



February 10, 2021

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 2022 (FY 2022) that is based on the Board of Supervisors' (Board) final guidance to prepare the proposed budget at the real property tax rate of one cent above the overall equalized rate. Following the final guidance, positive shifts have occurred in the real property portfolio, leading to a new overall equalized tax rate of \$1.000 and a new guidance rate of \$1.010. However, the School Board's adopted budget request was lower than the local tax funding available at \$1.010 rate, so I have prepared the proposed budget at the \$1.005 tax rate, which is one-half cent above the overall equalized rate. This rate fully funds the Schools' adopted request and the County priorities discussed during final guidance. In addition to preparing the proposed budget at the \$1.005 real property tax rate, the Board also directed me to prepare two additional tax rate scenarios, including a scenario that is one cent higher than the proposed budget and a scenario that is one cent lower than the proposed budget. As this document will outline, I have prepared the proposed budget and provided a series of scenarios in half-cent increments that reduce the tax rate and increase the tax rate per the Board's final guidance. These scenarios represent my professional recommendation regarding the programs the Board should consider funding at each incremental tax rate.

The FY 2022 budget will mark this Board's first full budget development process. Starting in July, work on this budget began with the Finance/Government Operations and Economic Development Committee (FGOEDC) and the Board and continued through the fall and winter; this budget proposal is reflective of the Board's guidance and input throughout the development process. Additionally, the October retreat to plan the Board term's strategic initiatives influenced the development process. The FY 2022 budget will be an important milestone in the process of aligning the organization with the Board's goals and objectives as a corporate body. 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 and its government.

Organizational Context

Each year in this transmittal letter, I provide an overview of organizational accomplishments. This provides context as the Board begins budget deliberations. I also want to highlight the outstanding work of County staff in pursuing organizational goals and delivering high-quality services to residents. This past year, the County staff performed admirably, and their dedication was demonstrated throughout the COVID-19 pandemic as they ensured vital services were provided to our community and that the work of the organization continued. Despite the challenges caused by the pandemic, County staff continues to execute the Board's vision to make Loudoun an excellent place to live, work, learn, and play.

The County moved quickly to adapt to the exigencies of the COVID-19 pandemic, shifting to online services where possible and modifying services and programs where needed.



- At the beginning of the pandemic, the County moved quickly to mobilize a distribution system for supplies and equipment. What resulted was a full-scale, 48,000-square-foot warehouse operation serving Loudoun-based health care providers and facilities and County departments. Hundreds of thousands of critical items, including Personal Protective Equipment, cloth face masks, hand sanitizer, and cleaning supplies have been distributed. Employees from Parks, Recreation, and Community Services and Library Services collaborated with Loudoun's Combined Fire and Rescue System, General Services, Finance and Budget and the Office of Emergency Management to activate and staff the warehouse and distribution operations.
- Our employees in the Health Department have worked tirelessly to coordinate the County's pandemic response, provide public health guidance, and collaborate with community partners, including health systems, long-term care facilities, and other health care providers. With support from the Office of Emergency Management, Finance and Budget, and other departments, the County has provided free COVID-19 testing events open to the public, serving thousands of individuals at County sites. The County has worked with local organizations to increase access to testing throughout the community, and as directed by the Virginia Department of Health, is coordinating the delivery and distribution of COVID-19 vaccines as they become available.
- The Loudoun County Public Library, with the support of the Department of Information Technology, has extended Wi-Fi capability to all library locations (excluding the Law Library) to improve internet access for residents of western Loudoun during the pandemic.
- As businesses have reopened, the Department of Economic Development has partnered with the Loudoun County Chamber of Commerce and Visit Loudoun to launch a marketing campaign targeted at bolstering consumer confidence called "Loudoun Is Ready."
- County departments, including the Departments of Family Services, Economic Development, and Finance and Budget, have been instrumental in securing and distributing federal aid, including CARES Act funding, to support Loudoun residents and businesses impacted by the pandemic.
- The County's communications efforts have expanded to include a daily Summary Report of COVID-19 news and information, emailed and texted to residents through the County's communications channels. Enhanced Spanish-language communications, including a Spanish-language text service through Alert Loudoun, also were launched to provide important health, safety, and assistance communications.
- The Department of Family Services continues to provide key assistance to County residents through its Information and Referral service and has mobilized the Workforce Resource Center to assist Loudoun's long-term care facilities with filling key staffing needs.
- The Department of Parks, Recreation, and Community Services continues to provide an all-day childcare program for children in grades K-6 while they are in distance learning, providing an invaluable service to parents in need of childcare during the school day.

