



COMMONWEALTH OF VIRGINIA
COUNTY OF HENRICO

John A. Withoukas
County Manager

March 12, 2024

The Honorable Board of Supervisors
County of Henrico
Virginia

Honorable Members of the Board:

I am proud to present to you the FY25 Manager's Proposed Operating and Capital Budget. The plan, as presented, is balanced with a real estate tax rate of 85 cents and continues the County's conservative approach to revenue projections. This prudent fiscal approach allows for the flexibility to address the many challenges we face and reward our employees with an across-the-board pay increase of 4.8% while providing additional resources to address critical shortage areas throughout the organization, especially in education and public safety.

In addition to rewarding our hard-working employees and continuing our efforts to attract the best people to serve beside them, this budget continues to invest in our basics – education and public safety. With nearly \$135.0 million of new operating costs introduced in this budget, over \$101.3 million goes to education and public safety. Additionally, the FY25 budget begins a multi-year phase-in of the **Henrico CARES** initiative to meet the mental health needs of our children and acknowledges increases to meet our implementation of the **Marcus Alert** initiative.

The capital budget continues the 2022 G.O. Bond Referendum plan with \$110.8 million in bond projects funded in FY25. With a total of \$327.2 million, the capital budget will enhance maintenance of current facilities, replace aging school buildings, and enhance and maintain road and water & sewer infrastructure.

The budget also includes planned additional costs for new facilities. These include the final 12 positions for the Bungalow City Firehouse, 7 positions for Taylor Farm Park along with additional costs for the two renovated and expanded ACE Centers at Hermitage and Highland Springs High Schools and South Police Station. A total of \$5.1 million is allocated for new facilities in FY25.

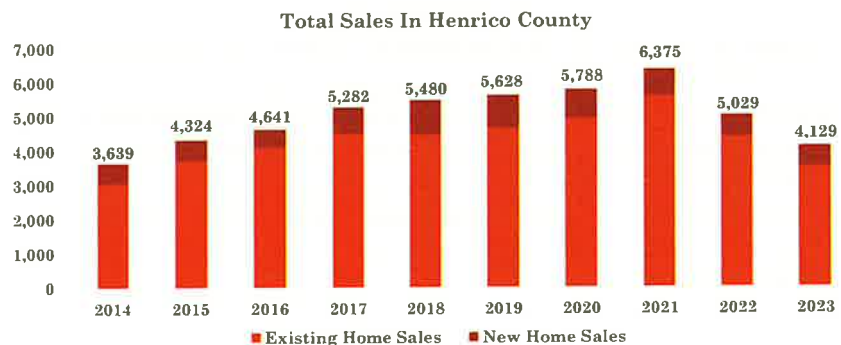
Budget Overview & Fiscal Sustainability

Projected revenues in the FY25 proposed budget total \$1.4 billion, an increase of \$108.1 million or 8.2% when compared to the FY24 approved budget. Local revenues reflect a \$72.7 million increase while State & Federal revenues increased \$35.4 million. While FY25 revenue projections present a significant budgetary increase, projections for FY24 currently meet or exceed the FY25 proposed revenue estimates.

General Property taxes account for \$685.6 million of the FY25 proposed budget and reflect an increase of \$44.1 million, or 6.9% when compared to the FY24 budget. Of this total, \$501.0 million reflects the estimate for real estate taxes and is based on January 1, 2024 assessments and the current real estate tax rate of 85 cents per \$100 assessed value – the lowest among the 10 largest localities in Virginia that leads the way for Henrico County to have the lowest tax burden among that same population.

Assessments, as of January 1, 2024, increased by \$3.1 billion or 5.5% compared to 2023 assessments. Residential reassessments, 70% of the County's tax base, increased by 5.4% while commercial property reassessments increased 2.4%. New construction, both residential and commercial properties, increased the land book by \$351.5 million in 2024.

