their own rights – the real estate tax rate has been reduced six times. In recognition of the hard times our residents are experiencing with increasing costs, the FY24 budget accounts for additional tax relief through a second real estate tax rebate, enhancing the REAP program's maximum relief, and **reducing the vehicle personal property rate by 10 cents** per \$100 assessed value. With this additional tax relief, **over \$76 million in tax relief** will be provided to Henrico residents and businesses over a two-year period.

The proposed budget continues the Board's long-standing priorities of funding education and public safety. Over 78% of the proposed General Fund budget growth goes towards the most important functions local government provides. This includes 50 new positions for Schools and 22 new positions for Public Safety. The FY24 budget also captures the **reallocation of 10 vacant positions to Police** to add to the complement of **School Resource Officers**.

With over \$4 billion in infrastructure needs identified over the next ten years in the county's Capital Improvement Program (CIP), the FY24 capital budget provides the first appropriation of the total \$511.4 million of referendum projects for education, public safety, recreation, and drainage and flood mitigation. This is part of a \$316.8 million capital budget intended to maintain and enhance the county's schools, roadways, public buildings, and water and sewer system.

Revenues and Tax Relief

The projected revenues in the FY24 proposed budget total \$1.3 billion, an increase of \$102.2 million or 8.4% when compared to the FY23 approved budget. Local revenues reflect \$70.5 million of that increase while State & Federal revenues account for \$31.8 million of the increase. While the revenues here reflect a significant year-to-year increase in terms of the budget, it should be noted the latest FY23 revenue projections would only need to grow \$17.6 million or 1.3% to meet FY24's estimates.

General Property taxes account for \$641.4 million of the FY24 proposed budget and reflect an increase of \$62 million, or 10.7% when compared to the FY23 budget. Of that total, Real Estate accounts for \$471 million and is based on a real estate tax rate of 85 cents per \$100 assessed value.

FY24 General Fund Revenues				
Category	FY23 Approved	FY24 Proposed	FY23 to FY24	FY23 to FY24
General Property Taxes	\$578.4M	\$641.4M	\$62.0M	10.9%
Other Local Taxes	\$195.1M	\$203.1M	\$7.7M	4.1%
Permits, Fees, and Licenses	\$6.5M	\$6.5M	(\$0.3 M)	(4.0%)
Fines & Forfeitures	\$2.1M	\$1.6M	(\$0.5M)	(24.5%)
Use of Money & Property	\$2.4M	\$3.3M	\$0.9M	39.1%
Charges for Services	\$3.8M	\$3.4M	(\$0.4M)	(11.1%)
Miscellaneous Revenues	\$8.1M	\$7.8M	(\$0.2M)	(3.0%)
Total Local Revenues	\$796.5M	\$867.0M	\$70.5M	8.8%
State Aid for Schools	\$324.6M	\$354.0M	\$29.4M	9.1%
State Gasoline Tax	\$50.2M	\$51.3M	\$1.1M	2.2%
All Other State & Federal	\$47.6M	\$48.6M	\$1.2M	2.2%
Total State and Federal Revs.	\$422.3M	\$454.1M	\$31.8M	7.4%
Total General Fund Revs.	\$1,218.9M	\$1,321.1M	\$102.2M	8.4%
Transfers/Cash Reserves	(\$155.3M)	(\$164.0M)	(\$8.7M)	5.6%
TOTAL NET REVENUES	\$1,063.5M	\$1,157.1M	\$91.5M	8.8%

The total assessments as of January 1, 2023, reflected an increase of \$6.6 billion – the largest increase in the county's tax base ever recorded. Residential reassessments increased \$4.6 billion, or 13.3%. Commercial reassessments increased \$908.6 million, or 5.8% compared to 2022 values. Additionally, new construction added \$989.6 million to the land book for both residential and commercial properties. Increasing values were seen across all commercial property classifications, however warehouse and industrial properties saw the largest increase at nearly 30%.

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. We are bound by the Constitution of Virginia to reassess property at fair market value. As the average sales price in Henrico increased significantly in 2022 this meant the values of property in Henrico also needed to increase significantly to meet this constitutional mandate.