Despite the challenges caused by the pandemic, the organization continues regular operations in a normal or modified manner to ensure government functions serve Loudoun residents. Highlights include:

- Active staff participation in a racial equity learning cohort led by the Government Alliance on Race and Equity (GARE) in collaboration with the Metropolitan Washington Council of Governments



(MWCOG). Additionally, employees have engaged in the County's professional development workshops, such as *Same World, Different Lenses*, a conversation about race, equity, and implicit biases. As part of the FY 2021 Budget, the Board created the Office of Equity and Inclusion and added a chief equity officer position to continue the dialogue on equity and to understand the County's equity needs.

- Efforts to enhance the accountability, analysis, and outcomes of the capital construction program include the addition of a comprehensive program management function for the County's capital projects, assisting the Departments of Transportation and Capital Infrastructure, General Services, and Finance and Budget. These services support overall management of the capital program, including oversight of project budgets, timelines, and cost estimates, and will coordinate master scheduling and progress reporting and provide specialty services as needed to advance projects in the most efficient and effective manner.
- The County's triple AAA bond rating by the nation's top bond rating agencies on its general obligation bonds, and AA(plus) and Aa1 ratings on its Economic Development Authority (EDA) lease revenue bonds were reaffirmed, resulting in continued favorable borrowing rates for taxpayers. This reaffirmation continues to demonstrate that the County's sound financial management, strong policies, and robust fiscal reserves make the County very attractive to investors and is particularly notable due to national economic uncertainty caused by the pandemic.
- The County achieved a successful 2020 census count despite numerous obstacles, thanks to the efforts of the Complete Count Committee and supporting County staff. Despite the pandemic, Loudoun surpassed its 2010 self-response rate (82.3 percent compared to 76 percent) and led all Virginia counties in self-response.
- County departments and agencies received several awards over the past year, which is illustrative of the hard work of employees. Notably, four County programs received achievement awards from the National Association of Counties, and one received an achievement award from the Virginia Association of Counties. These achievement award programs recognize counties that have adopted innovative approaches to providing public services and identify programs that could serve as models for other counties to emulate. Additionally, many County departments and agencies received recognition from professional associations or industry organizations for excellence in their work.
- Voter turnout for the 2020 General Election is estimated at 79.93 percent with over 156,000 ballots cast early or by mail and over 225,000 ballots processed in the County. Loudoun Elections and Voter Registration staff and volunteers processed these ballots with no reported issues and successfully and safely administered an election for federal, state, and local offices and ballot questions. Many County departments and agencies assisted the Office of Elections and Voter Registration in facilitating the smooth election process.

The achievements listed above provide a sampling to the Board of the County staff's dedicated daily work on your behalf. The Board can take pride in the organization you lead. County staff look forward to continuing to work with you to realize organizational successes and implement your priorities and initiatives as the County's governing body.



Building the Budget

In October 2020, the Board set strategic priorities for its term and formulated initiatives under five broad headings: Open Spaces and Environment, Connecting Loudoun, Collective Bargaining, Equitable Communities, and Economic Development. Staff is currently working to refine the Board discussion and develop actionable strategies to accomplish the goals the Board has set forth. Where possible, the FY 2022 Proposed Budget aligns with the Board's strategic initiatives.

