



FY 2021 BUDGET

**Discussion on potential changes to the
FY 2021 Budget Proposal due to the
Coronavirus Pandemic**

March 31, 2020

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Discussion Overview

- The FY 2021 Advertised Budget Plan was developed during the months preceding the current health crisis resulting from the Coronavirus (COVID-19)
- It is imperative that the FY 2021 proposal be revisited in light of the physical and financial toll that this pandemic is having on County residents and the changing economic conditions, which have the potential to severely impact County revenue streams in FY 2021
- Agencies have been directed to limit expenses to only those of a critical nature until further notice
- Following the discussion by the Board today, staff will put together a revised FY 2021 proposal which will be outlined in the FY 2021 Add-On Package
 - This package will be distributed to the Board of Supervisors no later than April 7



FY 2021 Advertised Overview

The two slides in this section were included in the February 25 presentation by the County Executive on the FY 2021 Advertised Budget Plan. They are included here for reference only.

FY 2021 Advertised Budget Highlights

- Increases Real Estate Tax rate by 3 cents to \$1.18 per \$100 of assessed value
 - Of the increase, 2 cents is utilized to fund priorities in the General Fund and, per Board Budget Guidance, 1 cent is dedicated to affordable housing
 - Based on equalization, results in an increase in the average tax bill of approximately \$346
- Includes proposal to implement 4% Admissions Tax in October 2020 on the sale of movie, theater, and concert tickets
 - Revenue would be deposited into the Contributory Fund and used for arts, cultural, and tourism activities, relieving pressure on the General Fund
- Includes overall increase for County and Schools of 3.65%
 - Provides an \$85.52 million increase over FY 2020 for School Operating, shy of \$89.70 million requested by School Board
 - Anticipated that Schools will receive additional funding from the state to eliminate shortfall
- Funds compensation for County employees, including performance/merit/ longevity increases and a 2.06% market rate adjustment
- Funds other Board priorities such as Early Childhood Opportunities, Environmental Initiatives, Diversion First, Opioid Use Prevention Efforts, Body-Worn Cameras, Police and Fire positions, and Library Hours

FY 2021 Budget Summary

- Net County revenues increase totals \$159.51 million, with \$85.72 million transferred to support Schools Operating and Debt Service requirements
- Schools support and County requirements are both increased 3.65% over FY 2020
- Schools are 52.6% of General Fund Disbursements in FY 2021

* In total, the Real Estate Tax rate is proposed to increase \$0.03 to \$1.18 per \$100 of assessed value. Of the increase, \$0.01 is recommended to be dedicated to affordable housing, which results in an additional \$26.49 million. With this funding included, new resources for Housing and Neighborhood Livability total \$27.23 million.

Adjustments included in FY 2021 General Fund Budget

(Amounts shown are in millions, net change over FY 2020 Adopted Budget Plan)

Available Revenue Increase			
Revenue Increase at Current Real Estate Tax Rate			\$106.52
Real Estate Tax Rate Increase of Two Cents*			\$52.99
Net Impact of Transfers In			(\$0.37)
Total Available			\$159.14
FY 2021 Requirements			
	County	Schools	Total
County Compensation	\$41.90	--	\$41.90
County Debt Service	(\$0.72)	--	(\$0.72)
Lifelong Education and Learning	\$1.53	\$85.72	\$87.25
Housing and Neighborhood Livability <i>(\$27.23 mil including dedicated penny*)</i>	\$0.74	--	\$0.74
Safety and Security	\$9.77	--	\$9.77
Health and Environment	\$8.86	--	\$8.86
Mobility and Transportation	\$4.72	--	\$4.72
Empowerment and Support for Residents Facing Vulnerability	\$3.27	--	\$3.27
Cultural and Recreational Opportunities	\$2.91	--	\$2.91
Economic Opportunity	\$2.11	--	\$2.11
Effective and Efficient Government	\$1.70	--	\$1.70
Subtotal	\$76.78	\$85.72	\$162.50
Reserve Adjustments			(\$3.36)
Total Uses			\$159.14
Available Balance			\$0.00