However, tax relief in the form of a rebate of prior paid taxes is warranted to offset the extraordinary increases to assessments across the board, which is why along with the consideration of this budget a tax relief rebate in the amount of 2 cents per \$100 assessed value is proposed. The same considerations with the previous rebate apply – the 2 cents is based on surplus revenues collected in a prior fiscal year and taxpayers whose rebate is \$30 or greater will receive a check beginning in September 2023. Rebates that are less than \$30 or taxpayers who owe delinquent taxes will receive a credit on the December bill.

In addition to the rebate, the Real Estate Advantage Program (REAP) is proposed to be enhanced in the FY24 budget by increasing the maximum relief by \$200 to \$3,200. This will make it so the maximum relief will cover the value of the average assessed value of a single-family home, which is \$367,000 in 2023. This enhancement, on top of increasing the maximum net worth of \$500,000, which excludes the value of the home and up to 10 acres of property, continues to make Henrico's REAP program the most expansive and generous program in Central Virginia.

Furthermore, vehicle values continue to be elevated compared to two to three years ago. The majority of the valuation increase was the result of supply chain issues and car companies not being able to produce enough new vehicles to keep up with demand. This created an environment where used vehicles increased in value, some vehicles increasing over 15% in that year. Vehicles, on average, have decreased an average of 10% but have not come down to normal levels of depreciation. With these elevated values, permanent tax relief for vehicles is warranted. The proposed budget includes a reduction in the vehicle personal property rate of **10 cents** per \$100 assessed value – from \$3.50 to \$3.40. This tax relief will provide \$3.6 million to over 350,000 vehicle accounts. The last time vehicles saw a personal property tax rate reduction was in **1987**.

Other local taxes are estimated over \$203.1 million in FY24 and reflect increases in sales tax collections, hotel/motel taxes, and business license taxes (BPOL). The estimate for sales tax is \$88.5 million in FY24, an increase of \$8.3 million compared to the FY23 budget estimate. The current trend for sales tax remains strong as collections during the month of December were the largest on record, even after adjusting for a one-time audit that brought a significant sum to the County. The estimate for hotel/motel taxes for FY24 is \$18.8 million and not only reflects continued improvement in collections but also accounts for the creation of the Richmond area Tourism Improvement District, which would provide additional funding for Richmond Region Tourism (RRT) to improve marketing of the Richmond metropolitan area. Finally, BPOL revenues in FY24 are projected to total \$46 million, which is in line with the amount collected in FY22.

State revenues in FY24 will total \$454.14 million, an increase of \$31.8 million over the FY23 approved budget that is based largely on the Governor's proposed biennial budget. The bulk of the increase is for state aid for 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 other areas of State aid as highway maintenance (gas tax) payments are less than FY22 actuals and payments for offices funded by the Compensation Board are projected to increase by 2.3% when compared to the current-year trend of collections.

Taking Care of Our People

The FY24 budget includes a merit-based 8.2% salary increase for all general government and HCPS employees effective July 1, 2023. In addition to the impact on current employees, the salary increase will apply to the County's salary scales, meaning starting salaries will be adjusted by the same amount to improve recruitment efforts across all job classifications. Additionally, \$2.1 million is added to the Human Resources budget for a **competitiveness payroll reserve** to further adjust starting salaries as we compete year-round with other regional localities for talent. Also, the minimum wage for general government and education jobs in Henrico County, effective in FY24, will be \$15 per hour.

While being the leanest workforce is an essential part of Henrico's DNA, we have made great strides towards the goal of having the best paid workforce. Employees who have been with Henrico since April 2021 have seen their salaries increase an average of 19.3% and, after an 8.2% increase, will see their pay increase **29%**. This is the result of the multiple increases in the FY22 budget, a 5% salary increase in FY23, and other increases from additional market adjustments and career development promotions. From FY22 to FY24, **over 60% of Henrico's general fund budget growth has been dedicated to salary increases.**

8.2% Salary Increase by Area	
Education	36,908,380
Public Safety	15,454,297
General Government	9,518,893
Total	61,881,570

With inflation hovering between 6-8% over the past two years, our employees have felt the sting of rising prices. However, increases in employee salaries have exceeded the inflation experienced over that time period. Additionally, County and HCPS employees have benefited from two years of no increase to employee health care premiums. The FY24 budget picks up 70% of health care premiums for employees, which leaves an average increase to the employee of \$24 per month. By comparison, the starting salary for a teacher will increase \$4,138.

