Town Council
Regular Meeting
Agenda Item 5.a.

Agenda Item: **Fiscal Year (FY) 2026 Proposed Budget**

Meeting Date: April 22, 2025

Category: Public Hearings

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Description:
Agenda Item 5a includes the resolution and ordinances related to the Fiscal Year (FY) 2026 Proposed Budget. Adoption includes: updated tax levies for Real Estate Tax, Meals Tax, two categories of Business, Professional, Occupational License Tax (BPOL), Collection Fee, updated rates for Water and Sewer Services, as well as the FY 2026 portion of the Capital Improvement Program (CIP).

Background:
In accordance with the requirements outlined in the Code of Virginia § 15.2-2503, 15.2-2506, and 58.1-3321, the Interim Town Manager has submitted the proposed budget for FY 2026 to the Town Council by April 1 and properly advertised the public hearings on the proposed budget. The first public hearing on the budget items was held on April 8, 2025, where the items were continued to April 22, 2025. The following Ordinances and Resolutions are scheduled for a second public hearing on April 22, 2025:

Item 5a-i: Ordinance, in accordance with Section 30-36 of the Town Code, fixes and orders the levy for real estate and manufactured homes at $0.27 per $100 of assessed value for FY 2026. This is a $0.01 increase over the previous rate of FY 2025. The notice for public hearing on the property tax levy was duly advertised in the Fairfax County Times Newspapers in the March 14, 2025 edition.

Real estate assessed values increased 4.38% (6.63% Residential, 0.62% Commercial). Including the impact of the increased assessed value, the incremental impact of the average residential property (assessed at $560,939) is $133 annually. The effective date for this ordinance is July 1, 2025.

Item 5a-ii: Ordinance to amend the Meals tax levied per Article IX (MEALS TAX), Section 30-401.

The Meals Tax is an excise tax assessed as a percentage of the price of a meal or prepared food, with some exceptions. The consumer pays the tax at purchase, and it is remitted by the seller to the town monthly. Currently, the Meals Tax levy is 3.75% applied to purchased meals, as defined. The tax rate was last updated effective July 1, 2019, increasing the rate from 2.5% to 3.75%. The FY 2026 Budget proposes to raise the tax rate from 3.75% to 4.00% effective July 1, 2025. The proposed rate is comparable to all localities in the region.

At the April 15, 2025 Town Council Work Session, direction was provided to propose a meals tax rate of 4.5%. The proposed resolution reflects this change.

Item 5a-iii: Ordinance to amend Chapter 30 (FINANCE AND TAXATION), Article VII (Business, Professional, Occupational License), Section 30-246 (b)(2) -Retailers and Section 30-263 (Repair Service).

For FY 2026, the proposed budget includes BPOL rate increases for two categories: Retail Merchants and Repair Services. The rate increase will align the Town of Herndon rates for these categories with the rates of Fairfax County and would go into effect January 1, 2026 applied to gross receipts beginning January 1, 2025. The ordinance proposes:

Retail Merchants	$0.13 to $0.17 per $100 of gross receipts.
Repair Services	$0.13 to $0.19 per $100 of gross receipts

Item 5a-iv: Ordinance to amend Chapter 74 (UTILITIES), Article II (Sewers and Sewage Disposal), Division 5 (Sanitary Sewer System Rates & Charges), Section 74-262 (Schedule of Rates); and Article III (Water), Division 2 (Service), Subdivision II (In-Town Service Charges), Section 74-326 (Schedule of Charges), to increase the service and usage charges for sanitary sewer and water, effective for meter readings taken on or after July 1, 2025.

As part of the FY 2026 Budget process, the Water and Sewer Rates model was updated, resulting in the proposed Water and Sewer rates for FY 2026. Increased rates are critical to meet the operating and investment needs of the Water and Sewer System over the next six years. The FY 2026 rates are increased from the current rates as follows:

Water Quarterly Service Change	30%
Water volumetric rates, Base and Peak	17.5%
Sewer Quarterly Service Charge	25%
Sewer Volumetric rates	8%

With adoption of the new rates, the average household (based on 12,000 gal/Qtr.) would be impacted $100.52 annually ($54 Water and $47 Sewer Services). The Water and Sewer rates remain the lowest in the region.

The notices for public hearing were duly advertised in the Fairfax County Times Newspapers in the March 21 and March 28, 2025 editions, with a courtesy copy published in the April 4, 2025 edition.

Item 5a-v: Ordinance to amend Chapter 63 (SOLID WASTE), Section 63-8 (Schedule of fees) to recategorize type of fee and to increase the quarterly rate.

A Miscellaneous-Recyclables Fee is currently charged to resident/occupant each quarter with the water and sewer bill. The Department of Public Works has proposed renaming the current Recycling Fee to Collection Fee and raising the current rate. The fee will increase from $16.00 per quarter to $21.00 per quarter, effective July 1, 2025. Annual revenue will increase from $392,000 to $514,500. The last adjustment occurred in 2020 when the fee was increased from $8.00 to $16.00 per quarter. Prior to that, the fee increased in 2018 from $4.00 to $8.00 per quarter, and in 2010 from $2.50 to $4.00 per quarter.

Since the last increase in 2020, the recycling industry has undergone significant changes. Commodity prices continue to decline along with rising processing costs, and the volume of recyclable materials has either remained steady or increased. As a result, the town no longer receives rebates sufficient to fully cover recycling costs and now incurs monthly expenses for recycling processing. The town has also seen higher rates of contamination in the recycling items collected, which are then processed as trash and a fee is paid for that contamination. The cost to collect and process trash, either in the county's landfill or in the Waste to Energy facility, has also increased annually. For FY 2026, Fairfax County is proposing to increase the trash charges from $79/ton to $90/ton. On average, the town collects approximately 445 tons of trash per month from town residents. The proposed change will address some of the costs incurred due to increased costs to recycle proper materials at the Material Recovery Facility.

