



February 15, 2023

Madam Chair and Members of the Board of Supervisors:

I am pleased to submit to you and the residents of Loudoun County a proposed budget for Fiscal Year (FY) 2024 that is based on the Board of Supervisors' (Board) budget guidance, which was to prepare the budget based upon a real property tax rate scenario that would provide sufficient expenditure authority to address employee compensation, base budget adjustments and resources needed to open new facilities. The Board's guidance also directed that the budget proposal be balanced with a personal property tax rate of \$4.15 per \$100 of assessed value, continuing in Tax Year (TY) 2024. Finally, the Board directed that net new local tax funding be split between the County Government and the Loudoun County Public Schools (LCPS) based on a 40%/60% ratio. The Board also provided direction for me to include two unfunded options to increase the real property tax rate by 1.5 cents, one that would maintain the 40/60 split and one that would direct the full 1.5 cents to the County Government.

The FY 2024 Proposed Budget is balanced at the real property tax rate of \$0.87 per \$100 of assessed value, which is 2 cents below the current rate of \$0.89 and 6.5 cents above the equalized rate of \$0.805. The increase options have been prepared at the real property tax rate of \$0.885. One penny of the real property tax rate is valued at \$12.9 million.

The FY 2024 budget development process benefitted from important policy discussions by the Board and its Finance/Government Operations and Economic Development Committee. This budget proposal is reflective of the Board's guidance and input throughout the development process. The staff and I look forward to discussing the organization's needs and assisting you in defining what resources are appropriate to carry out your vision for the community, its government, and School Division in the last full budget process of your term.

Building the Budget

The revenue picture for the FY 2024 Proposed Budget was influenced by the continued complexity of forecasting revenue generated by data centers, most significantly from the personal property tax rate. During FY 2023, the Board established a tax policy to bring balance to the relationship between real property tax revenue and personal property tax revenue. That is, over the long-term, real property tax revenue should approach 60% of total General Fund local taxes and not fall below the FY 2022 floor of 51.5%. The Board proved its support of this policy decision by confirming its intention to lower the personal property tax rate by 5 cents to \$4.15, which is our most significant tool in easing the County's dependence on business personal property tax on computer equipment.

Also impacting FY 2024 are contingencies regarding real property values in recognition of a projected recession that could begin in the summer of 2023 as well as the uncertain impact of House Bill 791, which could — but has not yet — resulted in lower assessed values for retail data centers. While the County's real property portfolio is still experiencing strong revaluation (8% for residential and 22% for commercial) in TY 2023, I have approached TY 2024 revenue forecasts conservatively.



Another influential factor for the County's FY 2024 budget is a slowdown in growth in the personal property tax portfolio for computer equipment. Budget-to-budget there is a decline in this revenue source, though actual revenue from the portfolio is forecasted to grow but not as quickly as staff had projected previously. Of considerable concern this year are the challenges Dominion Energy has identified regarding energy supply. Based on information gathered by staff from the industry and Dominion, models indicate supply issues may result in flat revenue from this source over the next three years beginning in FY 2025.

To fund critical expenditures, including employee compensation, base budget adjustments and the opening of new facilities, I recommended, and the Board affirmed, direction to prepare the FY 2024 Proposed Budget with a real property tax rate of \$0.87. No other additional resources are funded within the proposed budget.

FY 2024 Proposed Budget

The FY 2024 Proposed Budget is balanced at a real property tax rate of \$0.87 per \$100 of assessed value and a personal property tax rate of \$4.15 per \$100 of assessed value for TY 2023 and TY 2024, consistent with the Board's budget guidance. New local tax funding available with these tax rates totals \$119 million. Consistent with the Board's budget priorities, new local tax funding is dedicated to fulfill the County Government's and School Division's debt and capital budget obligations and to housing (equivalent to a half penny of the real property tax rate). There is no year-over-year increase in the amount of local tax funding for capital and debt needs. The housing increment totals \$6.5 million for FY 2024.

The FY 2023 – FY 2028 Amended Capital Improvement Program (CIP) continues to fund infrastructure priorities of the Board. The most impactful policy decision for the Amended CIP is the Board's action in October 2022 to increase the annual debt issuance guideline for all years of the CIP. The guideline is set for \$325 million in FY 2024, \$350 million in FY 2025, and \$400 million in FY 2026 and beyond. While still within the Board's debt management ratios, the increase to the planned issuance limit has allowed for a reduction in the amount of local tax funding in the capital program as well as for the ability of the CIP to absorb construction and land cost increases in many road capital projects and to add the Park View High School Replacement project. The Amended CIP also includes one new major facility project to construct a Crisis Receiving and Stabilization Center to complement the County's continuum of behavioral health and crisis response services. Because the CIP proposal occurs during an amendment year, capacity for other new projects is very limited. The Loudoun County School Board's adopted CIP is fully accommodated in the County's Amended CIP, through FY 2028.