A foundational principle in the proposal of the 8.2% raise was that it was done within Henrico's normal course of business operations as part of a long-held plan to nurture a lean and well compensated County workforce. Under the leadership of the Board of Supervisors, Henrico has a long history of successfully balancing the various needs of the community in ways that are prudent and financially sustainable. These actions include:

- Conservative revenue estimates on an annual basis that are consistently exceeded;
- Fund balance levels that provide the County the flexibility to react to emergencies when necessary and provide pay-as-you-go funding for critical infrastructure;
- The utilization of the county's solid financial footing, exemplified by being one of forty-eight counties to hold AAA ratings from the three major rating agencies, to ensure the lowest debt service cost to the taxpayers;
- Using one-time resources, such as federal stimulus funding, for one-time purposes;
- Maintaining a low business tax burden while working with prospective businesses to increase the number of jobs available to residents, leading to
- A strong commercial tax base with the second highest number of jobs in the Commonwealth and the continued expansion of sports tourism efforts to bring more economic impact to Henrico.

In addition to the salary increase, the FY24 adds another retention tool with \$2 million allocated to begin the Home Purchase Assistance Program (HPAP). Discussed at the Board's retreat in December, HPAP is designed to assist employees purchase their first homes in Henrico by providing forgivable loans up to \$20,000 based on total household income. The employee must be employed for twelve months and be in good standing to be eligible for the assistance and the loan becomes a grant after the employee has lived in the home for five years.

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 \$817.8 million in FY24. The General Fund alone totals \$650.4 million, an increase of \$47.7 million and reflects 56.3% of the total General Fund budget.

Education Increases in FY24 Budget	
Recalculate Current Salaries & Benfits	6,966,445
Salary Increase	36,908,380
Software Increases	4,587,500
Diesel Fuel Adjustment	1,690,000
Convert Instructional Assistants from PT to FT	843,200
2nd year of Hermitage and Varina ACE Programs	785,000
8th Grade of Achievable Dream Academy	600,000
Adult Education at Regency Square	340,000
Total	52,720,525

Along with to the salary increases, the FY24 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 expands the Achievable Dream Academy to 8th grade, provides a second year of incremental 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 adds funding for the move of the Adult Education Center to the revitalized Regency Square.

Within the capital budget, education projects total \$111.6 million, of which \$86 million is for four projects approved by the voters in the November 2022 bond referendum. Those projects include the replacements of Jackson-Davis Elementary School and Longan Elementary School, the construction of the Environmental Education Living Building, and the planning for the replacement of Quiccossin Middle School. The capital budget also includes funding to replace the HVAC system at Freeman High School, which is on top of the \$20.5 million in maintenance allocations in the HCPS capital budget, which includes \$9 million of meals tax for maintenance projects, \$6 million for school bus replacements, \$2.5 million for roof improvements and mechanical improvements, \$2 million for technology improvements within schools, and \$1 million to begin systematic replacements of playground equipment.

Public Safety Enhancements

The budget for the Police Division includes the third round of ten police officers added to the Division’s personnel complement. This will bring the total number of patrol officers added to Police to 30 since February 2022. The FY24 budget also captures the reallocation of ten vacant positions from various departments to Police for School Resource Officers. This approach was also taken with four additional positions for Recreation for the enhancement of park maintenance efforts. This is emblematic of Henrico’s approach to being the leanest local government by repurposing resources when it makes sense.

Reallocation of Vacant Positions for Other Priorities	
Positions Gained:	
Police (School Resource Officers)	10
Recreation & Parks (Park Maintenance)	4
Total	14
Positions Reallocated:	
General Services	(6)
Hold Complement	(2)
County Manager	(1)
Libraries	(1)
MH/DS	(1)
Public Utilities	(1)
Planning	(1)
Permit Center	(1)
Total	(14)

The proposed budget continues the phased approach to staffing Firehouse 23, which will be under construction later this spring. Adding the positions now allows the Division to have a fully ready staff

for the new station once it opens. The FY24 budget enhances EMS services by adding hours to the operational medical doctor contract and adding a clinical coordinator position to further develop the training necessary for all EMS responders to best serve those who call in their greatest time of need.

