

COMMONWEALTH OF VIRGINIA  
COUNTY OF HENRICO



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County Manager

March 9, 2021

The Honorable Board of Supervisors  
County of Henrico  
Virginia

Honorable Members of the Board:

2020 offered plenty of challenges, but it was the dedication, commitment, and expertise of Henrico County's workforce that allowed us to navigate these uncharted waters. In doing so, our workforce showed a community what is possible, pushed against the wall, and considered creative alternatives to the traditional ways we do business. We have found ways to deliver services in a physically distanced manner, lead regional testing and vaccination efforts, and continue to provide critical services like public safety, education, and mental health services. Because of the efforts of all employees, I am more proud to submit Henrico County's FY2021-22 Proposed Budget than any other budget proposal in my career.

The budget, balanced within available resources at a **real estate tax rate of 87 cents**, rewards our hard-working employees with what can truly be described as a **once in a generation pay increase**. Over the next six months, eligible employees will receive a minimum 4.4% increase, with many employees receiving higher increases stemming from market-wage adjustments and longevity pay. For teachers and instructional staff, they will receive a minimum 6.9% increase with this proposal. The goal of this pay adjustment is to make Henrico County **the pay leader** in the Richmond area, and the nearly \$58 million invested in our workforce makes this a reality.

A year ago, this compensation package was not possible. Staring into an uncertain future with local businesses having to close, people having to isolate within their homes, and travel completely shut down, the resulting fiscal impacts were thought to be ominous. In fact, it was projected that fund balance could drop over \$60 million during FY2019-20 if left unchecked. You recall that we reduced the FY2020-21 budget by \$100 million to "find the floor" in the haze of fiscal uncertainty. While certain sectors have been greatly impacted, Henrico's local economy proved to be very resilient and provides the foundation for this fiscal plan.

Though the employee compensation initiative accounts for nearly 70% of the year-over-year increase, this budget continues to move our school system towards the goal of being the best in Virginia. In FY2021-22, we will open the new J.R. Tucker and Highland Springs High Schools. It also provides the necessary funding to open the expansion of Holladay Elementary School. Finally, funding is provided to support the expansion of the Achievable Dream Academy into the secondary level, with the first ever 6<sup>th</sup> grade class. As presented, Henrico County Public Schools accounts for 57% of the total general fund and 60% of the budget growth.

Totaling more than \$224 million, the FY2021-22 capital budget supports the completion of the 2016 Bond Referendum projects, expands and renovates to two career education centers, recognizes the new

funding source for transportation projects through the Central Virginia Transportation Authority (CVTA), and allocates resources to construct a Recovery Center to battle the disease of addiction.

