



Loudoun County, Virginia

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Office of the County Administrator

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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 2021 (FY 2021) that is based on the Board of Supervisors' (Board) final budget guidance to prepare the budget at the current real property tax rate or \$1.045 per \$100 of assessed value. Following the final guidance, slight positive shifts have occurred in the revenue picture; in addition, there has been a reduction in the anticipated Loudoun County Public Schools (LCPS) request. To keep with what I believe is the spirit of the Board's guidance, I have proposed the FY 2021 budget at the tax rate of \$1.035, which is one cent below the current rate of \$1.045. For reference, the equalized real property tax rate is \$1.010, based on the final assessment portfolio received from the Office of the Commissioner of the Revenue.

In addition to the Proposed Budget, the Board also directed that I prepare two additional tax rate scenarios, including a scenario at one cent higher than the Proposed Budget and a scenario at one cent lower than the Proposed Budget. As this document will outline, I have prepared the Proposed Budget at the \$1.035 tax rate and have provided a series of scenarios in half-cent increments that both reduce the tax rate and also increase the rate from the Proposed Budget. These scenarios represent my professional recommendation on what priorities the Board should consider funding at each incremental tax rate within the Board's guidance.

The FY 2021 budget process will mark this Board's first significant opportunity to impact the County organization's priorities and direction, as well as set the stage for the Board's upcoming deliberations to develop your corporate strategic initiatives for the remainder of the term. The staff and I look forward to discussing the organization's needs and assisting you in refining your vision for what resources are appropriate to carry out your strategic goals and initiatives.

Organizational Context

As your County Administrator, I remain very proud of the work of County staff in pursuing organizational goals and delivering high-quality services to residents. The dedication of the County staff, who take tremendous pride in serving our community, has been the key element over the past years in implementing the prior Board's vision to make Loudoun an excellent place to live, work, learn and play. The following overview of significant organizational accomplishments during the past year will provide important context for the Board's upcoming FY 2021 budget deliberations.

The Board adopted the Loudoun County 2019 Comprehensive Plan, which includes the 2019 General Plan and the 2019 Countywide Transportation Plan in June 2019. The adoption of the plan – the culmination of a multi-year, multi-departmental effort – will shape land use planning and policy in Loudoun County for years to come. With the new plan in place, and in particular, with the establishment of the new Urban Policy Area,



Loudoun is well positioned to take advantage of the potential for economic growth opportunities associated with the anticipated opening of the Metrorail Silver Line extension in FY 2021. During this Board's term, the process to update the Zoning Ordinance in alignment with the 2019 Comprehensive Plan will be a significant organizational effort.

Economic development was another area of organizational success. In 2019, the Department of Economic Development earned 77 "wins," representing over \$3.6 billion in new commercial investment, 3,043 jobs created or retained, and over 5.8 million square feet of space. Additionally, the County has undertaken several initiatives to encourage a vibrant local economy. The first initiative focuses on housing affordability, which is vital for the County's workforce. The newly adopted Comprehensive Plan, discussed below, includes policies that support a variety of attainable and desirable housing types and includes policies supporting incentives to increase the availability of affordable housing. At the previous Board's direction, the County is developing an Unmet Housing Needs Strategic Plan, which will drive solutions to address this pressing issue. Second, in alignment with the County's Broadband Strategic Plan, the Board awarded a contract for a dark fiber wide area network. This contract is significant because, in addition to providing fiber to County facilities for government use, this network will offer broadband infrastructure connectivity by making middle mile fiber available to private carriers, potentially extending broadband to underserved areas in western Loudoun.

In 2019, the nation's top bond rating agencies again affirmed Loudoun County's triple-AAA rating on its general obligation bonds, noting the County's exceptionally strong operating performance and sound reserves, sizable and diverse tax base, moderate long-term liability burden, and extensive and well integrated financial management and long-term planning. The three ratings agencies also affirmed Loudoun's AA+ and Aa1 ratings on the County's lease revenue bonds. The County sold \$24.7 million in lease revenue bonds through the Economic Development Authority, consisting of an \$18.2 million tax-exempt series at a favorable interest rate of 2.43 percent and a \$6.5 million taxable series at 2.16 percent. The Board's responsible fiscal policy has enabled taxpayers to see the benefit of favorable financing costs for important capital projects.