The revenue picture for the FY 2022 Proposed Budget was influenced by two main factors: economic uncertainty caused by the pandemic and continued robust growth in the data center industry. While new revenue available for developing the FY 2022 Proposed Budget is of a similar magnitude to previous years, the composition of this projected increase is different from previous years due to these factors. Notably, the County's largest and most historically stable revenue source, real property tax, shows signs of volatility due to the pandemic. In 2020, residential property values increased at a faster pace than previous years, while some sectors of the commercial property portfolio saw declines. However, in the aggregate, the real property portfolio saw growth over the last year, leading to an overall equalized real property tax rate of \$1.000. Other revenue sources, such as consumer taxes and interest revenue, are projected to vary from previously seen growth rates as the economic impacts of the pandemic continue.

A substantial source of revenue growth for FY 2022 is business personal property tax (BPPT) revenue from computer equipment in data centers. Compared to the FY 2021 budget of \$394.5 million, the FY 2022 budget represents an increase of \$192.3 million attributable to BPPT revenue for a total of \$586.8 million. As discussed with the FGOEDC during the fall FY 2022 budget development process, \$563.4 million of that revenue source is programmed for operating expenses. The estimates for this revenue are based on staff's baseline forecast. To allow the County to benefit from potential additional revenue from this source, an additional increment of \$23.4 million has been programmed for one-time uses in the Capital Improvement Program (CIP). If this increment of revenue does not materialize during FY 2022, the spending plan for these one-time uses can be modified without affecting the County's operations or critical capital projects. As this revenue source is forecasted to remain on a substantial growth trajectory over the coming years, staff will continue to engage the Board on how to strategically address the use of this revenue source in a responsible and sustainable manner over the long term. In the proposed budget, computer equipment tax revenue, which is just one of a dozen revenue sources that make up local tax funding, comprises approximately 30 percent of total local tax funding. To put this in context, revenue generated from this source is more than enough to fund all local tax funding operating expenditures for the County or approximately half of the total local tax funding transfer for the Loudoun County Public Schools (LCPS).

In preparing the FY 2022 Proposed Budget, priorities for new expenditures were approached in the same manner as previous years: capital and debt obligations, employee compensation, base budget operating and maintenance increases, opening new facilities, and then new resources. First, an additional \$45.3 million over the previous year is included in my proposed budget to fulfill County and Loudoun County Public Schools (LCPS) debt and capital obligations, including the aforementioned increment of BPPT revenue. Following fulfillment of those obligations, available new local tax funding is split 66 percent/34 percent between LCPS and the County Government, respectively.

The FY 2021 – FY 2026 Amended CIP continues to fund infrastructure priorities of the Board, including the Intersection Improvement Program, Sidewalk and Trails Program, and facility renovation programs. Board priorities, such as the expansion of broadband and recreational facilities in western Loudoun, also are able to be



addressed, due to the significant forecasted BPPT revenues in FY 2022 and beyond. The amended CIP introduces two new stormwater-related projects to protect residential properties and accelerates funding for another Board priority of linear parks. Finally, the amended CIP provides funds to restore the historically and socially significant Arcola Quarters for the Enslaved and create a passive park facility intended to educate residents and visitors alike for decades to come about the broad scope of Loudoun's history. The School Board's adopted CIP has been fully accommodated into the amended CIP.

The FY 2022 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 3 percent merit increase for the general workforce and step increase for public safety. Additionally, funding is included to address pay compression and retiree health benefits for a specific group of impacted employees, the final two issues remaining following the adoption of the new classification and compensation system. From there, remaining available funding is programmed for County Government resource requests. Resource requests generally include expenditures for personnel and associated costs, and/or funding for new or expanded programs or services. Among resource requests included in the proposed budget, staffing and other operating costs required to open new capital facilities at the same service level provided to existing facilities are prioritized first. These include the Hal and Berni Hanson Regional Park and the new courthouse.