**FY2022 Revenue Assumptions**

<b>FY22 General Fund Revenues</b>						
<b>Category</b>	<b>FY20 Actuals</b>	<b>FY21 Proposed</b>	<b>FY21 Approved</b>	<b>FY22 Proposed</b>	<b>FY21 to FY22</b>	<b>FY21 to FY22</b>
General Property Taxes	\$503.2 M	\$517.8 M	\$499.1 M	\$531.3 M	\$32.2 M	6.4%
Other Local Taxes	\$183.3 M	\$173.9 M	\$139.4 M	\$170.6 M	\$31.2 M	22.4%
Permits, Fees, and Licenses	\$8.6 M	\$5.5 M	\$5.3 M	\$6.8 M	\$1.5 M	28.6%
Fines & Forfeitures	\$1.9 M	\$2.1 M	\$2.1 M	\$2.1 M	\$0.0 M	0.0%
Use of Money & Property	\$13.7 M	\$9.3 M	\$3.3 M	\$11.3 M	\$8.1 M	245.1%
Charges for Services	\$3.6 M	\$4.2 M	\$3.8 M	\$3.7 M	(\$0.1 M)	3.1%
Miscellaneous Revenues	\$13.0 M	\$13.4 M	\$11.2 M	\$11.4 M	\$0.2 M	2.5%
<b>Total Local Revenues</b>	<b>\$727.3 M</b>	<b>\$726.2 M</b>	<b>\$686.7 M</b>	<b>\$734.1 M</b>	<b>\$39.4 M</b>	<b>5.7%</b>
State Aid for Schools	\$280.6 M	\$292.6 M	\$261.3 M	\$299.1 M	\$37.8 M	4.9%
State Gasoline Tax	\$49.1 M	\$47.7 M	\$47.0 M	\$48.5 M	\$1.5 M	1.5%
All Other State & Federal	\$66.5 M	\$49.2 M	\$44.1 M	\$46.4 M	\$2.3 M	5.3%
<b>Total State and Federal Revs.</b>	<b>\$396.3 M</b>	<b>\$389.1 M</b>	<b>\$356.4 M</b>	<b>\$394.0 M</b>	<b>\$14.9 M</b>	<b>4.0%</b>
<b>Total General Fund Revs.</b>	<b>\$1,123.6 M</b>	<b>\$1,115.7 M</b>	<b>\$1,017.5 M</b>	<b>\$1,128.2 M</b>	<b>\$110.6 M</b>	<b>10.9%</b>
<u>Transfers/Cash Reserves</u>	<u>(\$204.4 M)</u>	<u>(\$153.2 M)</u>	<u>(\$118.4 M)</u>	<u>(\$144.2 M)</u>	<u>(\$25.8 M)</u>	<u>21.8%</u>
<b>TOTAL NET REVENUES</b>	<b>\$919.2 M</b>	<b>\$962.5 M</b>	<b>\$899.1 M</b>	<b>\$983.9 M</b>	<b>\$84.8 M</b>	<b>9.4%</b>
<b>*FY20 Actuals reflect PPTRA as a local revenue for comparison purposes</b>						

The revenue estimates for the FY2021-22 budget reflect a more stable and predictable path ahead, just one year after COVID-19 put our traditional paradigm through massive upheaval. As shown in the chart above, the total revenues, before transfers to other funds and use of reserves, is \$1.13 billion. This reflects an increase of \$110.6 million, or 10.9%, when compared to the ultra-conservative budget adopted by the Board on May 12, 2020. However, the proposed budget is only \$12.4 million more than the FY2020-21 Proposed Budget, and \$1.1 million less than the most recent FY2020-21 estimates. The current projections for FY2020-21 include the collection of \$25.6 million in CARES funding in the General Fund. When Federal stimulus funding is removed from FY2020-21 projections, FY2021-22 revenues are only required to grow 2.4%.

Real estate tax revenues in the budget are anticipated to be \$383.0 million and reflect an overall increase of \$21.5 million. The total real estate tax base, inclusive of new construction and reassessment, reflects a net increase of \$1.5 billion. Residential reassessments increased 4.7%, reflective of a housing market with high demand fueled by low interest rates. Commercial reassessments reflect a net decrease of 2.7%, as the value of hotels were cut in half due to COVID-19 and the value of strip retail developments decreased 7.7%. New construction in 2020, both commercial and residential, added \$658 million to the real estate tax base. While there is still potential for weaknesses to appear in the office space categories as businesses determine what role teleworking plays in their long-term business model, Henrico’s real estate market seems to have weathered the worst of this economic storm.

The areas considered most vulnerable to economic shock were other local taxes and state revenues. As such, both areas reflected significant decreases totaling \$67 million in the rebuilt FY2020-21 budget in the name of ultra-conservatism. In the case of other local taxes, Henrico’s local economy showed its resiliency. Assumed to drop over 20%, sales tax collections are actually leading FY2019-20’s collections through the first seven months. In fact, collections in December totaled \$7.6 million – the highest amount ever recorded. Meals tax collections in FY2020-21 were **assumed to decrease by over a third**, but the current FY2020-21 projection has this revenue – which is dedicated to our schools – exceeding this budget estimate by at least \$4 million.

