What's in Loudoun's New Budget

Earlier this week, the Board of Supervisors unanimously approved our Fiscal Year 2022 budget, which will go into effect on July 1, 2021. As is my custom, I have prepared a comprehensive report on what's in the new budget, with a special focus on items of interest for Dulles South.

Bottom line up front: the $2.3 billion operating budget **lowers the tax rate from $1.035 to $.98**, a 5.5 cent reduction. This largely keeps pace with assessment increases - the owner of a home at the averaged assessed value will see a $39 increase in their tax bill for the entire year. While I think we could have brought the budget down slightly more - and gotten to a flat tax bill for residential - the final budget represents a good compromise. Also important: the budget adds 168 positions in 20 County departments to keep pace with growth and provide enhanced services, funds several new priorities like body-worn cameras for law enforcement, and provides a **7.9% increase in funding for Loudoun County Public Schools** (7.2% increase in allocated local taxpayer funding). The $3.2 billion capital budget continues momentum for important infrastructure projects, including Braddock Road improvements.

Introduction

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Each year, the County budget contains two components – the operating budget, which funds County departments and keeps the local government running efficiently throughout the year, and the six-year Capital Improvement Program (CIP), which is a list of ongoing and future road, school, and infrastructure projects. I'll cover both the operating budget and the capital budget in this report.

If you recall from last year's budget process, the Board chose to place $100 million from the FY21 County and LCPS budgets in reserve to cover potential revenue shortfalls as a result of COVID-19. As the year went on and revenue pictures became clearer, we were able to release $50 million in funding last fall. We continued to release positions in the following months and were able to fund the final positions as part of our budget adoption this week.

I am proud of the County's fiscal response to COVID-19. As Chairman of the Finance Committee, I spent a lot of time working with the County Administrator and senior staff to review revenue projections and develop a plan of action. While revenue did suffer due to the pandemic (about a $30 million decline from the revenue amount that was budgeted for), the worst-case scenarios never materialized. The County even retained its AAA bond ratings in 2020, which means that we can borrow money for capital projects at the lowest possible interest rates. The credit ratings agencies that assessed our economic standing noted our strong and diverse commercial base, our fiscal resilience, and our excellent preparation for potential negative outcomes of the pandemic.

The overall equalized tax rate, which is the rate at which the average tax bill would stay flat, was $1.00 in FY22. The residential equalized rate was $.975, and the commercial equalized rate was $1.08. In a normal year, the residential and commercial rate would be much closer. However, the homeowner's rate is lower than normal (since residential properties

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have appreciated so much this year) and the commercial rate is higher than normal (due to a decline in the assessed value of commercial properties that have been impacted by the pandemic). Therefore, $1.00 is the overall equalized rate between commercial and residential. The budget discussions this year started at the $1.00 equalized rate. Had we approved a budget at the equalized rate, the average homeowner would have seen a larger increase in their tax bill. This problem is compounded for Dulles residents, whose home assessments went up to an average of $558,194 (second in the County only to the Blue Ridge District) this year. Of course individual assessments vary, and we have properties that saw higher or lower than average assessments. The County can only have one combined tax rate (for commercial and residential).

Due to these complex factors, I was more focused than usual on bringing the tax rate down from where budget discussions began. As I mentioned in the introduction, we were able to finalize the budget at a tax rate of $.98 per $100 of assessed value – two full pennies below the overall equalized rate. We were able to secure a lower tax rate while funding departmental priorities and giving County employees 3% raises. I am proud of the Board's work during this budget process. Striking a line between funding what is necessary and keeping the tax rate low is never easy, especially when the effects of a global pandemic are still looming large in the background.

The future impacts of COVID-19 on residential and commercial property taxes are unknown. As I mentioned before, residential property values increased at a faster pace in 2020 than in previous years, thanks largely to a very favorable housing market. During the 2020 tax year the overall value of residential properties increased by 8.56%. 2.23% was due to new development, while existing properties appreciated by 6.33%. On the other hand, COVID-19 has been very difficult on commercial properties. In Loudoun, commercial and industrial properties lost 4.58% percent of their 2020 values due to the

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pandemic, which hit small businesses and certain sectors very hard; while the percent change in assessments varied by industry, hotel and retail properties experienced the most significant decline. The 2021 valuation for hotel properties was down over 62% from 2020, and retail properties devalued by 27%. These values are driven by revenue in those industries, which has plummeted. The total taxable value of commercial property in the County is just over $22 billion, which is a bit lower than in 2020.