Since the summer of 2022, the Board has been engaged in a discussion about the split of new local tax funding between the County Government and LCPS operating budgets. Following consideration of student enrollment forecasts, the Board opted to alter the split of net new local tax funding between the County and School Division to a 40%/60% ratio. This ratio, which had been 34/66, is reflective of the most recent budget allocation decisions the Board has made over the past decade, meaning that the Board's adopted budgets since FY 2018 have resulted in approximately a 40/60 split even when the starting point was 34/66.

On February 2, 2023, the School Board adopted its FY 2024 Budget, which includes a request to the Board to increase the local tax funding transfer by \$75.3 million. Based on the 40/60 split, the FY 2024 Proposed Budget includes a transfer of \$69.1 million, which is \$6.2 million lower than the School Board's request. The School Board's budget includes funding for employee pay, base budget increases, and limited program enhancements, and is one of the lowest requested year-over-year increases over the past decade. Coinciding with the printing of this



document, the state announced an error in its revenue calculations that may lead to a larger local tax funding request from the School Board. Additional information on revisions to the School Board's adopted local tax funding transfer request, if any, will be provided when available.

The FY 2024 Proposed Budget for the County Government was developed by addressing compensation and base budget operating and maintenance increases prior to adding new resources. For compensation, the proposed budget includes a 6% merit increase for the general workforce and a one-step increase for public safety. Additionally, funding is included to adjust the general workforce pay scales by 4%. Public safety pay scale adjustments are funded to include a 3% adjustment for the Fire-Rescue pay plan and a 6% adjustment for the Sheriff pay plan. These compensation recommendations have changed since the Board gave me final guidance in January; however, they are necessary to keep pace with our comparator market.

Beyond compensation, the Board's guidance provides funding for only positions that are revenue neutral and those needed to open and support new capital facilities and the CIP. Resources for those new capital facilities include 30 positions for the Leesburg South Fire Station, one School Resource Officer for Middle School 14, and two systems maintenance staff for the Department of General Services. No other resource requests to meet Board or department priorities are funded in the proposed budget.

In summary, the FY 2024 Proposed Budget includes:

- \$14.3 million in base budget adjustments to continue to provide current services, including increases in contracts and ongoing maintenance agreements, lease and utility increases and inflationary impacts;
- An increase of \$27.0 million in total for employee compensation, including a 6% merit increase and 4% adjustment to pay scales for the general workforce, a one-step increase and 3% scale adjustment for the Fire-Rescue pay plan, a one-step increase and 6% scale adjustment for the Sheriff pay plan and \$1.5 million for hiring and retention incentives;
- Forty-five new positions in seven departments to open new capital facilities and support programs, with no impact to revenues. Of this number, four positions are revenue neutral, seven positions are allocated to the CIP and 33 positions are needed to open new facilities; and
- A year-over-year increase of \$69.1 million in the local transfer to LCPS.

Increase Options

The Board's guidance included direction to include increase options of 1.5 cents, one that would maintain the 40/60 split of net new local tax funding between the County Government and LCPS and one that would direct the full 1.5 cents to the County Government. As requested by the Board, the 33 resource requests listed as Increase Options are prioritized according to my professional judgement. None of these requests are funded in the proposed budget. To include any item listed from either scenario will require Board action during budget work sessions.

An additional \$11.6 million in funding is available for the School Division in the \$0.885 real property tax rate using the 40/60 split.

Priorities 1 through 11 include the most critical resources for the organization. While the Board's guidance does not allow me to fund these items, should the Board choose to increase the amount of revenue available for FY 2024, I recommend the Board fund all or a subset of the items listed as Priorities 1 through 11. While these requests include some Board priorities (resources for collective bargaining administration and for short-term rental zoning



inspections), I have not prioritized all Board priorities over department priorities in these first 11 requests, further underscoring the criticality of some department needs. Priorities 1 through 11 include 74 positions in 10 County departments, including 36 deputies in the Loudoun County Sheriff's Office, 13 positions to begin the County's Crisis Intervention Team Community Access Response, and 17 positions for our Child Protective Services and Public Benefits programs.

Priorities 12 through 33 include 44 additional positions in 14 departments. These additional requests incorporate all first department requests and resources to support the Board's remaining priorities of composting, glass recycling, energy strategy implementation, unmet housing needs and activities in the floodplain; however, those are prioritized against other department requests for resources. My recommendation is that the Board funds Priorities 1 through 11 in whole before funding Priorities 12 through 33.

The proposed budget I have presented to you is within the Board's guidance; however, additional resources are needed to allow some departments to sustain its critical programs and meet the Board's service delivery expectations. Discussion of the resource requests included in the proposed budget and increase options begin on page E-30 in the Executive Summary. My recommendation is that the resource requests listed in the Increase Options be considered as additions to the budget, not as substitutions for higher priority items that are included in the proposed budget.

Public input is a valuable component of the Board's budget process, and you have three scheduled public hearings. Hearings will be on March 1 at 3:00 p.m. and 6:00 p.m. at the Loudoun County Government Center and March 4 at 9:00 a.m. at the LCPS Administration Building. Options are available for virtual participation by residents.

I look forward to working with you over the next few months on the budget.

Respectfully submitted,

Tim Hemstreet
County Administrator