State revenues are estimated to total \$393.6 million in FY2021-22, which reflects an increase of \$37.6 million compared to the very cautious estimates in the FY2020-21 approved budget. For comparative purposes, the most recent projections for FY2020-21 are only \$4.2 million less than the FY2021-22 estimates. Often when the State experiences fiscal troubles, localities feel the brunt of reductions; however, we are thankful that our delegation advocated to hold localities fairly harmless in their plan – particularly as it relates to schools. The estimates for FY2021-22 are based on the Governor’s budget amendments announced in December. Information provided based on the budget deal brokered by the two chambers of the General Assembly suggests that there may even be upside to the FY2021-22 projections in this plan.

With all other sources of State aid, a conservative posture remains. The estimates for Gas Tax payments for the maintenance of the county’s road system for FY2021-22 total \$48.5 million, though the current year projection is over \$50 million. Reimbursements for constitutional officers by the Compensation Board are anticipated to grow 4% compared to FY2020-21 budget as they have outperformed our pessimistic estimates. Finally, the estimate for law enforcement payments (House Bill 599) is less than FY2020-21 \$10 million estimate.

Also important in this environment is a note about what is not included in the FY2021-22 revenue estimates. The proposed budget **does not include any estimates of Federal stimulus**. Henrico has received nearly \$81 million of stimulus funding through a variety of sources, with nearly \$35 million expected for HCPS soon. This is before any consideration of a future stimulus bill approved by Congress. Any appropriation of future stimulus funding from the Federal government will be carefully considered to determine if there are any future obligations once this one-time funding goes away.

**A Generational Opportunity**

By finding the floor and seeing an economy that outperformed our fears, our budget essentially took a ‘one-year reset’. The employee compensation initiative in this plan exceeds anything we have been able to execute in over 30 years. This county has fewer employees than our peers and we ask our employees to do more – and as such, we want to reward them for their service. As noted in the *Financial Trends Monitoring System*, Henrico County is at its lowest per capita employee level since FY1990-91, and if you discount the over 450 positions the county is holding today, per capita employees are at the same level as 1982 – the first year *Trends* data was captured.

The total investment of nearly \$58 million in Henrico’s workforce comes in four categories as noted on the chart to the right. The first phase is a 2% adjustment to the county’s salary scales. This will impact all employees in April. The second portion, also in April, includes market adjustments for public safety and teaching positions. The third component is a merit-based step increase of 2.4% for all employees who do not receive a market adjustment, which is effective on July 1. The final category is an increase that rewards the long-term service of many

	6 Month Salary Increase Plan	
	Gen. Gov’t	HCPS
2% Scale Adjustment	\$4.5 M	\$7.5 M
Market Adjustments	\$12.3 M	\$17.0 M
Step Increase	\$2.5 M	\$1.7 M
Longevity Increase	\$5.4 M	\$6.7 M
Subtotal	\$24.7 M	\$32.9 M
Grand Total	\$57.6 M	

employees who have dedicated their careers to our community. The longevity pay – effective in October – provides one step (2.4%) for those with 10 years of service, two steps (4.8%) at 15 years, three steps (7.3%) at 20 years, and four steps (9.8%) for employees with 25 years of experience or more with Henrico County.

This plan also provides enhanced pay for positions that require a commercial driver’s license (CDL) and begins a two-year effort to have all positions at a minimum wage of \$15/hour. This has become very clear as a priority as we have seen the enhanced efforts of our custodial staff which have been a critical part of Henrico’s COVID response effort.

**Our Future: Henrico County Public Schools**

The Proposed Budget for FY2021-22 provides more than \$78 million in new or restored resources for education. Chief among them is the growth within the General Fund budget, which totals \$51 million and reflects a 10% increase when compared to the approved budget for FY2020-21. The Proposed Budget includes \$4.6 million for new and expanded school facilities, which funds 62.5 new positions - 13 new teachers for the two high schools and 49.5 positions for Holladay, including 36 new teachers for the expanded elementary school. The proposed budget also includes 10 new school counselors.

