

March 7, 2022

Dear Honorable Members of the Board of Supervisors:

I am pleased to present to you the Proposed Fiscal Year 2023 budget for Montgomery County. 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 our County organization. The budget as proposed provides resources to address our core local government responsibilities, and also provides funding for areas that must be addressed as part of our service to a growing community.

For nearly two years now, our community has dealt with the COVID-19 pandemic. We have been blessed that Montgomery County has not been fiscally impacted to the degree other localities were during the pandemic. While COVID-19 is still with us, the outlook for the new fiscal year suggests that our economy is recovering very well. Projections for the current fiscal year indicate County revenues are trending higher for real estate, personal property, and sales taxes, and that this trend will likely continue into the new fiscal year. These are very positive trends; however, the County is also experiencing inflationary pressures, which appear likely to continue into the immediate future.

While we have weathered the pandemic very well from a fiscal standpoint, our employees have struggled at times to keep up with the constantly changing work landscape of Zoom meetings, mask mandates, illnesses in the workplace and in families, etc. As I mentioned in my budget message last year, County staff has worked diligently to *focus on the future*, but many days our employees have simply been grateful to get through the work day without a new mandate or challenge. This proposed budget provides both a significant investment in supporting our employees who are the cornerstone of our service to our citizens and businesses, as well as the *momentum* necessary to carry us forward into the years ahead.

With *momentum* as a theme for this upcoming year, I am recommending a proposed budget for all funds of \$220.4 million for fiscal year 2022-2023. The budget as proposed represents an increase of \$9.1 million (4.3%) over the current fiscal year, and provides essential funding for continuation of our services to our citizens and businesses, maintains and strengthens the programs and activities of our various departments, and invests in our capital and human resources, which are crucial to maintaining a high level of service to our citizens and businesses.

For fiscal year 2023, I am recommending no change in the real estate tax rate of 89 cents per 100 dollars of valuation. This marks the 10th consecutive year that I have recommended the real estate tax rate remain level, and this also reflects the Board's strong fiscal oversight of the County's financial condition.

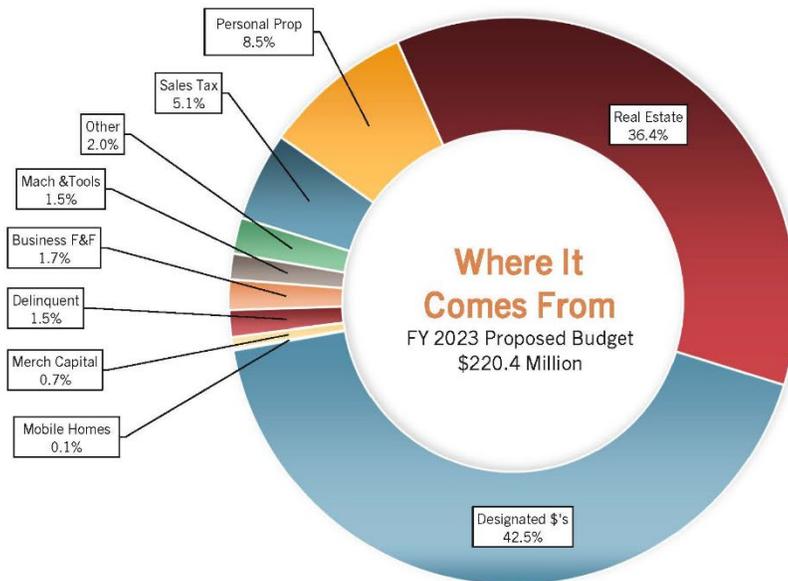
Industrious | Diverse | Steadfast | Helpful | Integrity