Item 5a-vi: Resolution to adopt a Fiscal Planning Resolution for the Fiscal Year 2026 Budget for the Town of Herndon.

This resolution is to adopt the FY2026 proposed budget and the FY 2026 portion of the Capital Improvement Program (CIP) for fiscal planning purposes for the Town of Herndon. In accordance with the requirements outlined in the Code of Virginia § 15.2-2503, 15.2-2506, and 58.1-3321, the Interim Town Manager has submitted the proposed budget for FY 2026 to the Town Council by April 1 and properly advertised the public hearings on the proposed budget.

At the April 15, 2025 Town Council Work Session, the Town Council gave direction to make several changes to the overall FY 2026 budget that are reflected in the proposed updated Fiscal Planning Resolution.

The notices for the public hearing were duly advertised in the Fairfax County Times Newspapers in the March 21 and March 28, 2025 editions, with a courtesy copy published in the April 4, 2025 edition.

Item 5a-vii: Ordinance to appropriate Funds to implement the Fiscal Year 2026 Budget for the Town of Herndon, establishing the Pay Plan, and reserving on-going and Capital Funding for this Fiscal Year.

All town expenditures are subject to the appropriation of funds by the Town Council. The town must adopt a balanced annual budget by July 1 of each fiscal year. A balanced budget is defined as one in which total anticipated revenues and other financing sources are equal to total anticipated expenditures. The proposed Budget for FY 2026 was submitted by the Interim Town Manager, advertised as required, published on the website, and public hearings conducted.

Timing Impact:
Impacts of the adopted budget begin with the start of the next fiscal year: July 1, 2025. In addition, per the agreement with Fairfax County for Real Estate Tax bill processing, tax rates must be communicated to them no later than May 1, 2025.

FY 2026 Proposed Budget (link)
FY 2026 - 2031 Capital Improvement Program (link)

Related Strategic Plan Goals:
The Proposed FY 2026 Budget relates to all areas of the Strategic Plan, specifically to the following related goals highlighted below:

Strong Fiscal Stewardship
Goal 1: Maintain strong financial health to ensure advantageous borrowing opportunities as needed.
Goal 2: Conduct forward-looking and multi-year planning and analysis.
Goal 3: Utilize best practices as they relate to fiscal controls and risk management.

Secure and Interconnected Community
Goal 1: Provide safe and secure community interactions through professional, respectful, and equitable responsiveness.
Goal 2: Provide a convenient and safe interconnected multimodal network.
Goal 3: Actively collaborate with regional jurisdictions and state and federal agencies to leverage resources.

Environmental and Economic Sustainability
Goal 1: Implement policies, practices, and regulations that encourage or incentivize energy efficiency and the use of renewable energy in public and private investments.
Goal 4: Improve and streamline town processes required of new and existing businesses.
Goal 5: Foster and expand policies and partnerships with Fairfax County to ensure diversification of housing stock.
Goal 6: Implement policies, practices, and regulations that protect and enhance the town's natural resources and preserve the environment.

Good Governance
Goal 1: Maintain and enhance public facilities to effectively support municipal operations and services.
Goal 2: Actively engage community input that informs the Town's policies, programs, and services.
Goal 3: Foster a positive town organizational culture that prioritizes employee development, professional growth, and wellness; and sets the standard in high performance leadership.

Thriving Community
Goal 1: Prioritize accessible government services, programs, and infrastructure.
Goal 2: Encourage an engaged and informed community.
Goal 3: Honor the diversity of the town.
Goal 4: Ensure a variety of green and open spaces with recreation options accessible to all.

Strategic Focus Area:



Strong Fiscal Stewardship
Secure and Interconnected Community
Environmental and Economic Sustainability
Good Governance
Thriving Community

Fiscal Impact:
The Town of Herndon has proposed a Fiscal Year (FY) 2026 Budget of $95,738,447, including the Town Council directives of April 15, 2025. The total proposed budget represents a 28.3 percent increase from the adopted FY 2025 Budget. The Proposed FY 2026 Budget accounts for increasingly high costs associated with hiring and maintaining top-quality employees; continued supply chain pressures; the assumption of capital costs as the American Rescue Plan Act (ARPA) funding ends; and funds associated with initiatives included in the town's Strategic Plan.

The increase in tax and fee rates for FY 2026 are expected to result in $1.69M incremental General Fund revenue (real estate tax $562K, meals tax 910K, BPOL $100K, Collection Fee $122K). The Water and Sewer rate increases are expected to result in incremental revenue of $1.3M for the Water and Sewer Fund. The Capital Improvement Program includes $28.6M in capital spending for FY 2026 across all funds.

Legal Impact:
Per Town Code Section 4.2 and State Code Section 15.2-2503, the Town Manager is required to prepare and submit an annual budget to the Town Council on or before the first day of April each year. Town Code Sec. 30-36 pertains to the levy for real estate.

Changes to Meals Tax, BPOL, Water and Sewer Services and Collection Rates require Ordinances updating the specific rates defined in the Town Code.

Staff Recommendation/Next Steps:
The Interim Town Manager and staff recommend approval and adoption of the Proposed FY 2026 operating budgets and FY 2026-2031 CIP with any adjustments the Town Council deems appropriate.

Attachments:
1. FY26 Property Tax Equalization, Legal Ad
2. FY26 Budget, Legal Ad
3. FY26 Budget, Water & Sewer, Legal Ad