Resources Allocated to HCPS in FY22 Budget	
General Fund Budget Increase	\$51.0 M
Restore Meals Tax For Capital	\$9.0 M
Debt Service Increase	\$5.0 M
School Bus Replacement	\$4.7 M
Increase for CSA	\$4.0 M
Restore Roof & Mechanical	\$2.5 M
Technology Infrastructure	\$2.0 M
<b>Total</b>	<b>\$78.2 M</b>
*Does not include bond resources in capital budget (noted below)	

Another important addition to the HCPS budget for FY2021-22 is the expansion of the Achievable Dream Academy into 6<sup>th</sup> grade. The secondary program includes 19 positions with a total budget of \$1.4 million. While a location has not been decided at this time, moving this innovative program forward is vital to improving outcomes for the “Dreamers” who have been part of the program since its inception in 2017.

Schools' FY22 Infrastructure Investments		
<u>Project</u>	<u>Amount</u>	<u>Funding Source</u>
Adams ES Renovation	19,000,000	G.O. Bonds
Highland Springs ACE Center Expansion	20,800,000	VPSA Bonds
Hermitage ACE Center Renovation & Expansion	33,255,000	VPSA Bonds
Schools Mechanical/Roof	2,500,000	GF Fund Balance
Schools Meals Tax Reserve	9,000,000	Meals Tax
Schools Technology	2,000,000	Facebook Real Estate
Land Reserve	3,000,000	Capital Reserve
School Bus Replacement	4,700,000	FY21 Savings
<b>Total, Schools Capital Projects</b>	<b>94,255,000</b>	

The proposed budget for FY2021-22 continues this county’s long-standing commitment to making sure our school system has the facilities and infrastructure necessary to provide a top-flight education to Henrico’s children. The school capital budget, which is over \$94 million, funds the final

Education project from the 2016 Bond Referendum, the renovation of Adams Elementary School. It also provides over \$54 million to expand and renovate the two career education centers at Hermitage High School and Highland Springs High School. The expansion of these programs ensures we provide additional opportunities to create “life-ready” graduates. The proposed budget also provides \$3 million for the purpose of securing land for future schools, which could be part of a future bond referendum as early as November 2022.

The remaining \$18.2 million in the capital budget for Schools focuses on maintenance of existing infrastructure. The FY2021-22 budget restores the \$9 million meals tax total that has been utilized in nearly every school in Henrico. The proposed budget also restores the \$2.5 million in roof and mechanical improvements and allocates \$4.7 million to replace school buses on a ten-year schedule. Finally, the

proposed budget includes \$2 million of real estate revenues related to the Facebook Data Center project for technology infrastructure needs within schools. This includes the network systems, servers, and storage systems that teachers and students rely upon within the buildings.

This budget would not be possible without the strong support of Superintendent Dr. Amy Cashwell and collaborative relationships that have been built with the School Board. I would like to take this opportunity to personally thank Dr. Cashwell and each School Board member for working with the Board of Supervisors to ensure the children of Henrico receive the best education in the Commonwealth.

### **Strategic Focus on Public Safety**

Maintaining a safe and secure community is key to the quality of life provided in Henrico. In addition to recognizing our first responders and front-line public safety providers with the significant pay raises discussed earlier, the FY2021-22 budget continues to invest in our public safety infrastructure.

The proposed capital budget includes nearly \$13 million for firehouse projects, including the stormwater basin for the Staples Mill Firehouse (FS#20) and funds for the construction of a new Nine Mile Firehouse (FS#23). The capital budget also provides funding to acquire land for a future replacement of the Eastover Gardens Firehouse (FS#6).

Perhaps no other group has been more central to Henrico's response to COVID-19 than the individuals in Emergency Management. To shine a light on this key agency, the FY2021-22 budget breaks out Emergency Management and Workplace Safety as a separate agency. This places a greater emphasis on this group's role in leveraging county resources to respond to crisis in the community.