We are fortunate that the data center industry continues to provide a steady and significant source of revenue for the County. The FY22 budget forecasted an all-time high $586.8 million in tax revenue from data centers this year, mainly sourced from our computer equipment tax (the current rate is $4.20). $563.4 million of data center revenue was programmed into the budget for operating expenses, with the rest dedicated to capital projects. Computer equipment tax revenue makes up about 30% of local tax funding, which is enough to fund all local tax funding operating expenditures for the County or approximately half of the funding transfer for LCPS.

In 2020 alone the County issued building permits for 4 million square feet of new data center development. COVID-19 has forced more businesses online and into seeking cloud-based services, which means that the demand for data centers is still very strong. In the past I've covered the many reasons why Loudoun is a desirable place for data centers to locate, so I won't reiterate them all here. But our fiber networks remain second to none, and a majority of the world's internet traffic still passes through the County – meaning that we remain prime real estate for data center development. I know there is data center fatigue in the community, and the County is actively looking at ways to diversify our commercial tax base, but the bottom line is that your tax bill as a homeowner is **much** lower than it would be if we didn't have data centers in Loudoun. The boost they bring to revenue, not to mention all the accessory charitable giving and other services they provide, can't be overstated. That does not mean they belong everywhere, and we continue to try to steer data center development to appropriate places. Due to existing zoning, this can sometimes be difficult.

The Fiscal Year begins on July 1, and the June tax collections will be based on the new rate. Now, let's get into some details on the FY22 budget.

County Budget

Although they are funded differently, I'll include both the operating and capital budgets in my breakdown. For projects in the six-year Capital Improvement Plan, it is important to note that we are fiscally constrained, meaning we simply can't fund everything we want to whenever we want to for a number of reasons. These reasons include the ability of staff to effectively manage projects (we only have so much staff) and limits on how much debt we can borrow. We can only take on so much debt at one time, so that number is very carefully managed. The capital projects you see here fit within existing, planned debt limitations and will not jeopardize the County's outstanding AAA credit ratings. Funding for projects comes through many different sources including local tax collection, General Obligation bonds, developer proffers, Northern Virginia Transportation Authority funds, and state revenue matching grants. The CIP changes annually due to limitations and alterations in funding structures.

Transportation

I always prioritize adding funding to our Department of Transportation and Capital Infrastructure (DTCI), which is responsible for the projects found in our CIP. This year, we were able to add utility and civil engineer positions to DTCI. The new positions will increase utility coordination on capital projects and support to Board member initiatives, traffic corridor studies, and grant applications. Implementation of a coordinated intersection improvement program continues after funding in last year's budget. FY22 also includes a comprehensive sidewalk and trails program, which the civil engineers will help facilitate.

Transportation projects occupy 37% of our current CIP, with school projects accounting for 26% - fully incorporating the School Board's adopted capital plan and accommodating all school projects. The approved CIP includes funding over the next six years for some major transportation projects, including many in the Dulles District. While you will recognize many of these projects from past correspondences, **the information below regarding timelines and funding amounts contains the latest and most accurate numbers we have**.

Arcola Boulevard: Arcola Center constructed Arcola Boulevard between Route 50 and Arcola Mills Drive in keeping with their proffers. The four-lane road from Arcola Mills Drive to Route 606 is also proffered, although the proffer trigger isn't expected to be reached for quite some time. The County is providing $15 million in funding to accelerate construction of this piece of Arcola Boulevard. Once the proffer trigger is reached, the Arcola Center developer will repay the County.

Arcola Mills Drive: Arcola Mills Drive (previously Evergreen Mills Road) will be widened from Belmont Ridge Road to Stone Springs Boulevard at a total cost of $49.7 million. Construction funding will not kick in until FY25, with an estimated completion date of FY27. This portion of Arcola Mills Drive will be a three-lane roadway with a continuous left turn lane and right turn lanes spaced between Belmont Ridge and Stone Springs. Construction includes intersection improvements at Belmont Ridge and Stone Springs and a new bridge over the South Fork of the Broad Run. The road will feature a sidewalk on one side and a shared use path on the other.