Over the past few years, the organization has undertaken a concerted effort to improve coordination and service delivery in the area of human services. 2019 marked a significant milestone with the adoption of the Human Services Strategic Plan. This plan, developed by the County in partnership with local nonprofit organizations, provides a roadmap for implementing improved, coordinated systems of care that meet the County's needs in areas such as affordable health care, child care, youth services, and housing. Another notable accomplishment in 2019 was the launch of the new and enhanced Adult Drug Court program. The program represents a partnership among multiple County departments and agencies. The Adult Drug Court aims to divert people whose felony offenses are driven by their addiction by providing them an opportunity to participate in an intensive outpatient program with a high level of structure and accountability. In addition to the Adult Drug Court, a specialized Mental Health Docket was also instituted to provide specialized processes for cases involving individuals suffering with mental health issues. The goal is decreasing recidivism by making mental health considerations part of the justice solutions.

Staff continues to make progress on the Board's adopted Capital Improvement Program (CIP). During 2019, a number of facilities projects reached substantial completion, including projects such as the Kirkpatrick Fire and Rescue Station, Loudoun United Stadium, Scott Jenkins Memorial Park Phase II, the Round Hill Development Services Group Residence and numerous restroom improvements in County park facilities. The continued needs



of the County and the fiscal policy limitations of the CIP will be an important point for deliberation as the Board considers revisions and additions to the CIP in this budget process.

In the area of transportation, a number of significant projects were completed in 2019. Of particular note are the Route 7 and Belmont Ridge Road interchange; the Route 772 Connector Bridge; Moorefield Boulevard from Croson Lane to Metro Center Drive; and the opening of Claiborne Parkway between Ryan Road and Croson Lane. These projects, among many others, were completed while the Department of Transportation and Capital Infrastructure supported the comprehensive planning process, referenced below, culminating in the adoption of the Loudoun County 2019 Countywide Transportation Plan. The anticipated start of Silver Line operating service during FY 2021 will provide new opportunities for the County both in terms of transit options for residents and high-quality development potential.

Turning inward to the organization, the 2019 adoption of the new classification and compensation system marks both a significant achievement and underscores the Board's commitment to the County employees who work diligently to deliver services and pursue initiatives on your behalf. Paying employees at a competitive market rate is essential for recruiting and retaining the high-quality workforce the Board expects of this organization. It is my professional opinion that the Board's continued commitment to employees in the area of appropriate compensation over the coming years will be essential to sustain the organization's success. I will discuss the FY 2021 budgetary impacts of implementation of the classification and compensation system later in this letter.

Finally, County departments and agencies have received a number of awards over the past year, which is illustrative of the hard work of employees. Notably, County departments and agencies received ten achievement awards from the National Association of Counties (NACo) and one achievement award from the Virginia Association of Counties (VACo). These achievement award programs recognize counties that have adopted innovative approaches to providing public services and identifying programs that could serve as models for other counties to emulate. Additionally, many County departments and agencies received recognition from professional associations or industry trade organizations for excellence in their work.

This organizational context is provided to assist the Board as you start your deliberations on the FY 2021 budget. The achievements listed above provide a sampling to the Board of the County staff's dedicated daily work on your behalf. The Board can be very proud of the organization you lead, and the County staff looks forward to working with you to both continue organizational successes and implement your priorities and initiatives as the County's governing body.

Building the Budget

The revenue picture for the FY 2021 budget process is similar to recent years, notably with continued robust growth in the data center industry. Overall, my Proposed Budget assumes \$164.2 million in available new local tax funding. This number represents an additional \$15.5 million in real property tax revenue over the projections used to develop the staff's Final Budget Guidance recommendations. As discussed during Final Budget Guidance, there are many significant pressures on the FY 2021 budget.

