

February 27, 2023

Dear Honorable Members of the Board of Supervisors –

I am pleased to present to you the proposed Fiscal Year 2023-2024 Montgomery County budget for your review and consideration. The proposed budget outlines the County's fiscal plan of operations for the upcoming year, and was developed by our leadership team to meet the current and future needs of the County.

Our County organization has remained steadfast over the past year, even as we have continued to face challenges from the COVID-19 pandemic and its aftereffects. The County has remained strong financially; in fact, several of our revenue categories continue to see record growth. Projections for the current fiscal year indicate County revenues continue to trend higher for real estate, personal property, and sales taxes. This trend will likely continue into the new fiscal year. Our recent reassessment of real property, effective for January 1, 2023, reflected an average increase in property valuation of approximately 30%, an increase not seen since before the Great Recession of 2008. While this increase was significant, the previous two reassessments reflected much smaller increases in valuation, and when averaged over the past 12 years, our real property valuation has increased approximately 5% per year.

While our revenues have continued to be resilient post-pandemic, the County is also experiencing significant pressures on the expenditure side of our operations. Inflation continues to impact the cost of supplies and materials needed for County operations. Coupled with supply-chain shortages for many materials, these factors have impacted our ability to perform our daily responsibilities and challenged us to develop new ways to meet those requirements. Our County employees have been steadfast in providing a high level of service on behalf of our citizens, but they are also feeling the impact of inflation in their personal budgets. Employees often share with me that they are very appreciative for their jobs with the County; however, they see daily that County operations are stretched extremely thin in a number of operational areas. The County's employees are the greatest asset this organization has, and I am committed to providing additional support for them in the upcoming year.

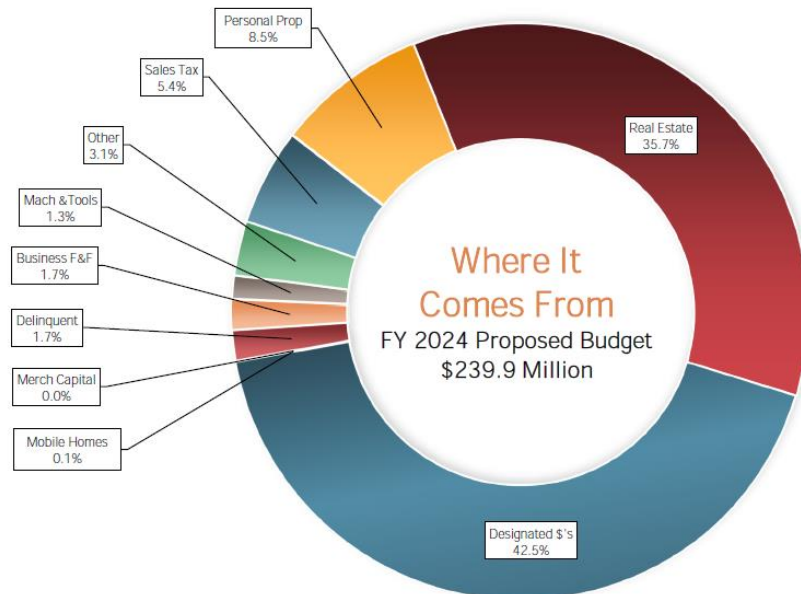
With the recent reassessment, the value of one penny of real estate tax revenue is now approximately \$1,175,000. The revenue neutral tax rate, adjusting for a 1% increase in value to cover the cost of the reassessment as allowed by state law, is 70 cents per \$100 valuation, a decrease of 19 cents from the current real estate tax rate of 89 cents. For the fiscal year 2024 proposed budget, I am recommending a real estate tax rate of 73 cents, which is an increase of 4.3% over the revenue neutral rate.