Braddock Road Widening: As you may recall, the Braddock Road widening was broken into smaller segments. I have good news to report on the segment from Paul VI to Bull Run Post Office Road. In this budget, I was able to significantly accelerate the timeline by moving $750,000 to begin preliminary engineering in FY21. By reassigning funding from the future Northstar Boulevard widening between Tall Cedars Parkway and Braddock Road to widen this section of Braddock (General Obligation Bonds and some local tax funding will cover Northstar), we have been able to move up the total project by at least a couple years (I'd been looking for opportunities to accelerate the Braddock widening project). I'll provide a timeline update in a future newsletter.

Braddock widening between Royal Hunter Drive and Gum Spring Road has an estimated completion year of FY24 but is likely to be completed sooner through a proffer from the recently approved Hogan Kent Greene application.

Braddock Road / Supreme Drive / Summerall Drive: A traffic light is being installed with turn lanes at the intersection of Braddock Road and Supreme/Summerall. The missing half-section of Braddock Road near the subject intersection is being widened from two lanes to four lanes. Project plans were approved in January, a public meeting was held, and right of way acquisition is beginning now. Expected completion is in the summer of 2022.

Croson Lane: Croson Lane will be widened to four lanes between Claiborne Parkway (Route 901) and Old Ryan Road (Route 722). A sidewalk will be constructed on one side and a shared use path on the other. Estimated completion is FY27, with construction funding starting in FY25. The total anticipated cost is $18.9 million.

Dulles West Boulevard: The four-lane median divided roadway between Arcola Boulevard and Northstar Boulevard will cost $81.6 million and includes shared use paths on both sides of the road and a bridge over the South Fork of the Broad Run. Estimated completion is FY27. Arcola Center is completing the eastern section of Dulles West

Boulevard, from Dulles Landing to Arcola Boulevard, under a proffer. **That segment is set to open later this year.**

Evergreen Mills Road: Realignment of the intersection at Reservoir Road and Watson Road is funded at $25.3 million and should be completed in FY25.

Loudoun County Parkway Widening: Loudoun County Parkway will be widened from Ryan Road to Shellhorn Road as a proffer from the Silver District West development. Cost to the County is only $2.7 million for right of way acquisition. Estimated completion for the project was pushed back a year to FY24.

Northstar Boulevard: Northstar Boulevard will be widened from Tall Cedars Parkway to Braddock Road; the project is budgeted at $37.7 million with the bulk of construction funding becoming available in FY26. The current anticipated completion is FY28. The remainder of the Northstar project, from Tall Cedars to 50 and 50 to Brambleton, has already been funded and those projects are currently in right of way acquisition.

Route 50 Northern Collector Road: I have proposed this new road as an alternative to Route 50 that would connect from Tall Cedars Parkway to Route 28 at the Air and Space Parkway interchange. We have made progress with MWAA in resolving some concerns over the conceptual route. The current cost in the CIP is $110.8 million, with design funding budgeted as early as FY22 but construction not slated to begin until FY26. This project will have many hurdles to overcome.

Waxpool Road / Loudoun County Parkway: The intersection of Waxpool Road and Loudoun County Parkway is being improved for better traffic flow from the Dulles 28 center. The final plan is for triple left turn lanes onto southbound Loudoun County Parkway and a channelized free flow right turn with an acceleration lane from northbound Loudoun County Parkway onto eastbound Waxpool. The project is funded at $10.2 million and the completion year is currently slated for FY24.

Westwind Drive: Westwind Drive will connect from Loudoun County Parkway to Old Ox Road with a sidewalk on one side, a shared use path on the other, and a bridge over the Broad Run. The total cost is estimated at $52 million with a targeted completion date of FY28.

Public Safety

The **Sheriff's Office** has a budget of $108.8 million; about $86.8 million of that will come from local tax funding. The Sheriff's Office budget is up from last year's total of $104.2 million. Newly added positions include full time employees to staff the Courthouse expansion in Leesburg (the last steel beam was just placed this spring, and project completion is anticipated in 2023) and a dedicated FOIA coordinator to handle Freedom of Information Act requests in the Sheriff's Office.