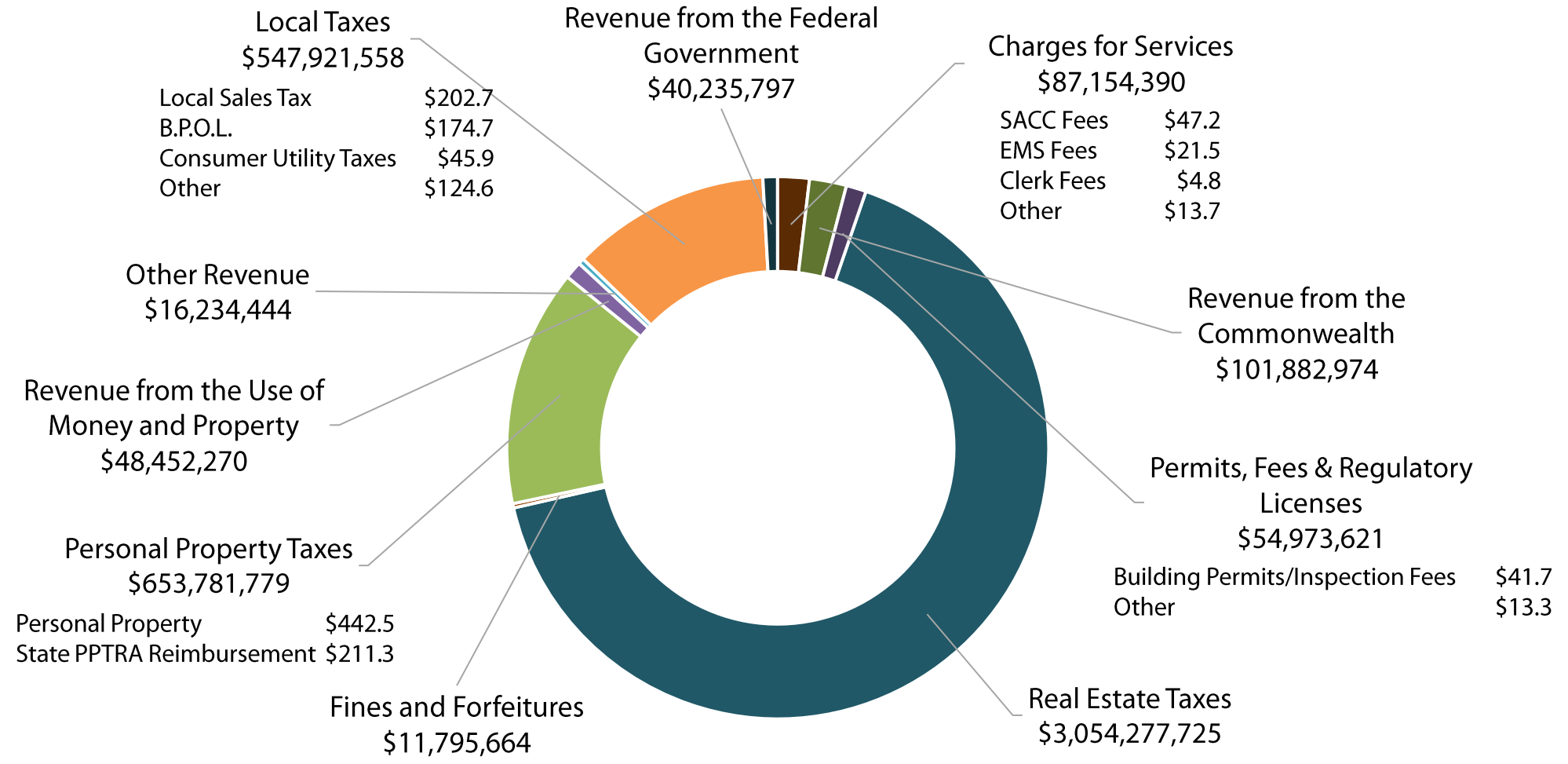
The slide features a light blue background with a decorative graphic on the left side. This graphic consists of a central diamond shape formed by four overlapping diamonds with dark teal centers and light blue outlines. Surrounding this central shape are several smaller, hollow brown diamonds scattered across the upper and lower portions of the left side. A large, light blue arrow points horizontally from the right side of the central diamond graphic towards the right edge of the slide. The text "Economic and Revenue Impact" is centered within this arrow.