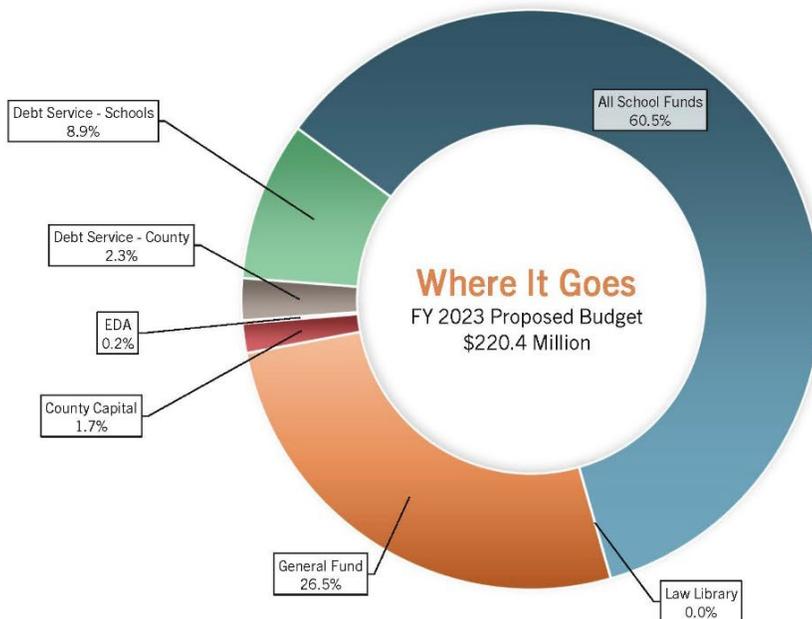
Included in the proposed budget is additional revenue of \$100,000 in anticipation of implementation of a 30 cent per pack cigarette tax. The General Assembly enacted legislation in 2020 that gave counties the authority to levy a tax on the sale of cigarettes beginning July 1, 2021. If approved by the Board, this tax can be implemented quickly in early fiscal year 2023. These revenues will be used to support Parks and Recreation personnel.

The proposed Fiscal Year 2023 budget consists of \$93.6 million provided from federal, state, and other designated funds, with the remaining \$126.8 million representing County revenues, which are not designated for a specific purpose. As shared with you in a presentation in January, the County expects undesignated revenue growth of \$5.4 million for the new year. Proposed 2023 funding for the County’s General Fund, net of transfers to other funds, totals \$58.3 million. This is an increase of \$4.6 million (8.5%) from the current fiscal year.

Proposed funding for the Montgomery County Public Schools’ (MCPS) Operating Fund, net of transfers to other funds, totals \$126.4 million, which is an increase from the current year of \$4.4 million (4.0%). The proposed FY 2023 County budget also includes the Debt Service Fund (\$24.7 million), the School Nutrition Fund (\$4.6 million), the transfer to the School Capital Fund (\$2.3 million), the transfer to the County Capital Fund (\$3.6 million), funding for Economic Development incentives (\$380,000), and the Law Library Fund (\$17,600).

The following charts show the projected revenue sources and expenditures for the proposed FY 2023 County budget:





- School Capital Fund - \$2.3 million (2.5 cents of the real estate tax rate) for future school capital projects;
- Fire & Rescue Capital Fund - \$1.4 million (1.5 cents of the real estate tax rate) for fire and rescue equipment; and
- County Capital Fund - \$2.2 million (which includes 1.0 cent of the real estate tax rate, as well as \$1.3 million from other revenues) for capital and maintenance projects.

As our County continues to grow, we must continue our *momentum* in addressing a number of critical long-term projects. With an on-going designation of \$2.3 million, dollars will continue to accrue annually for the next capital project prioritized by the School Board. The Fire and Rescue Capital Fund will receive \$1.4 million to ensure 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, to move forward with the construction of the new park in Riner;
- \$210,000 for Information Technology infrastructure projects, to address technology needs;
- \$904,000 (or 1.0 cent of the real estate rate), to set aside \$100,000 for future Valley to Valley Trail projects and \$804,000 for other future County capital projects; and
- \$750,000 for County capital maintenance projects, to fund proactive preventative maintenance and 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 2019	\$189,356,564	\$113,147,727	\$18,078,252	\$5,281,261	\$17,729,909	\$3,837,555	\$27,394,360	\$1,550,000	\$2,337,500
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	\$220,385,913	\$131,013,518	\$19,581,850	\$5,140,875	\$20,536,645	\$4,228,964	\$33,979,115	\$2,259,973	\$3,644,973

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

Of the \$4,489,533 in additional County funding requested by the schools for fiscal year 2023, I am recommending an additional \$2.1 million for the School Operating Fund, which represents approximately 39% of the overall new revenue of the County’s General Fund. I am also recommending the County provide \$920,000 in one-time funds from the County’s fund balance for the acquisition of eight new school busses for MCPS, outside of the operating budget process. This will allow operating funds in the schools’ proposed budget to be used for other purposes within the MCPS system. As was shared with you in a recent presentation from the Superintendent, the Commonwealth has proposed a 5% salary increase for teachers, but at this point the state budget appears to provide less than half of the amount needed to provide all teachers in Montgomery County with this increase. This translates to another unfunded mandate from our state leadership, and creates an additional funding challenge for our schools. We must continue to remind our state legislators that increased state funding for our schools, both for operations and for infrastructure, is critical to maintaining the high level of K-12 education that our County residents have come to expect.