The Board is entering the third year of the significant effort to fund the County's new classification and compensation system. Last year, the Board provided a 2 percent market-based salary adjustment increase to all employees in addition to a 3 percent merit-based pay increase to address market issues with Loudoun's employee compensation. These adjustments helped bring County employee compensation closer to market. As part of the



final implementation, the Board also funded approximately \$11 million to address targeted adjustments for individual employees to finalize compensation in line with the market. With the adoption of the new classification and compensation system in November 2019, these targeted adjustments are scheduled to be effective in March 2020. For FY 2021, my Proposed Budget absorbs the annualized cost to fund the resulting higher compensation, including benefits calculated at these higher levels of compensation, which is approximately \$25 million. The result is a larger impact on the base budget for compensation increases, compared to recent years.

In my Proposed Budget I have also included funding for a step increase for public safety employees and a merit increase for eligible general workforce employees of 3.5 percent to ensure that we continue to keep pace with the market. As FY 2021 will mark the first year of full implementation of the new classification and compensation system, it is my professional recommendation that the Board continue to prioritize merit and step increases so the County can maintain our market position in the area of compensation. The value of step and merit increases is approximately \$12.2 million.

Another noteworthy pressure on the development of the FY 2021 budget is the CIP and debt service. An additional \$49.3 million over the previous year is included in my Proposed Budget to fulfill County debt and capital obligations, which is higher than previous years. Other pressures include the continued population growth, new students for LCPS and organizational needs to keep pace with current service levels. Finally, significant resources are needed to address other staffing needs related to the opening of new capital facilities in FY 2021.

My proposed FY 2021 budget continues the practice – first established in FY 2020 – to program a portion of the revenue from the business personal property tax (BPPT) rate on computer equipment, mainly applicable to data centers, to one-time expenditures with shorter project timelines in the CIP. Last year, this portion of revenue was programmed in the CIP for use in the renovation, alternation, and renewal program, and this practice will continue forward into this year's Proposed Budget. Additionally, the Proposed Budget programs a small expected incremental increase in this revenue for the one-time purpose of land acquisition. Programming a portion of the BPPT revenue for one-time uses allows the County to benefit from reasonably expected growth in this source while providing maximum flexibility and stability to the Board if any issues occur with revenue materialization from the source.

Subsequent to the Board's final guidance in January, the revenue picture improved slightly, resulting in additional funding available. Due to higher revaluation of existing properties in the final numbers from the Commissioner of the Revenue, the equalized tax rate is now \$1.010. Since commercial properties saw greater appreciation than residential properties, the homeowner's equalized tax rate is \$1.015. The value of a penny of the real property tax rate has increased to \$9,513,000. Due to these revenue shifts, the Proposed Budget at the tax rate of \$1.035 is two and a half cents above the equalized property tax rate, which I believe is consistent with the spirit of guidance from the Board's January guidance. At that time, the Board directed me to prepare the budget at the current tax rate of \$1.045, which was projected to be at two and a half cents above the equalized rate. It should be noted that these slight revenue shifts are a normal part of the budget process as the annual assessment of the County's real property portfolio is finalized. County staff takes a reasonably conservative approach to projecting revenues as part of the budget guidance process to ensure realistic expectations are assumed in the annual budget preparation.

Another significant change since the Board's January guidance is a decrease in the School Board's adopted FY 2021 budget request. The request is approximately \$15.9 million lower than the Superintendent's Proposed Budget.



Due to this change, the LCPS gap is significantly reduced in the School Board's budget request, and can be fully funded at the tax rate of \$1.040, which is below the current rate of \$1.045.

FY 2021 Proposed Budget Options

The Proposed Budget is constructed at the tax rate of \$1.035, with options one cent below and one cent above that rate. At the proposed rate, revenues are sufficient to fund all but approximately \$2.5 million of the School Board's adopted request, and also provide what I believe are the necessary positions and funding to maintain (or, in key strategic areas, enhance) service levels on the County government side, to open new facilities, and position the organization to support the Board in the pursuit of your priorities. In total, I have proposed the addition of 125.88 FTE and \$14.9 million in resource requests to support County Government operations, all within the revenue available at the current real property tax rate, consistent with the guidance of the Board. I have prioritized the majority of additional revenue identified since the Final Budget Guidance Item towards LCPS funding needs.