The FY22 budget also included resources to support expansion of body-worn cameras in the Sheriff's Office (additional 122 cameras). LCSO received a technician and technician supervisor to support the expanded body-worn camera program. The Board has a plan to provide body-worn cameras to all deputies over a three year period. This also requires an increase in the number of attorneys in the Commonwealth's Attorney's Office to review footage. The addition of body-worn cameras was strongly supported by the Sheriff's Department as a tool to protect both the deputies and the public.

There has been a lot of discussion about the **Commonwealth's Attorney's** budget this year. The new Commonwealth's Attorney, who has a different judicial philosophy than the previous one, has been requesting a major expansion of resources. The Board of Supervisors expressed concerns regarding a very high turnover rate in the office (44% in about a year), as well as concerns that we've heard from various victim's rights organizations and individuals themselves about the way certain cases are being handled. The CA ultimately requested 17 new positions. The Board instead funded 9 new positions: one position in the Conviction Integrity and Post-Conviction Unit (which handles appeals of cases where there is evidence of investigatory and prosecutorial wrongdoing), three positions for the Special Victims Unit (which addresses violent prosecutions involving domestic partners and family members), two new positions to support the CA's role in the Adult Drug Court, and three positions to support expansion of the body-worn camera program.

While the CA's Office has expressed disappointment over the Board not funding all the requested positions, I feel compelled to point out that the Board increased funding for the Commonwealth's Attorney's Office by 43% over the past two years - the most out of any County agency or department. It is difficult for me to justify increasing the tax rate even further when there are so many vacant existing positions in the office and there has been so much turnover.

Loudoun County Combined Fire and Rescue System has also received increased funding. Their budget totals $112.7 million, with $106.8 million coming from local tax funding (about a $6 million increase). One major operational change is the addition of a uniformed fire officer to be stationed in the Emergency Communications Center to assist with dispatch and serve as a liaison with the field at all times.

Parks & Recreation

The FY22 budget includes funding to support staff at new capital facilities such as various community centers and the Hal and Berni Hanson Regional Park (about 25 new FTEs), which is expected to open to the public in 2023.

The total expenditures for the Department of Parks, Recreation, and Community Services are $62.8 million, but only about $32.8 million of that comes from local tax funding, as revenue in the department is typically quite high (although the pandemic impacted PRCS revenues since many County facilities and programs were shuttered during the height of quarantine). In addition to capital facilities staff, we added some new positions to the department, mostly in administrative and maintenance roles.

Library Services

Board funding for library services this year was at $22.5 million, which is up about $0.2 million from last year (97% of library funding comes from collected local taxes). The funding will go toward personnel costs, maintenance, and materials.

Health & Welfare

Board funding for the Department of Family Services was $30.8 million - an increase of $1.3 million over last year. Family Services is a crucial department that performs important tasks, especially right now during the pandemic.

Instead of “defunding the police,” the Board of Supervisors has taken the approach of providing law enforcement AND mental health staff more resources to be able to better address problems in the community. One of the most interesting new initiatives in this budget is the creation of a transitional housing unit for at-risk youth. Essentially, this will bring together several departments to operate a unit that can provide shelter and services for youth suffering from mental health or other issues that is less intensive than a hospital setting but more intensive than outpatient therapy. Many of these youth are currently relocated out of the County for service and this new program will help keep them closer to home. The FY22 budget also includes funding to double the capacity of the Adult Drug Court, which has been successful so far.

Loudoun's Department of Mental Health, Substance Abuse, and Developmental Services added residential services positions, including in the youth crisis stabilization unit, and a same day access therapist. MHSADS provides round the clock residential support for individuals with severe mental illness and intellectual developmental disabilities in designated group homes around the County. This year, funding to MHSADS was around $57 million, with 77% of that coming from local tax funding.

Employee Compensation

The Board provided an increase of $12.4 million to fund an average of 3% raises to County employees.

Collective Bargaining

This year's budget included $1 million to set up a collective bargaining program in Loudoun County for public employees. I opposed the addition of this funding. Some may not be aware that while the National Labor Relations Act guarantees collective bargaining for private sector employees on a federal level (although it is regulated by the states and collective bargaining protections vary widely depending on where you are in the country), collective bargaining for public employees is a state-by-state decision and only exists comprehensively in about half the states. Until last year, public employee collective bargaining was expressly prohibited in the Commonwealth of Virginia. Last spring, the General Assembly passed a law that allowed collective bargaining if localities choose to implement it - allowing Counties to pass their own ordinances or regulations regarding collective bargaining.