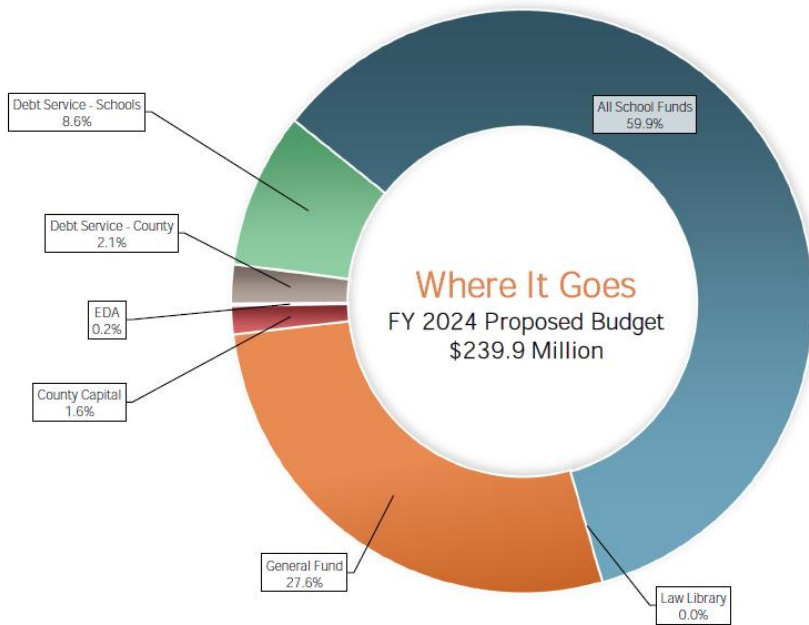
The proposed FY 2023-2024 budget for all funds is \$239.9 million, an increase of \$19.1 million (8.7%) over the current fiscal year. The budget as proposed consists of \$102 million provided from federal, state, and other designated funds, with the remaining funds of \$137.9 million representing County dollars that are not designated for a specific purpose. As our Director of Management and Budget shared with you in a presentation in January, the County expects general undesignated revenue growth of \$7.1 million for the new year, excluding any increases in the real estate tax rate. Proposed funding for the County’s General Fund, net of transfers to other funds, totals \$66.3 million, an increase of \$7.5 million (12.9%) from the current fiscal year.

Proposed funding for the Montgomery County Public Schools’ (MCPS) Operating Fund, net of transfers to other funds, totals \$136.1 million, which is an increase from the current year of \$9.7 million (8.0%). This includes my recommendation that \$4 million in additional funds be provided from the County’s General Fund in FY 2024 to support MCPS operations. MCPS requested additional County funds of \$6.1 million to address shortfalls in their proposed budget; of this amount, \$1.3 million is a result of a calculation error by the State Department of Education. Removing this calculation error, MCPS’ request would be \$4.8 million, and my recommendation of \$4 million would address 83% of the Schools’ request. I have reallocated one penny of real estate revenues previously allocated for future County and MCPS capital construction to special contingencies. These funds will provide the Board of Supervisors with options to include providing school funding should the Commonwealth fail to provide a funding resolution for its \$1.3 million error; retaining it in the allocation for future capital; or funding other priorities the Board may wish to address in the proposed budget.

In addition to the 5% salary increase included in the Governor’s proposed budget for teachers, the Virginia Houses of Delegates and the Virginia Senate have proposed an additional 2% salary increase, for a total increase of 7%. As the General Assembly adjourned this past Saturday with no resolution to the State budget, at this point there are no additional funds to address this proposal. If this additional salary increase is approved, additional funds will be required if MCPS desires to provide funding for a comparable salary increase for MCPS non-SOQ (Standards of Quality) positions; this translates to another unfunded mandate from our state leadership, and creates a significant additional funding challenge for our schools.