With many of the recommendations of the Addiction Task Force proposed for FY2020-21, alternative funding approaches were required once local funding was not an option. Grants were sought for enhancing treatment and diversion efforts to keep the momentum of this effort moving forward. The proposed budget continues to address our addiction efforts in a couple ways. First, a total of \$120,000 is provided to not-for-profit agencies that provide treatment services and recovery home scholarships for Henrico residents. Second, the capital budget includes \$9 million to build a Recovery Center to provide detox and treatment resources for individuals in crisis. This facility is proposed to be operated by a third-party, further cementing the county's commitment to public-private partnerships that allow the provision of community services at the lowest cost possible.

### **The Changing Landscape of Transportation Funding – CVTA**

A major accomplishment for the greater Richmond metropolitan area in the 2020 General Assembly session was the creation of the Central Virginia Transportation Authority (CVTA). The CVTA uses and distributes increases in the Sales and Use Tax and Gasoline Tax to fund transportation priorities throughout the region. A portion of the new taxes generated are redirected to the individual communities and for FY2021-22, the minimum anticipated for Henrico is \$22.5 million. Sidewalk and pedestrian improvements projects will be supported with \$2.5 million of these new resources while \$20 million will be allocated to a reserve and distributed once local projects are shovel ready. The Department of Public Works has \$2.2 billion worth of needs identified over the next 10 years. Therefore, the need to leverage these new resources with State and Federal funding will continue to be critical to keep Henrico moving.

### **Sustainability as an Emerging Area of Emphasis**

Over the past couple of years, Henrico has seen the effects of changing global weather patterns on our community. Historic rainfall revealed flooding conditions that have created stress on homeowners, businesses, and public infrastructure. Fortunately, the County has made significant progress with its MS4 Permit requirements, as significant pollutant reductions have been achieved and the County is well on its

way to achieve the permit goals for 2025. This budget fully restores the stormwater funding eliminated in FY2020-21 due to the pandemic. Further, it funds three programs to reduce the effects of flooding. The first provides \$500,000 for property acquisitions to mitigate flooding effects. Additionally, the proposal includes \$750,000 to stabilize streams and remove debris to reduce the effects of further flooding and \$500,000 to complete minor drainage projects throughout the county.

In the area of Water & Sewer, great infrastructure is required to meet environmental standards. To do this requires the resources to make that happen. To this end, the proposed budget includes an increase to water & sewer rates with an impact on residential households of \$3.05 per month in order to meet the county's infrastructure needs in this area.

### **Preparing for the Post-Pandemic World – Doubling Down on Sports Tourism**

Since 2012, the county has focused heavily on development of the tourism sector, specifically sports tourism. Despite the negative impacts of COVID-19, Henrico still hosted over 100 tournaments with an economic impact of over \$47 million – greater than the amount in 2017. This is primarily thanks to the investments in field capacity at the county's high schools and Glover Park.

The FY2021-22 proposed budget restores \$1 million back to the Recreation budget for staffing of special events and the capital budget funds the development of Taylor Park in Eastern Henrico and upgrades of the baseball complex at Tuckahoe Park – the final two sports tourism projects in the 2016 Bond Referendum. Adding and renovating these fields, along with the indoor sports facility at Virginia Center Commons and the new arena that will be part of the recently announced Green City development will better position Henrico continue growth in this sector for many years to come.

With the scale of facility development over the past five years, it makes sense that a specialized group of professionals, working in concert with Richmond Region Tourism, can take outreach efforts to new heights. This proposed budget creates capacity for a proposed Sports and Entertainment Authority. Guided by an Executive Director, this new board of tourism professionals, appointed by the Board of Supervisors, will identify and/or create innovative strategies to push Henrico's sports tourism efforts to new heights. Along with utilizing the fields for tournament attraction, the Authority would also oversee certain aspects of the new indoor facilities.