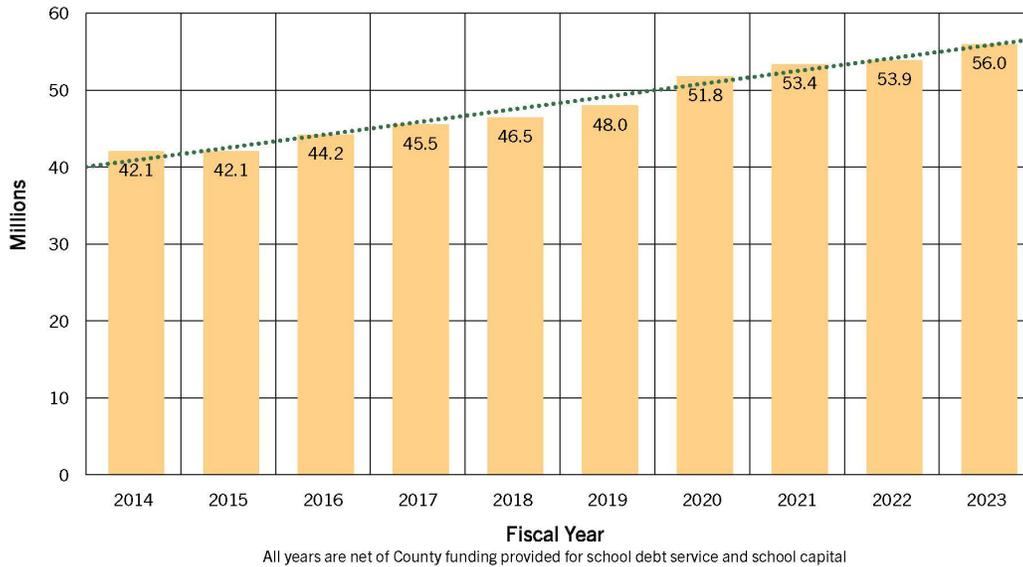
The chart below shows the amount of funding provided for education, including debt service and school capital projects, for the past five fiscal years:

	Total Budget	% Inc	Education*	Education Debt Service	School Capital	Education Total	% Inc
FY 2019	\$189,356,564	1%	\$113,147,727	\$18,078,252	\$1,550,000	\$132,775,979	1%
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	\$220,385,913	4%	\$131,013,518	\$19,581,850	\$2,259,973	\$152,855,341	2%

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

The following chart shows the amount of County funding provided for school operations over the past 10 fiscal years, along with the proposed funding for Fiscal Year 2023:

County Funding for Schools



County staff is currently working with our financial advisors in anticipation of a bond sale this spring, which will provide funding for School and County capital projects. This proposed budget provides level funding for debt service for FY 2023. The County’s portion of the debt service budget includes sufficient capacity to absorb the estimated increased cost related to the debt issuance. Our financial advisors anticipate the additional school debt service will exceed the amount included in the proposed budget; however, any additional funds can be allocated from County reserves on a one-time basis during FY 2023, if needed.

Throughout the past two years, our County employees have been 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 compensation challenges related to inflation, I am proposing a 5% general wage increase for all full-time and part-time classified employees, effective July 1, 2022. For employees who have reached the top of their pay grade, I recommend a 5% one-time supplemental payment in lieu of a salary increase. Funding in the amount of \$1,380,000 is included in the proposed budget to address this request, along with an additional \$98,720 in funds to bring all positions in line with the proposed increase in the federal minimum wage.

The preliminary results of our recent compensation and classification study show we have many positions throughout the County that are lagging behind the market rate for their respective positions. A previous study completed in 2018 identified this as an issue as well; however, we were only able to adjust compensation to reflect approximately 65% of the identified shortfall. With our most recent study, we hope to address the market at a much more competitive level, ideally 90%-95% of market. I am proposing \$939,702 to implement the findings of the compensation and classification study, and

to show our employees that the County is committed to providing competitive pay and benefits for their efforts.

For the ninth consecutive year, the County does not anticipate an increase in our health insurance premiums as employees continue prudent use of health and prescription drug benefits. The County's Virginia Retirement System (VRS) rate increased for FY 2023 from 12.44% to 13.7%, at a cost of approximately \$255,000. Vacancy and turnover savings of \$382,247 were used to cover the VRS increase, with the balance offsetting the general wage increase.

Another significant investment proposed in the upcoming fiscal year budget relates to the County's commitment to the safety and wellbeing of our citizens. The proposed budget includes approximately \$947,000 for personnel and operational expenses of the County's emergency medical services department. This is a newly-created initiative to provide paid first responder service for areas of the County that are struggling to support rescue calls with volunteer staff. The purpose of this program is not to replace our volunteer agencies, but to provide first response capabilities when a citizen calls for an emergency. This funding will provide resources for the equivalent of 9.6 FTE personnel, both full and part-time employees, who will be serving as basic life support (BLS) and advanced life support (ALS) responders.