I have concerns about the level of expenditures required to fund collective bargaining and the overall impact it may have on the County workforce. Currently, outside of public safety (which has a STEP pay system), the County has a "pay for performance" system. Collective bargaining could threaten that culture. I also think that this is a solution in search of a problem. The Board of Supervisors has been very responsive to employee concerns. Loudoun's pay scales have recently been updated and are regionally competitive, and just last month the Board adopted a new set of benefits and policies which had been in the works for the past few years and provide significantly enhanced employee benefits. During my time on the Board, whenever an issue has been brought to the attention of the Board or senior staff, it has been addressed. I have yet to hear any specific issues which need to be addressed through collective bargaining.

Unfortunately, the Board votes on this topic have been party line 6-3 votes, and the majority seems committed to moving forward despite the many issues that have been raised. I'll provide more updates in future correspondences as the process progresses.

Loudoun County Public Schools

While the Board of Supervisors has no direct oversight over how Loudoun County Public Schools spends its money, we are responsible for appropriating funds for LCPS. Each year, the LCPS Superintendent proposes a budget and the Board of Supervisors evaluates its impact on the overall tax burden in the County. In my time on the Board, we have funded over 98% of LCPS requests; that being said, I don't like to simply rubber-stamp the schools' proposed budget without critically examining it first.

This year's process with LCPS was unfortunately contentious, largely because the schools' request was significantly larger than normal in a year where the Board was trying to prevent large tax increases on struggling residents. Interim superintendent Dr. Scott Ziegler presented a proposed budget of $1.493 billion – a $122.9 million (9.7%) increase over the approved

FY21 budget – despite a projected increase of only 112 students (0.1%) over what had been budgeted for in FY21 (the actual enrollment was down due to the pandemic, so the expected growth over this year's enrollment is 4,363 – 5.4%). I thought the size of the requested increase was inflated and inappropriate given continued pandemic effects on revenue. While the Board of Supervisors does not have line item budget authority for LCPS, the only way I can see to actually evaluate their budget request is to determine what is a prudent use of taxpayer dollars in each area that they are requesting money.

In the end, the Board of Supervisors approved a 7.9% budget increase for LCPS. There were two main areas the Board had concerns about that resulted in a reduction from the 9.7% requested increase. The first was "**Virtual Loudoun,"** an initiative (which would have cost $4.2 million in the proposed LCPS budget) to create a separate, online only school. While I do think some students may benefit from an online academic environment and while I appreciate the School Board's attempt to follow safety protocols during the pandemic, I am a strong supporter of in-classroom education. If Virtual Loudoun is intended for health reasons, LCPS can utilize federal COVID-19 relief funding to establish the program. However, LCPS seems to want this to be a permanent program, and I want to see a lot more community discussion before moving forward with that. I have never heard a lot of feedback from parents (outside the pandemic) that they want their students to be online-only, and I seriously question whether this is a burden that taxpayers should have to bear. The Board voted 8-1 to remove the $4.2 million in Virtual Loudoun funding from the proposed LCPS budget. The School Board still has the ability to remove money from somewhere else in the budget and fund Virtual Loudoun during their reconciliation process. If you have thoughts on this topic, you should contact the School Board here.

The second issue was related to **compensation**. To be clear, I respect and admire all educators and administrators who are working through a very difficult situation due to COVID-19. This has been a tough year for everyone and teachers have been asked to adapt to very difficult situations. They absolutely deserve a raise! That being said, the School Board's proposed budget would have enacted single year pay raises of between 5.7 and 6.2% for teachers and 5.4% for staff overall. In comparison, frontline essential County workers such as Sheriff's deputies and EMS personnel are getting 3% raises in this budget cycle. This year, given the significant tax increases that would be needed to fund the large proposed raises, I believe that keeping school and County employees at roughly the same level of increase is important. I proposed reducing LCPS salary increases to an average of 3.5%; that vote failed 3-6, but Chair Randall's motion to set the increases at 4% passed 6-2-1. Given the overall economic situation and the fact that many private sector employees are getting no raises at all, I think 4% for LCPS workers is fair. I should mention that it appears that many surrounding jurisdictions won't be providing any raises (or will be providing minimal ones) to school employees.