### **The Future of Solid Waste**

The FY2021-22 budget for Solid Waste allows continued provision of its many services and replaces four refuse trucks to maintain service delivery. The FY2021-22 budget proposes a \$3/month increase in the refuse collection fee to ensure sustainability of the fund by addressing inflation since the last time the fee was increased in 2008. At \$18/month, the refuse collection fee will remain very competitive with other trash collection providers.

Moving forward, the Division will examine their programs to assure they can be provided at a cost-effective level. This will include reviewing the new regional recycling contract in the next few months, alternative solutions to bulky waste pick-ups, and reviewing how neighborhood clean-ups are conducted.

### **Infrastructure as the Community's Backbone**

The FY2021-22 Proposed Budget appropriates funding for the final 2016 Bond Referendum projects. This expedited schedule is feasible because the COVID-induced interest rate environment allowed issuance of all remaining referendum debt at a rate of 1.49%, the lowest ever achieved on the issuance of general obligation bonds.



The capital budget includes G.O. Bonds of \$79.7 million to fund projects like the Richmond-Henrico Turnpike, the renovation of Cheswick Park, the renovation of the Three Lakes Nature Center, and the continuing development of the Tuckahoe Creek Park. Finishing these projects will allow the county to pivot towards new needs to be identified on a future bond referendum.

FY2021-22 Capital Budget - November, 2016 G.O. Bond Projects (G.O. Bonds Only)	
Project	Recommended FY2021-22
Richmond-Henrico Turnpike	9,000,000
Taylor Park	14,000,000
Cheswick Park	2,100,000
Tuckahoe Creek Park	5,000,000
Three Lakes Nature Center	2,300,000
Tuckahoe Park	16,000,000
Nine Mile Firehouse (#23)	11,055,685
Staples Mill Firehouse Stormwater Basin	1,250,000
Adams ES Renovation	19,000,000
<b>Total, 2016 G.O. Bond Projects</b>	<b>79,705,685</b>

The FY2021-22 capital budget also brings forward several projects that focus on maintaining the county's existing infrastructure including \$3.0 million for various general government maintenance projects and \$1.7 million for the county's information technology infrastructure. Maintaining vital infrastructure is key to avoiding significant replacement costs in the future. To that end, the Department of Public Utilities' capital budget includes undertaking significant annual maintenance projects as well as significant improvements and expansion at the Water Reclamation Facility to meet regulatory requirements within the rate increase mentioned earlier.

**We Got Busy**

The FY2021-22 proposed budget recognizes the efforts of each employee over this past year – often putting themselves in harm's way, finding ways to effectively work remotely, and even improving processes and results along the way. Our employees have exemplified selfless service.

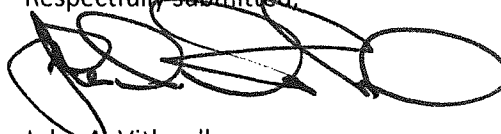
In life, certain opportunities present themselves that define who we are and what we are capable of. For Henrico's employees, when the world wanted to shut down, we got busy. Everyone figured out how to continue to provide the exceptional services this county has been known for, and to do it with the heart and compassion necessary when the world was consumed with angst.

It has not been easy to accomplish this; we asked agencies to do more while living within a budget that had just cut \$100 million, all the while operating with more than 450 vacant positions. This speaks to the ability our folks to move mountains. Fortunately, our worst-case financial scenario did not occur, which provided us the foundation for the FY2021-22 plan that rewards those who carried us through this journey.

This budget would not have come together without the many hours of hard work by staff and the leadership and vigilant oversight from our Board of Supervisors. This commitment to service is what embodies "The Henrico Way," and I am truly grateful for the contributions – past and future – by all.

In closing, I would like to thank you, our dedicated Board of Supervisors, for your input and guidance in this most important process. As always, the staff and I stand ready to assist you as you seek to chart the course for the future of our community.

Respectfully submitted,



John A. Vithoukas  
County Manager