The following charts show the revenue sources and expenditures for the proposed FY 2024 County budget:





The chart below shows the amount of funding provided for education, including debt service and school capital projects, for the past five fiscal years:

	Total Budget	% Inc	Education*	Education Debt Service	School Capital	Education Total	% Inc
FY 2020	\$201,506,061	6%	\$120,628,719	\$18,218,638	\$2,111,523	\$140,958,880	6%
FY 2021	\$209,326,807	4%	\$125,898,757	\$19,666,152	\$2,146,173	\$147,711,082	5%
FY 2022	\$211,289,652	1%	\$126,618,215	\$20,466,643	\$2,195,645	\$149,280,503	1%
FY 2023	\$220,765,617	4%	\$131,013,518	\$19,581,850	\$2,259,973	\$152,855,341	2%
FY 2024	\$239,883,893	9%	\$141,284,310	\$20,698,010	\$2,350,864	\$164,333,184	8%

* FY 2021 is adjusted for funds released from deferral subsequent to original budget approval.

Due to the significant increase in the value of one cent of the real estate tax rate, I am recommending that the set-asides for future capital for the County (currently 1.5 cents for Fire and Rescue and 1.0 cents for capital projects) and MCPS (currently 2.5 cents) be reduced by a half-penny, to two cents each. Even with this reduction, the net funding for future capital for both the County and MCPS will increase due to the increase in the reassessed real estate values. These funds have been placed in special contingencies so the Board may have flexibility in using these funds to address other budget needs, as I mentioned earlier.

To ensure that the County remains steadfast in funding projects that focus on the future, I am recommending the following funds be allocated for the upcoming fiscal year –

- School Capital Fund - \$2.4 million (2 cents of the real estate tax rate) for school capital projects;
- Fire & Rescue Capital Fund - \$1.8 million (1.5 cents of the real estate tax rate) for fire and rescue equipment; and

- County Capital Fund - \$1.9 million (which includes 0.5 cents of the real estate tax rate, as well as \$1.4 million from other revenues) for capital and maintenance projects.

With an on-going designation of \$2.4 million, funds will continue to accrue annually for the next priority school capital project, once the projects in the Christiansburg school strand are completed. Fire and Rescue Capital will receive \$1.8 million to ensure that our volunteers are well-equipped to provide high quality service to our citizens.

Other monies earmarked for the County Capital Fund provide dollars annually for the following:

- \$425,000 for the Auburn Park project; with the grading now complete, we look forward to moving forward with the final construction of the new park in Riner;
- \$210,000 for Information Technology infrastructure projects, which allows County technology needs to be addressed;
- \$587,716 (or 0.5 cent of the real estate rate) enables \$100,000 to be set aside for future Valley to Valley Trail projects and provides \$487,716 each year for other future County capital projects; and
- \$750,000 for County capital maintenance projects, which allows for proactive preventive maintenance and for handling large scale building repairs or replacements.

Funding for the major categories of the County’s budget for the last five fiscal years is shown in the chart below:

	Total Budget	Education*	Education Debt Service	County Debt Service	Public Safety	Other Constit'l Officers	Other Operations	School Capital	County Capital
FY 2020	\$201,506,061	\$120,628,719	\$18,218,638	\$5,140,875	\$18,466,732	\$3,939,479	\$29,463,572	\$2,111,523	\$3,536,523
FY 2021	\$209,326,807	\$125,898,757	\$19,666,152	\$5,056,573	\$18,697,118	\$4,020,616	\$30,310,245	\$2,146,173	\$3,531,173
FY 2022	\$211,289,652	\$126,618,215	\$20,466,643	\$4,256,082	\$19,435,601	\$4,253,067	\$30,483,754	\$2,195,645	\$3,580,645
FY 2023	\$220,765,617	\$131,013,518	\$19,581,850	\$5,140,875	\$21,715,367	\$4,464,777	\$32,944,284	\$2,259,973	\$3,644,973
FY 2024	\$239,883,893	\$141,284,310	\$20,698,010	\$5,140,875	\$23,537,496	\$4,776,769	\$38,359,705	\$2,350,864	\$3,735,864

* FY 2021 is adjusted for funds released from deferral subsequent to original budget approval.