As the next priority for resource requests, the proposed budget aligns with the Board's identified initiatives with resource requests that have been categorized as Board priority items. Included are items identified through the fall FY 2022 budget development process with the FGOEDC. Examples include resources for the first year of a three-year implementation of additional body-worn cameras, staffing for administration of collective bargaining, and an expansion of the Adult Drug Court. Finally, resource needs identified by departments and agencies are addressed with remaining available funding. For the FY 2022 budget process, departments submitted resource requests with consideration of significant logistical issues, understanding that recruiting, hiring, and onboarding new positions would create an additional challenge for departments straining from workloads affected by COVID-19. As a result, resource requests submitted by departments are generally items of a high-priority nature for maintenance of operations or needs that were identified prior to the pandemic. All resource requests included in the proposed budget and those included in the increase option are executable in FY 2022.

FY 2022 Budget Options

The proposed budget is constructed at the tax rate of \$1.005, with expenditure options one cent below and one-half cent above this rate. At that proposed rate, there are sufficient revenues to fully fund the School Board's adopted budget request and to provide for the necessary positions and funding to maintain or, in key strategic areas, enhance service levels in the County government, to open new facilities, and to position the organization to support the Board in the pursuit of your priorities. In total, I have proposed the addition of 150 positions and \$17.5 million in resource requests to support County Government operations, all within the revenue available at the \$1.005 property tax rate, consistent with the guidance of the Board.

Specifically, the FY 2022 Proposed Budget includes:

- \$9.5 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. The



base budget adjustments also include an increase in funding for the County's Non-Profit Human Services grant program.

- An increase of \$12.4 million in total for employee compensation, including a 3 percent merit increase for the general workforce and one step increase for public safety. Funding of \$3.0 million to address pay compression and retiree health benefits is also included;
- A total addition of 150 positions in twenty-one departments to open capital facilities, maintain service levels or enhance service levels are intended to position the organization to best pursue your strategic priorities. Of this number, 60 positions support the opening of new capital facilities, 5 positions directly support the CIP, and 12 positions 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;
- An increase of \$45.3 million to fund the debt service and capital needs of the County Government and LCPS, including the Capital Asset Preservation Program; and
- A year-over-year increase of \$97 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 a rate that is one cent below and another that is one cent above the rate that would fund the proposed budget. Due to the shifts discussed earlier in this letter, I have prepared options at one cent below (\$0.995) and one-half cent above (\$1.010) the tax rate of the proposed budget (\$1.005).

The reduction scenario of one cent below the proposed budget property tax rate would remove several resource requests from the proposed budget while still allowing some current service level issues to be addressed throughout the organization. Examples of resource requests not funded in this scenario include an outreach coordinator in Public Affairs and Communications, internal operations support in Family Services, and resources for the erosion and sediment control program in Building and Development. I will note that this scenario would continue to fully fund employee pay increases, staff needed to open new capital facilities, base budget operating and maintenance increases, resource requests that address Board priorities, and the most critical department first priority requests.

Also included at the Board's direction is a scenario that would increase the rate above the proposed budget rate of \$1.005. 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. The value of these resource requests is approximately \$3.3 million, roughly representing the County government's traditional split of a new penny on the real property tax rate. Because the LCPS request is fully funded at the proposed budget rate, the increase scenario tax rate is only one-half cent above the proposed rate. Examples of resource requests funded in this scenario are a project manager in General Services; a recruiter in Parks, Recreation, and Community Services; and additional resources for youth experiencing crisis situations in the Department of Mental Health, Substance Abuse, and Developmental Services.

My proposed budget recommends adding 150 positions and the increase scenario would add an additional 28 positions. 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 begins on page E-28 in the Executive Summary. The resource requests are presented in recommended groupings at each incremental half-



cent tax rate between \$0.995 and \$1.010 and are reflective of department priority rankings. It is my recommendation that the resource requests listed in the increase scenario 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 consider the additional County priorities in the increase scenario, I have advertised a maximum tax rate of \$1.010.

Public input is a valuable component of the Board's budget process, and you have three scheduled public hearings. Hearings will be on February 23 at 3:00 p.m. and 6:00 p.m. and February 27 at 9:00 a.m. All hearings will be held at the Loudoun County Government Center, and 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,

A handwritten signature in blue ink, appearing to read 'Tim Hemstreet'.

Tim Hemstreet
County Administrator