Capital funding for public safety in FY24 includes construction funding for a new South Station, which will replace the current station that is a leased property. Additionally, the first of several public safety projects approved in the November 2022 bond referendum – the replacement of Firehouse 6 – will receive \$13.3 million for construction of this facility. Both projects received planning allocations in FY23 to get them shovel-ready once funding is available in FY24.

Finally, the FY24 budget provides the initial appropriation of funding received from opioid settlements through the Opioid Abatement Authority. The first allocations from this funding source will provide two peer recovery specialists within the jail and a new director over MH/DS's Substance Use Division. Peer recovery specialists will provide additional support to the programs offered in the jail by giving recovering addicts support from an individual who has been in their shoes. The SUD Division Director will oversee the many efforts countywide that are currently fragmented while coordinating overdose responses, providing supervision to peer recovery specialists, and maintaining the county's 'Bounce Back' website and other outreach efforts.



Economic Development and Community Redevelopment Efforts

Over the past three years, economic development in Henrico County has been very successful. New jobs in the county total 4,462 and the number of jobs retained in Henrico totals 2,650. Businesses have invested nearly \$1 billion in this county and have occupied 6.6 million square feet of commercial space. Henrico has the second highest number of jobs in the Commonwealth behind only Fairfax County and is primed to continue this success as the Economic Development Authority stays busy pitching Henrico to the world with businesses responding positively.



Showtime. All the time.

Additionally, Henrico's efforts in sports tourism continue to create excitement as direct spending from sports tournaments and events exceeded \$64 million in 2022. The future is extremely bright as the County's investment into the Henrico Sports & Events Center at Virginia Center Commons will open in the fall and the arena at Green City will follow within 2-3 years. To oversee and guide these efforts, the Board created the Henrico Sports and Entertainment Authority (SEA) in the fall. To continue this momentum, the FY24 budget includes a new position for the SEA that will oversee operations at the Henrico Sports and Events Center.

With the success in sports tournaments, new visitors will need new places to stay in Henrico. For the investments this county is making to be successful for our residents, every effort should be made to keep visitors here. In addition to the need for more hotel rooms, there are hotel properties in Henrico

that need revitalization. Some of these properties have become nuisance properties, attracting crime and coming under disrepair.

To increase the development of hotels and the redevelopment of older hotel properties, this budget proposes a **water and sewer connection fee holiday** for 36 months, retroactive to January 1, 2023. The goal of this holiday is to increase the number of hotel rooms in Henrico to over 10,000. There are currently 9,334 rooms, so the net gain of four to six hotels will reach this goal. To qualify, either a new hotel must be built or an older hotel must be torn down with new construction replacing it. It is important to note the connection fee holiday will apply for an older hotel being replaced with any new development – not just a hotel. The holiday will be implemented as the projects applying are finished because the connection fee will be due around the issuance of a certificate of occupancy.

In addition to the connection fee holiday, the FY24 budget includes a total of \$5 million from the General Fund for two main purposes. \$1 million will go towards assisting new customers in connecting to the county's water & sewer system as a result of the infill projects that expand the system to cover homes and businesses currently on well and septic systems. These projects are supported by the \$64 million of American Rescue Plan Act (ARPA) funding over the past two years. The remaining \$4 million will go towards making economic development projects shovel-ready.

The FY24 budget will also continue two efforts first included in the FY23 budget. First, \$2 million is allocated for neighborhood revitalization efforts through the Community Revitalization (CR) Fund. Prior to FY23, the appropriations from the CR Fund have been made throughout the fiscal year in the amendment process, but it continues to be prudent to provide the flexibility to move forward as agreements are made. The second effort is an additional \$750,000 for the Henrico Investment Program (HIP). This funding supports 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 continues the County's commitment to be a good steward of our natural resources. The FY24 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, bringing the total approved for this effort to \$18.8 million since FY16. Additionally, \$1.8 million is allocated to rehabilitate streams, conduct minor drainage projects, and acquire land in flood plains in accordance with criteria set forth by Public Works. While not as longstanding as the effort for MS4 compliance, a total of \$5.3 million has been allocated for these initiatives since FY22. New for FY24 is an additional \$1.0 million for maintaining existing stormwater management facilities on private property. FY24 also includes the first allocation of the \$50 million for drainage and flood mitigation projects approved in the November 2022 bond referendum to accelerate the improvement of the County's water management. The first allocation of \$2.5 million will kick off the prioritization and design of this enhanced drainage and flood mitigation effort. Finally, to assist in tackling this work four positions are included in the proposed budget to support a healthy watershed system and improve the Chesapeake Bay.