The residential reassessment reflects a market where demand still outpaces the number of available homes for sale in the County. In looking at the total number of sales in Henrico, you have to go back to 2014 to find fewer than the 4,129 homes sold in the past



year. The drop in home sales can be attributed to increases in mortgage rates, particularly the 30-year fixed mortgage rate that increased from a low of 2.8% in August 2021 to a high of 7.6% in October 2023. But unlike 2014, which saw home values still recovering from the downturn in 2008, the market demand drove prices up by 8.0% in 2023.

The increase in home values in recent years has led the County to provide unprecedented tax relief. In 2022, the County not only provided a reduction in the real estate tax rate of 2 cents per \$100 assessed value but also was the first in the Commonwealth to provide a rebate of real estate taxes in the amount of 2 cents per \$100 assessed value. The County again provided a rebate of real estate taxes in 2023 in the amount of 2 cents per \$100 assessed value but also pushed further by creating the Real Estate Cap Program, or RECAP. This new program is an extension of Central Virginia's most expansive real estate tax relief program by freezing a RECAP participant's taxes if their income is between \$75,000 and \$105,000 and/or their net worth is between \$500,000 and \$700,000. The Department of Finance is currently accepting applications for both REAP and RECAP with a rolling deadline beginning April 1. In 2025, the

eligibility parameters **will be increased incrementally to a maximum income of \$125,000 and a maximum net worth of \$750,000.**

With commercial properties, the market dynamics are more mixed. Apartments, which are the largest component of the commercial tax base, saw a 0.4% decrease in assessments offset by new construction to bring the total value up 1.1%. Warehouse & industrial properties saw a 5.9% increase while general commercial properties increased 4.5%. However, the areas hardest hit by the pandemic (retail and hotels) still lag their 2020 values while office properties experienced a 1.4% decrease in assessed values as vacancies continue to climb.

The outlook for other local revenues remains conservative especially when you consider FY24's performance to date. Estimates for sales tax in FY25 reflect a budgetary increase of \$8.0 million or 9.0%, but much of that increase is recognizing collections of \$92.8 million in FY23 and accounting for an additional 4.0% growth over 2 years.

FY24 Performance vs. FY25 Estimates			
	FY24 Approved	FY24 Projection	FY25 Projection
Sales & Use Tax	\$88.5M	\$94.6M	\$96.5M
BPOL*	\$46.5M	\$52.5M	\$49.5M
Hotel/Motel Tax (Including Tourism Improvement District	\$18.8M	\$20.1M	\$20.0M
Meals Tax	\$28.0M	\$39.5M	\$35.0M
Building Permit Fees	\$5.5M	\$11.5M	\$7.5M
Interest Earnings	\$2.0M	\$24.5M	\$9.0M

**FY25 Estimate allows for increase in deduction from \$500k to \$1M.*

Similarly with Business License taxes, or BPOL, the estimate of \$46.5 million in FY24 was exceeded by collections of \$51.2 million in FY23. With the difference between estimates and actuals, the FY25 budget not only increases the budget estimate but also proposes to **double the deduction level for gross receipts** from \$500,000 to \$1,000,000. While it is projected to “cost” the County \$3.0 million to double the deduction, our history suggests otherwise as a projected \$3.0 million cost to go from \$100,000 to \$500,000 ended up resulting in a nearly \$3.0 million increase in BPOL revenues. The increase in the deduction is a valuable selling point to economic development prospects, particularly those looking for office space in Henrico County.

Meals Tax collections, since FY21, have risen considerably from \$27.4 million to \$38.1 million in FY23. As of this writing, the collections for FY24 exceed year-over-year collections by 5.0%. The budgetary increase for Meals Tax receipts simply acknowledges the increases over time and dedicates the additional resources to the Education portion of debt service for the first bonds issued for the 2022 Referendum. At \$35.0 million, there remains flexibility to absorb an economic downturn without impacting our investment in our school system while providing additional capital resources if collections continue to exceed estimates.

State revenues in FY25 total \$489.2 million, a \$35.4 million or 7.8% increase compared to the FY24 budget. The majority of funding from the State is for our school system - \$382.8 million. This reflects a conservative accounting of the Governor's introduced budget from December and is confirmed by information recently published regarding the competing budget proposals in the General Assembly. The remaining estimates for state aid are also conservative as State Highway Maintenance, or Gas Tax,

payments at \$56.0 million are less than the current year allocation of over \$61.0 million, the estimate for Compensation Board reimbursements for Constitutional Offices is less than FY23 collections, and the estimate for law enforcement assistance through HB#599 payments is increased to meet current year disbursements.