I do want to address Governor Northam's supposed 5% raises for teachers, the announcement of which was made with great fanfare. The state money is coming over *two years*, and the state's funding only covers 28% of the funding needed to actually enact this level of pay increase (requiring local money for the vast majority of the cost). Therefore, the County is providing more than enough of a match to qualify to receive all that state funding.

Overall, LCPS spending per pupil is up to $16,831 in FY22; for context, it was about $11,000 when I took office in 2012. This increase demonstrates the Board's continued commitment to academic excellence in the County. The FY22 LCPS budget contains nearly $23 million for enrollment growth, including the opening of Hovatter Elementary School in Dulles South and pre-staffing for Elaine E.

Thompson Elementary School, which will open next year in Arcola Center.

School-Related Projects

Broadband infrastructure: Progress continues on LCPS' upgrades to broadband network infrastructure. The County has provided $5 million in funding to ensure that LCPS has the capacity to scale as bandwidth needs grow.

ES-32: ES-32 is a Dulles South elementary school, site to be determined in the Dulles South planning district. Construction is funded in FY24. The planned opening is in the fall of 2025. Total funding is $63.5 million.

ES-34: ES-34 is a Dulles North elementary school on a proffered site in the Silver District West development. Construction is not funded in the current CIP, but design services are funded starting in FY26. The estimated completion year is FY29, so this project is still far in the future. Total funding is anticipated at $76.9 million.

Facility renewals and alterations: $268.1 million is set aside in the next six years for replacements, repairs, and updates to critical systems such as heating, air conditioning, ventilation, etc. at LCPS facilities Countywide.

MS-14: MS-14 is a Dulles North middle school. Construction is funded in FY22. Planned opening is in the fall of 2024 with total funding now estimated at $99.1 million. This fiscal year includes additional funding for identified site costs including site preparation earthwork, right of way acquisition, and road development. The Rouse Property site on Evergreen Mills Road will one day house HS-14 (see below) and an elementary school as well.

HS-14: HS-14 will be a Dulles North high school, site to be determined. Construction is funded in FY26 with the total anticipated cost being $202.9 million.

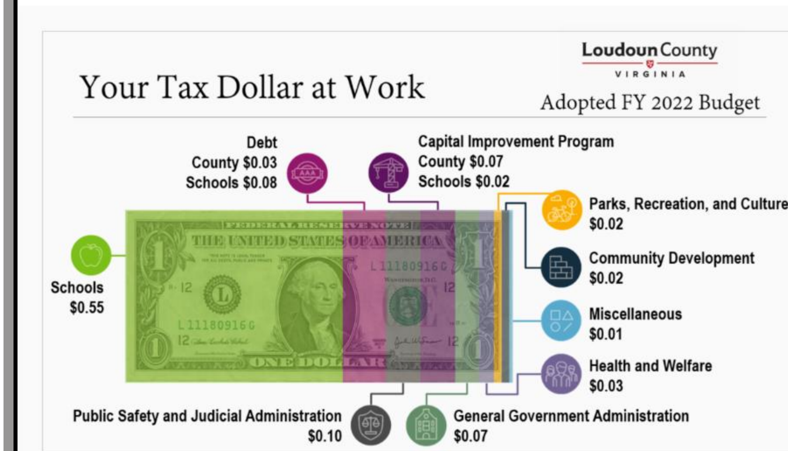
Funding has been added in FY26 for road development beyond what was initially anticipated. Project completion is estimated in FY29.

School bus replacement and acquisition: $107.8 million is set aside in the next six years for annual school bus replacement and acquisition.

School security improvements: $93 million is set aside through FY24 to enhance security systems at schools Countywide. This funding will support the previously approved appropriations for secure vestibule and intrusion detection system installation at LCPS facilities.

In Summary

Each year, the Board is presented with a new slate of challenges during budget season. This year, we felt the lingering effects of COVID-19 while working to craft a budget that kept the tax rate reasonably low while still funding important positions and initiatives. If you have any specific questions, please feel free to contact me at matt.letourneau@loudoun.gov.



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