Specifically, the FY 2021 Proposed Budget includes:

- \$12.9 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 \$37.2 million in total for employee compensation, which consists of: \$12.2 million to provide a market-competitive 3.5 percent pay increase for general workforce employees and public safety step increases, continuing the County's merit and step compensation program and the previously mentioned \$25 million to cover the annualized cost of the implementation of the new classification and compensation system;
- \$15 million in local gasoline tax and Northern Virginia Transportation Authority (NVTa) 30 percent funding for Loudoun County's contribution to the Washington Metropolitan Area Transit Authority (WMATA) and for the operational and capital payments due to the anticipated start of Metrorail in Loudoun County during FY 2021;
- A total addition of 125.88 FTE in 25 different departments to maintain service or enhance levels as well as position the organization to pursue your strategic priorities. Of this number, 34.00 FTE support the opening of new capital facilities, 1.00 FTE directly supports the CIP, and 16.88 FTE of this total are either fully offset by new revenue or are accomplished through reallocation of existing budget so that there is no new impact on local tax funding; and
- Finally, a year-over-year increase of \$75.8 million in the local transfer to LCPS.

In addition to my Proposed Budget, the Board asked that I prepare two additional scenarios for consideration; one at one cent below and one at one cent above the Proposed Budget. Due to the shifts discussed earlier in this letter, I have prepared options at one cent below (\$1.025) and one cent above (\$1.045) the tax rate of the Proposed Budget (\$1.035).

The reduction scenario of one cent below the proposed real property tax rate would remove a number of resource requests from the Proposed Budget, while still allowing for many current service level issues to be addressed in County departments. Examples of resource requests not funded in this scenario include emergency



services clinicians in the Department of Mental Health, Substance Abuse and Development Services (MHSADS), a natural resources engineer in the Department of Building and Development, and an Equity and Inclusion Officer in the Office of the County Administrator. I will note that this scenario would fully fund the above-described employee pay increases, staff needed to open new capital facilities, and the base budget increases for operating and maintenance.

Also included, at the Board's direction, is a scenario that would increase the rate above the proposed rate by one cent. My recommendations for the increase scenario, should the Board decide to consider resources above the Proposed Budget, will allow the Board to consider further departmental resource requests, generally for the enhancement of service levels. Examples of resource requests funded in this scenario are a homeless services team in the Department of Family Services; additional pretrial officers in the Department of Community Corrections; the addition of capacity in the residential and community services division in MHSADS; and the expansion of the Sheriff's Office School Resource Officer program in Elementary Schools.

I am also mindful of the organizational pressures of onboarding a significant number of new positions within the County Government. The increase scenario represents what I believe is the upper limit of what resources could be feasibly absorbed by the organization in FY 2021. My Proposed Budget recommends adding 125.88 FTE and the increase scenario would add an additional 39.00 FTE. I believe that the Proposed Budget I have presented to you not only meets the needs of the organization and our community, but it is also responsible, executable, and sustainable.

Discussion of the resource requests included in the Proposed Budget and the service level issues they are meant to address begin on page 26 in the Executive Summary. The resource requests are presented in recommended groupings at each incremental half-cent tax rate between \$1.025 and \$1.045 and are reflective of department priority rankings. It is my recommendation that the resource requests listed in the increase scenario (\$1.040 and \$1.045) should be considered only as additions to the budget, not as substitutions for higher priority items that are included in the Proposed Budget. To provide the Board flexibility to fully fund the LCPS budget request and consider additional County priorities, I have advertised a maximum tax rate of \$1.045, which is also the current rate.

Public input is a valuable component of the Board's budget process, and you have three scheduled public hearings. Hearings will be held at the Loudoun County Government Center on Tuesday, February 25, 2020, at 3:00 p.m. and 6:00 p.m., and at the Loudoun County Public Schools Administration Building on Saturday, February 29, 2020, from 9:00 a.m. to 12:00 p.m.

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

Respectfully submitted,

Tim Hemstreet
County Administrator