Pay Raise: Attract, Retain, Invest

The lifeblood of what we do as a local government is the people who choose public service as their calling. It is the teachers in the classrooms, it is the first responders keeping our community safe, and it is the workers repairing pipes and repaving roads. Without the best employees, the level of service to our community suffers. This is why investing in the County’s workforce is essential to maintaining the quality-of-life residents expect.

The FY25 proposed budget includes funding for a 4.8% merit-based salary increase for all general government and HCPS employees that builds on the increases provided over the past three fiscal years while enhancing our competitiveness across-the-board. In addition to the pay raise, the budget allocates an additional \$16.9 million to address critical shortages throughout the workforce, but especially in HCPS and public safety. While not new – there have been 46 targeted, market-based adjustments since FY21 – this funding allows the County to ensure its position as a regional pay leader.

Currently there are 528 vacant positions in general government agencies and 607 vacancies in HCPS. Of those vacancies, 285 of the general government vacancies are in public safety and 359 of the HCPS vacancies are teaching positions. While over the years we have boasted about how lean Henrico is as a local government, there comes a point where service suffers. We do not want to be close to that level.

One of the critical shortage adjustments is starting pay for bus drivers, which the School Board addressed in February. Bus drivers play a vital role in our education system getting children to school safely and on time and \$2.0 million is included in the proposed budget to cover this cost. This increase along with the critical shortage adjustment will bring starting pay for bus drivers to \$25/hour effective July 1, 2024.

The total cost for salary increases in FY25 is \$56.4 million. This is on top of the \$156.6 million cost of salary increases in the previous three fiscal years. The four-year total of \$211.7 million for salary increases accounts for 59.5% of total budget growth in that same period. Looking at just the FY25 budget, the \$211.7 million for salary increases accounts for 16.9% of the FY25 proposed budget.

	<u>Salary Increases by Area</u>		
	<u>4.8% Adj.</u>	<u>Critical Shortage</u>	<u>Total</u>
Education	24,000,000	10,000,000	34,000,000
Public Safety	9,500,000	4,800,000	14,300,000
General Government	6,000,000	2,097,000	8,097,000
Total	39,500,000	16,897,000	56,397,000

The budget for FY25 also begins a multi-year effort to right-size overtime budgets for public safety agencies, particularly Police, Sheriff, and Fire. A total of \$2.6 million is included in these three agencies to reduce the need to cover the unbudgeted overtime costs with salary savings or year-end budget

amendments. Additionally for Fire, a total of 14 new firefighters are recognized in the proposed budget to help reduce the need for overtime within the division. The first 7 of these positions were approved by the Board of Supervisors in December, with the remaining 7 new for FY25.

Finally, several smaller adjustments to the budget are included to support employees and their ability to perform their duties. These include funding for enhancing continuing education, professional development, or just providing new or enhanced tools to better serve the citizens. It's these small efforts that go a long way in maintaining our standing as an employer of choice.

Education & Public Safety

The FY25 proposed budget for HCPS, including the general fund, school cafeteria, grants, and debt service, totals \$880.8 million. The general fund portion of the HCPS budget totals \$704.0 million, reflecting a \$53.7 million or 8.3% increase over the FY24 budget.



In addition to the salary increases, the FY25 budget includes the first of a five-year implementation of a first in Virginia approach to youth mental health care - the Henrico CARES program. Born out of the Youth Violence Committee, CARES seeks to address the growing number of children recognized with a mental health disorder by providing access to high quality mental health care that is easily accessible and comprehensive to all youth and their families in Henrico County. The estimated cost for CARES over five years is \$4.6 million, with the first year totaling \$1.7 million. \$1.1 million is in the HCPS budget for 5 school-based mental health positions and \$0.5 million for

Mental Health for 4 positions.