The County will be receiving the results of an emergency services study conducted by the Virginia Department of Fire Programs in the weeks ahead, and recommendations from the study will be reviewed with the Board to determine how best to strengthen the County's response in this area. Montgomery County has been blessed for many years with strong volunteer fire and rescue agencies, and nothing that is being proposed is designed to diminish that appreciation, but to join with our volunteers in providing the highest level of support possible for our citizens.

Several new positions are proposed in the FY 2023 budget to address the increased level of services and responsibilities in several of our operating departments. In County Administration, I am proposing the addition of a Safety and Health Compliance Specialist, who will evaluate work environments throughout the County, and develop and enforce policies and procedures to protect County employees in order to maximize workplace safety and minimize risk. In our Finance and Budget areas, I am recommending the addition of a Budget Analyst and also a Senior Accountant, due to the responsibilities associated with ARPA funding; long-term capital planning; increased grant, financial and regulatory compliance and reporting; along with ongoing fiscal agent responsibilities for several agencies, including the Economic Development Authority, Metropolitan Planning Organization, MBC Development Corporation, NRV 911 Authority, Regional Tourism, and the Public Service Authority.

Another position has been funded for the Office of Elections to provide an additional assistant registrar, as a result of the greatly increased workload in this area. Funding is also included to add an additional maintenance worker in the Parks and Recreation department, and funds are provided to convert one part-time kennel assistant to full-time at the Animal Care and Adoption Center. While not included in the operating budget, I also recommend an additional position to support Economic Development's broadband function. This will initially be funded with American Rescue Plan Act funds combined with existing funding for part-time wages in Economic Development and will transition to a County-funded position over the next several years.

In the County's Information Technology area, additional funds of \$101,000 are added to provide support for increased service costs, training, and hardware for various County operations. The Sheriff's budget contains an additional \$120,000 to address increases in contract medical support services for the jail. In General Services, an additional \$152,000 is provided to address increased costs of utilities, maintenance, and general operating costs. While these are only three examples of increased funding needs, many other departments are also receiving increased funding to provide the *momentum* for ongoing support for our citizens and businesses.

For the fifth consecutive year, I am recommending funding of \$500,000 for New River Community College (NRCC) to allow NRCC to continue to provide the Accessing Community College Education program. These funds allow 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 program with a total of over \$2 million to date.

Once again, I am extremely grateful to the County's department directors, agency heads, and Constitutional Officers for their active participation in the budget review process. This group of employees understands the fiscal challenges that face our local government, and they respect the Board's fiscally conservative approach to budgeting. As occurs each year, requests for County funds far exceeded the resources available. Requests this year were no different and totaled \$5 million in new funding (excluding compensation and fringe benefits). 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 requests. 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 the local government totaling almost \$650,000. The proposed budget provides a total of \$2.9 million to various outside agencies and organizations, some of which are mandated as the County is contractually or statutorily required to provide the funds.

My budget message and the related budget workbook reflect many hours of work, review, revision, and preparation to get us to this presentation each year. Deputy County Administrator/CFO Angie Hill; Director of Management and Budget Marc Magruder; along with Paul Kaiser and Susan Dickerson, work dutifully each year to bring all this information together. Public Information Director Jennifer Tatum Harris, along with Derley Aguilar on the PIO staff, provide the creative magic that ensures our budget document, presentations, and information reflects our best efforts in communications.

I look forward to reviewing the proposed budget information with you in more detail in the weeks ahead. A special budget work session will be held on Monday, March 21, for the Board to establish the advertised tax rate and advertised budget, in order to meet the required deadlines. The required public hearing on the proposed budget and tax rate are scheduled for a special Board of Supervisors meeting on Thursday, April 7, at 6 p.m. If all goes as planned, we ask that the Board approve the proposed FY 2023 budget at a special Board of Supervisors meeting on Monday, April 18, at 6 p.m.

I realized several weeks ago that this is the 34th municipal budget I have had a hand in developing. A lot of things have changed since that first budget back in 1990, but one thing has not changed – the effort of our local government employees to provide an austere budget to provide for the capital, operations, and human resources needed to meet the demands of the community. Montgomery

County is a diverse and growing community, and its citizens demand a responsive, industrious, and steadfast county government. I believe the FY 23 proposed budget continues the *momentum* of addressing these needs, and I hope you feel that way as well after your review.

Your continued support, and your leadership of our County government, mean so much to me and our leadership team. I am confident the upcoming fiscal year will bring more success for our County. I welcome your comments and suggestions as you review the attached information in the days ahead.

Respectfully submitted,

A handwritten signature in black ink, reading "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