Economic and Revenue Impact

National Economic Indicators

- While many economic indicators lag current events, available weekly data point to a sharp decline in economic activity
- At this time, IHS (economic forecaster) projects a U-shaped, rather than V-shaped, economic cycle, as a sharp reduction in near-term growth is expected to be followed by a slow recovery
- Impact on Gross Domestic Product (GDP) will depend on the duration of social distancing/quarantine policies
 - Assuming normal operations resume by June, IHS projects GDP to decline for three consecutive quarters (Q2 through Q4)
- Nationwide, unemployment claims jumped to 3.28 million in the week ended March 21, up from 282,000 claims in the prior week
- The Fed took emergency action to lower interest rates to 0% on March 15
 - As interest rates are not expected to rise for the foreseeable future, this rate reduction results in an approximate \$25 million loss in revenues for the County

FY 2021 Advertised General Fund Revenue Sources





Revenue Categories of Concern

- All revenue categories are being closely monitored; however, some categories are of particular concern, including:
 - Sales Tax
 - Transient Occupancy Tax
 - BPOL Tax
 - Personal Property Taxes
 - Investment Interest
 - SACC Fees
 - Building and Inspection Fees
 - State Revenue

Sales Tax

- FY 2021 Advertised Budget Plan estimate: \$202.65 million
 - Was projected to increase 2.5% over FY 2020
- Latest County data is from March, representing January sales
- Categories that will be severely impacted include Restaurant and Drinking Places, Accommodation and Amusement, as well as discretionary spending for home appliances, furniture, clothes, automobiles, etc.
- Sales in Food and Beverage Stores and online purchases will likely be insulated
- China's reported retail sales were down about 21% in January and February
- Each 25% reduction in the Local Sales Tax over a three-month period would result in a revenue loss of approximately \$12.67 million

Transient Occupancy Tax

- FY 2021 Advertised Budget Plan estimate: \$24.08 million
 - Was projected to increase 2.5% over FY 2020
- Latest County revenue data is from February, representing January hotel occupancy
- Hotel occupancy in the County for the week ending March 14, 2020 was only 22%, with some hotels at single-digit occupancy
- Occupancy for April is expected to be less than 20%
- The travel industry projects that almost 6 million jobs will be lost by the end of April as a result of travel declines in 2020; cumulative losses will depend on the duration of the disruption
- A 75% reduction in Transient Occupancy Tax over a three-month period would result in a revenue loss of approximately \$4.52 million

Business, Professional and Occupational License (BPOL) Tax

- FY 2021 Advertised Budget Plan estimate: \$174.71 million
 - Was projected to increase 1.5% over FY 2020
- FY 2021 BPOL tax is based on business gross receipts during calendar year 2020
 - The Retail Merchants category represents over 19%
 - Other BPOL categories likely to be impacted include Amusements, Hotels and Motels, Personal Service Occupations, Builders and Developers, Business Services
- Each 5% reduction in BPOL Tax in FY 2021 would result in a revenue loss of \$8.61 million

Personal Property Tax

- FY 2021 Advertised Budget Plan estimate: \$636.38 million (excluding delinquents)
 - Was projected to increase 0.7% over FY 2020
 - Tax is levied on vehicles in the County (almost 77% of total), as well as business personal property
 - \$211.3 million represents reimbursement by the Commonwealth resulting from the Personal Property Tax Relief Act of 1998
- Car tax is based on January 1, 2020 valuation using the J.D. Power's National Automobile Dealers' Association guide
 - While vehicle assessed values will not change for FY 2021, new vehicle purchases will likely fall from the level assumed in the advertised estimate
 - March car sales are projected to be down over 35% from a year ago; car production has also been disrupted
- Business personal property includes furniture, fixtures, and computer equipment
 - Generally, during economic slowdown, businesses are not likely to purchase new equipment and some businesses could close altogether
- Each 2% reduction in Personal Property tax in FY 2021 would result in a revenue loss of \$12.73 million