In FY25, the general fund picks up the cost of 62 positions funded with federal stimulus funding over the past two-three years at a cost of \$5.7 million. Additionally, the budget acknowledges the addition of 75 school security officers to enhance student safety at all schools. In response to a changing student profile, the School Board has added 97 positions to provide additional learning opportunities and classroom supports while also adding new English Language Learner teaching positions.

In the area of public safety, the FY25 budget picks up new costs for 2 key public safety facilities. First, the budget finalizes the three-year staffing plan for the Bungalow City Firehouse (FH23) by adding 12 positions: 9 firefighters, 2 fire lieutenants, and 1 fire captain. The new station, approved in the 2016 Bond Referendum, will address emergency call volume in Eastern Henrico when it opens in January 2025. Second, the budget picks up the utility and maintenance costs for the new South Station in Highland Springs.

On February 1, 2024 the County submitted its Marcus Alert plan to the State in response to the Marcus-David Peters Act, signed into law in 2020. The law was intended to ensure that emergency responses to

people in crisis are behavioral health responses. The Marcus Alert legislation, as well as Crisis Now best practices, suggest the development of mobile coordinated response teams. The plan submitted identified many of the actions Henrico has taken over the years to address calls for service that involve someone suffering a mental health crisis. These include our Crisis Intervention Teams (CIT), Services to Aid Recovery (STAR) teams, and the recently revived Mobile Response Teams. The plan submitted incorporates the efforts developed over several years and coordinates them to make sure the proper response to someone in mental health crisis is provided.

Infrastructure Maintenance & Expansion

FY25 GO Bond Projects	
Quiocassin Middle Replacement	79,000,000
Johnson Elementary Renovation	5,000,000
Jackson-Davis Elementary Replacement	4,500,000
Longan Elementary Replacement	4,500,000
Environmental Education Living Building	1,300,000
Firehouse 1 Replacement (EDA Bonds)	3,774,000
Drainage Projects	7,500,000
Animal Adoption Center	2,774,000
Tuckahoe Creek Park Phase III	2,500,000
Total	110,848,000

The FY25 proposed capital budget is \$327.2 million to maintain current facilities and build several new facilities. The budget includes \$110.8 million for 2022 Bond Referendum projects, listed to the left. The proposed budget represents the second of 6 planned issuances of bonds, with the first issue having reaffirmed Henrico’s status as a triple-AAA rated county that “can maintain better credit characteristics than the U.S. in a stress scenario.” As a testament to our fiscal prudence,

Henrico County is 1 of only 13 counties in the United States that has AAA ratings from all three major rating agencies for both its general obligation debt and its water & sewer system.

The capital budget reflects significant funding enhancements to the County’s long-standing maintenance efforts – for the HCPS Roof & Mechanical program the increase totals \$7.5 million to bring total funding to \$10.0 million. The proposed budget also maintains funding for technology improvements, playground improvements, and Meals Tax funding for maintenance projects. For general government, a total of \$10.0 million is included to boost maintenance of County facilities along with \$2.2 million for technology infrastructure, and \$2.0 million for park maintenance.

Revenues from the Central Virginia Transportation Authority (CVTA) remain an important funding source for the County’s transportation and mobility projects in FY25. A total of \$27.5 million of the CVTA local allocation is projected for the capital budget, with \$25.0 million allocated for transportation projects and \$2.5 million specifically for pedestrian and bike improvements. The \$2.5 million is matched by local reserves and is utilized to draw down State/Federal resources for large projects that have assisted in added miles of sidewalk in recent years, along with making projects such as the Fall Line Trail and improvements to Three Chopt Road a reality. To continue to keep up with the increasing project workload while minimizing project costs by keeping certain costs in-house, the operating budget allocates 12 new positions for Public Works.