Our County employees are industrious, helpful, and steadfast in their commitment to service to our citizens, all during a time of increased demand for services. In recognition of their efforts, and in an attempt to address the significant impact that inflation has created for them over the past year, I am proposing a 7% increase in compensation for all full-time and part-time classified employees, effective July 1, 2023. For employees who have reached the top of their pay grade, I recommend a 7% one-time supplemental payment in lieu of a salary increase. This recommended pay increase for County employees matches what is being recommended for state employees, and allows us to keep our compensation competitive so that we can attract and retain the best employees available. Funding in the amount of \$2.3 million is included in the proposed budget to address this request. State funds of approximately \$400,000 offset this cost, bringing it to \$1.9 million.

With the Christiansburg Town Council's decision to remove Town police officers from MCPS facilities located within the Town of Christiansburg corporate limits as of July 1, 2023, Board members have expressed a desire to provide funds for the provision of School Resource Officers (SROs) in MCPS facilities in the two towns. Funding in the amount of \$673,605 is included in the proposed budget to provide salaries, benefits, training, and equipment (including vehicles) for five additional SROs to be managed by the County Sheriff, and placed in MCPS facilities as determined by the Sheriff and MCPS administration. In addition to funding for SRO positions, an additional \$333,910 is included in the Sheriff's Office budget for an annual contract for body cameras, increased cost of fuel, and an increase in motor vehicle purchase costs.

The proposed budget also includes funding for the creation of a Community Resource Officer (CRO) program, to be housed at the County Government Center. The CRO will be a liaison for the Sheriff's Office, and will be available to meet with citizens to discuss any concerns related to community public safety. The CRO will also provide staffing for many of the after-hours meetings of the Board of Supervisors, Planning Commission, School Board, and other County meetings as needed. Funding in the amount of \$182,752 is included in the proposed budget to provide for a full-time position, additional part-time support when needed, and equipment (including a vehicle) to be utilized by the CRO.

With the implementation of paid first responders for emergency service response in the current fiscal year, the program has seen rapid growth and demand for additional staffing. Eastern Montgomery County has experienced a significant decline in volunteer rescue service, and there are times where other areas of the County have a difficult time with volunteers being available to respond to service calls. The County is ultimately responsible for the safety and well-being of our citizens, and we must provide additional funding for first responders, to ensure the safety and well-being of our citizens. For the upcoming fiscal year, an additional \$1,358,681 is budgeted to provide eight additional emergency services technicians, four field supervisors, and funding for additional overtime and operating expenses. With this additional funding, the County will provide resources for a total of 21 full-time employees who will be serving as basic life support (BLS or EMT) and advanced life support (ALS or paramedic) responders. As I have stated on numerous occasions, Montgomery County has been blessed for many years to have strong volunteer fire and rescue agencies; nothing that is being proposed is designed to diminish that appreciation. The purpose of the proposed funding is to supplement our volunteers' efforts in providing the highest level of support for our citizens.

Other new positions are proposed in the FY 2024 budget to address the level of increased services and responsibilities in several of our operating departments. In addition to the positions mentioned previously, a total of four additional positions are recommended in the following departments: General Services; Planning and GIS; and Parks and Recreation; and a part-time, non-classified position at the Animal Care and Adoption Center is also recommended to become full-time. Operational costs in General Services are projected to increase by almost \$700,000, due to an increase in utilities for both existing facilities and the new garage and office of elections, increased cost of diesel and gasoline fuel, maintenance service contract increases, and a new vehicle to support parks maintenance. While these increased funding needs are for the General Services department, many other departments are also receiving increased funding support to ensure County departments remain steadfast in their ongoing support for our citizens and businesses.

As a result of the various legal settlements related to the opioid epidemic, approximately \$350,000 is available from finalized settlements through FY 2024 for opioid abatement programs and activities. As future settlements are reached, this amount is anticipated to increase. While these funds have been identified, they are not included in the FY 2024 budget. The County Attorney, working with the Director of Human Services and the Assistant County Administrator, are meeting with judicial representatives, local service agencies, and other localities to determine possible uses of this funding. As details are developed for various programs that support for treatment strategies, education, and outreach initiatives, the Board will be asked to appropriate funding from this allocation to address the impacts of the opioid epidemic in our community.