In the area of Solid Waste, the FY24 budget picks up the increasing costs for the new Central Virginia Waste Management Authority (CVWMA) contract. Over \$3 million in General Fund resources is included to cover the increase to \$4.98 per home for the county's recycling efforts. Included in this increase, though, is the rollout of 96-gallon carts to all homes participating in the curbside recycling program **at no additional cost to the resident.**



The budget for the water and sewer system is projected to grow by 5.4% in FY24 to provide for clean drinking water and sewer to Henrico residents. Part of the increase is six positions, of which three will support the county's water testing efforts that started in response to Henrico being alerted of potential per-and polyfluoroalkyl substance (PFAS) contamination regulations that are likely to come from new guidance from the Environmental Protection Agency (EPA). The other three positions will support data analysis from DPU's systems to better assist customers and the agency.

Finally, the capital budget for water and sewer infrastructure in FY24 totals \$100.9 million and includes many projects to maintain and expand the water and sewer system. To fund both the operating and capital needs, an increase of 5% increase in water and sewer fees is recommended. The monthly impact of the proposed increase is \$3.35 on the median residential account to secure safe drinking water for our residents. Connection fees are not increased in this proposal.

Keeping Focus on Maintaining and Enhancing Public Infrastructure

Solid infrastructure is key to outstanding services, quality of life, and economic development. The FY24 budget continues to maintain and enhance public infrastructure a variety of ways.

The FY24 capital budget continues to allocate revenues generated through the Central Virginia Transportation Authority (CVTA) for County projects. The estimate for CVTA revenues totals \$27.5 million, which includes \$25.0 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.

The proposed capital budget includes \$114.3 million for the first allocation of bonds overwhelmingly approved by the voters in November 2022. In addition to the education, public safety, and drainage projects referenced earlier, the first round of projects includes \$10 million for the development of the Three Chopt Area Park on Kain Road and \$2.5 million for the third phase of Tuckahoe Creek Park.

<u>FY24 GO Bond Projects</u>	
Jackson-Davis Elementary Replacement	32,500,000
Longan Elementary Replacement	31,500,000
Environmental Education Living Building	12,000,000
Quioccassin Middle Replacement	10,000,000
Firehouse 6 Replacement	13,300,000
Three Chopt Area Park	10,000,000
Tuckahoe Creek Park Phase III	2,500,000
Drainage Projects	2,500,000
Total	114,300,000

Finally, the FY24 capital budget includes funding for the construction of a Henrico Visitor Center at Four Mile Creek, as well as technology upgrades through IT and maintenance funding for both General Services and Recreation. All of the ongoing maintenance programs for general government and HCPS make it possible to maintain our public buildings and systems to keep the County moving.

Better Every Day

From the beginning of this budget process in the fall, the focus of this spending plan has been on people. From taking care of our hard-working employees with the largest across-the-board salary increase in 33 years to covering the lion's share of health care premium costs to adding positions for managing increasing workloads to providing residents with tax relief, this budget has squarely focused on making everyone's lives better every day.

Focusing on improving the lives of our citizens, employees, businesses, and visitors is at the heart of public service. In this county we have been fortunate to have elected leadership that exemplifies the servant's heart. For 28 years, Board members Frank J. Thornton and Patricia S. O'Bannon have led with their heart and blazed wide trails for future generations to follow as they venture into their respective retirements. Henrico has been and continues to be better every day because of their dedication to this community.

Moving forward, this will continue to be our focus. The voters of Henrico trusted us to move the county forward with the largest bond package ever approved despite unsettled economic times. We have a moral obligation to make sure the projects put forward are completed as the people require but in a manner that is fiscally responsible. We also will make sure the physical assets and the human resources are taken care of for years to come with a budget that adheres to our principals of conservative revenue estimates, minimizing the tax on businesses to spur development and be better every day.

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. Schools and general government 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.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'John A. Vithoukas', written over a white background.

John A. Vithoukas
County Manager