The FY25 budget continues many of the County’s environmental efforts with \$1.8 million in the capital budget for land acquisitions, creek and stream projects, and minor drainage projects. The budget also continues funding the County’s MS/4 requirements with \$2.3 million of general fund revenue and not a

stormwater utility tax, allowing Henrico to remain the only large locality in the Chesapeake Bay watershed to not impose one. This will be the second year of providing \$1.0 million for BMP maintenance. There is \$250,000 for the Energy Management program for energy efficient improvements. Finally, the FY25 capital budget includes \$7.5 million of G.O. bonds for drainage improvements across the County. These efforts are on top of the projects through the H.E.A.R.T Committee, which are being funded through current resources and grant opportunities, or the solar efforts through power-purchase agreements.

The Water & Sewer operating budget for Public Utilities totals \$131.1 million and the capital budget totals \$120.0 million. Both budgets will ensure high quality water and sewer service our residents expect. To meet these needs, there is a proposed 5% increase for water & sewer service rates, though there is no increase in connection fees proposed. The average impact of this increase will be \$3.48 per month.

Enhancing Quality of Life

FY25 will be an exciting year for park lovers in Henrico County with four new facilities debuting this year. Chief among them will be the County’s largest park – Taylor Farm Park. The 99-acre park is the first large community park in Varina since Dorey Park opened in 1982 and will feature a destination skate park, event area, large playground, spray park, pump track, bike skills course, an asphalt trail loop, and memorials to service members and first responders. The FY25 budget includes nearly \$2.0 million for 7 new positions, utilities, supplies, and equipment for maintaining and programming this new jewel in the County’s park inventory.

New Recreation Facility Needs in FY25	
Taylor Farm Park	1,981,573
Former St. Gertrude Athletic Fields	423,240
Pouncey Tract Pickleball Courts	164,701
Four Mile Creek Restroom Facility	144,252
Total, New Recreation Facilities	2,713,766

Other new facilities included in the FY25 proposed budget include athletic fields acquired from St. Gertrude School, the championship pickleball courts at Pouncey Tract Park, and a new restroom facility at Four Mile Creek Park to serve the Capital Trail. These three facilities will require an additional \$0.7 million in operating and equipment funding. These facilities, along with the opening of the Henrico Sports & Events Center (HSEC) and the other exemplary parks and recreation centers, continue to make Henrico an attractive place to play.

With the opening of the HSEC in November 2023, the County’s sports tourism push is now in overdrive. Henrico is well on its way to attracting the projected over \$30 million in economic impact with the new facility being booked nearly every weekend for the year. The FY25 budget builds on this momentum by continuing to invest in the relatively new Henrico Sports & Entertainment Authority with budget growth of more than \$0.5 million to enhance marketing efforts and continue building its operating capacity.

Our Economic Development Authority (EDA) continues to make Henrico an attractive place to work. With over 201,000 jobs offered by over 25,000 businesses – 6 of which are Fortune 1000 companies with their headquarters in the County – Henrico can boast the 4th largest economy in Virginia at \$32.1 billion. Their efforts keep our tax burden for our residents low while providing job opportunities for the entire region within our borders.

The FY25 budget maintains the toolkit utilized by the EDA with \$0.8 million for the Henrico Investment Program (HIP) and \$5.0 million for water & sewer connections for economic development projects in addition to the low tax environment – enhanced with the doubling of the BPOL deduction – and collaboration with community development agencies.

Finally, the County has expanded its outreach efforts over the years across several agencies. To streamline these efforts and consolidate into a single agency, the FY25 budget establishes the Resident Outreach & Engagement Department by moving 6 positions from three agencies to simplify accessibility and improve coordination and collaboration on outreach efforts in a consolidated, more efficient manner.

County With a Heart

The FY25 budget focuses on as many priorities as possible within a conservative outlook that maintains flexibility while doing what we must to serve our constituents. It takes care of our employees and maintains the County's position as a regional pay leader among local governments. It also expands services through a meticulously planned process to enhance the quality of life for residents.

Each budget builds upon each other. Over the last four years, significant resources have been intentionally put forward to provide pay raises, expand services, and show this County's heart by doing not only what we must but what we should. It is why we are expanding access to mental health care to all students in the next five years, making it easier to move throughout this County without a vehicle, and engaging with our citizens to learn what is next on their mind.

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 have been 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 horizontal line.

John A. Vithoukas
County Manager