Beginning in FY 2024, the County will no longer receive \$56,043 in federal funding for the Retired Senior Volunteer Grant Program (RSVP). The County will absorb these costs in the General Fund and gradually expand volunteer programs to include additional participants and initiatives. Also included in the General Fund budget is the Victim Witness Grant program. This state grant of \$210,674 funds three full-time positions that will now be included as classified positions on the County's Compensation and Classification Plan. This vital program provides support to victims and witnesses throughout the court process.

I am again recommending funding in the proposed budget of \$500,000 for New River Community College's (NRCC) Access to Community College Education (ACCE) program. The ACCE program allows Montgomery County high school graduates to continue tuition-free education at NRCC, with their commitment to provide service hours to the community in return. The County has supported students through this highly-successful program with a total of over \$2.5 million budgeted to date, of which \$1.5 million has been expended.

There are two proposed initiatives of which I am seeking support from the Board of Supervisors in the upcoming fiscal year that do not require additional funding. The first is allowing the County to investigate the possibility of moving toward a reassessment cycle that occurs every two years as opposed to the current cycle of every four years. Researching the costs involved with creating a Department of Assessment within County government to conduct our reassessments internally instead of contracting this service out would be included in this process. If you agree, County staff will research this issue, and provide the Board with information that could be integrated into future County budgets.

The second initiative involves more closely integrating the County's Public Service Authority into the County's operations. While the PSA and the County work closely together on many issues, the PSA operates as an independent entity, with minimal coordinated effort to integrate land use, GIS, and other County functions as part of the PSA. This initiative would allow County staff to recommend an operational structure for the PSA to be part of the County, while retaining an independent PSA Board of Directors to guide County and PSA staff on operational issues.

I am extremely grateful to the County's department directors, agency heads, and Constitutional officers for their active participation in the budget review process. Our leadership team understands the fiscal challenges that face our County, and they respect and adhere to the Board's fiscally conservative philosophy. The County's department directors, agency heads, and Constitutional officers were part of the review process for these budget requests, and developed a ranking of the

departmental requests, which I used as part of my budget development. Although not ranked by the leadership team, during the development of the annual budget the County received requests for increased funds from agencies outside of local government operations totaling \$828,862. The proposed budget provides a total of \$3.1 million to various outside agencies and organizations, some of which are mandated as the County is contractually or statutorily required to provide the funds.

During this year's budget process, I have been blessed to have the assistance of Angie Hill, Brad St. Clair, Marc Magruder, Paul Kaiser, Jeff Raines, Susan Dickerson, Jennifer Harris, and Derley Aguilar in preparing, refining, and presenting this budget information to you. Angie, Brad, Marc, and I spent a great deal of time reviewing, debating, revising, and reviewing (again) the information contained in this presentation. Jennifer and Derley provide editorial feedback and the creative magic that ensures our budget document, presentations, and information reflects our best efforts in communications.

The proposed FY 2023-2024 budget provides funding to address our core local government responsibilities, as well as funding for areas that must be addressed as part of our service to a growing community. County staff and I look forward to reviewing the proposed budget information with you in the days ahead. A budget work session is scheduled for Monday, March 6th, for the Board to establish the advertised tax rate and advertised budget, in order to meet the required deadlines. The required public hearings on the proposed budget and tax rate are scheduled for a special Board of Supervisors meeting on Thursday, April 13th, at 6 p.m. If all goes as planned, we ask that the Board approve the proposed budget at your regular Board of Supervisors meeting on Monday, April 24th.

I am extremely grateful to you for your leadership and continued support. I have no doubt that the upcoming fiscal year will be another year of achievement for the County, and that our County will continue to be steadfast in its support of our citizens, our businesses, and our employees. I and our leadership team are available to address any questions or suggestions you may have as you review the budget information.

All the best,

A handwritten signature in black ink, appearing to read "F. Craig Meadows". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

F. Craig Meadows

County Administrator