Investment Interest Revenue

- FY 2021 Advertised Budget Plan estimate: \$46.12 million
 - Projected average yield of 1.67%
 - At the time of the development of the advertised budget, the federal funds rate was at 1.50-1.75% range and the Fed had signaled that this level was likely to remain appropriate
- In March, the Fed lowered the rate to near zero in an effort to prop the U.S. economy from the fallout of the coronavirus
- The Fed also announced numerous steps to ensure that banks can keep lending to businesses
- The rate reduction results in an approximate \$25 million loss in revenues for the County compared to the advertised estimate



Other Revenue Categories

- SACC revenue – potential FY 2021 impact of over \$6 million if summer SACC is closed; monthly revenue of \$4.2 million in months when schools are open
- Building and Inspection Fees – revenue typically tracks closely to current conditions of construction industry/real estate market; possible disruption due to COVID-19; a 10% drop equates to \$4.2 million
- Revenue from the Commonwealth – impact unknown; during the Great Recession, the state implemented sizable budget cuts in aid to localities, K-12 funding, and other areas
- Revenue from the Federal Government – impact of federal stimulus unknown; the Senate bill includes funding for Coronavirus Relief Fund that will be available to state and local governments

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County Reserves

Reserve Levels and Restrictions for Use

- The County maintains 3 funding reserves, whose target levels total 10% of General Fund Disbursements:
 - Revenue Stabilization Reserve – Target of 5%
 - Managed Reserve – Target of 4%
 - Economic Opportunity Reserve – Target of 1%
- The target reserve levels and restrictions for use are included in the *Ten Principles of Sound Financial Management* as approved by the Board of Supervisors
- Total funding currently held in these reserves in FY 2020 is \$446.19 million
- In addition, the County has other sources of funding that can be tapped into if necessary, including balances in funds primarily supported by the General Fund and General Fund capital project balances

Revenue Stabilization Fund

- The Revenue Stabilization Fund (RSF) is maintained in a separate fund and is intended to address changes resulting from the curtailment of revenue and should only be used in times of severe economic stress
 - A withdrawal from the RSF cannot be made unless the projected revenues reflect a decrease of more than 1.5% from the current year estimate and any such withdrawal may not exceed ½ of the RSF balance in that year
 - A drawdown from the RSF should be accompanied with expenditure reductions
- The RSF is at its target level of 5% of General Fund Disbursements
- The current FY 2020 Balance in the RSF is \$227.67 million
- The RSF was used for the first and only time in FY 2009
 - A withdrawal of \$18.7 million was a small part of a total plan which included significant reductions, a furlough for employees, and application of other balances to address a \$64.7 million shortfall at the *FY 2009 Third Quarter Review*. As a result of available balances at FY 2009 year-end, the reserve was fully replenished.



Managed Reserve

- The Managed Reserve is maintained in the General Fund and is intended to provide temporary financing of critical unforeseen disbursements of a catastrophic nature
- The Managed Reserve is at its target level of 4% of General Fund Disbursements
- The current FY 2020 Balance in the Managed Reserve is \$184.89 million
- The County has never previously utilized the Managed Reserve



Economic Opportunity Reserve

- The Economic Opportunity Reserve (EOR) is maintained in a separate fund and is intended to stimulate economic growth and provide for strategic investment opportunities that are identified as priorities by the Board of Supervisors
- The Economic Opportunity Reserve is at $\frac{3}{4}$ of its target of 1% of General Fund Disbursements
- The current FY 2020 Balance in the Economic Opportunity Reserve is \$33.92 million
 - The current unallocated balance is \$31.31 million
- As the EOR is a revolving reserve, the Board utilizes the reserve for the funding of economic investment opportunities



Next Steps

- Following today's discussion, staff will develop an updated FY 2021 General Fund recommendation by April 7
- Revenues will be closely monitored to determine potential impacts in FY 2021
- Staff will also be monitoring impacts on other funds, especially those supported primarily by user fees
- Public Hearings will take place April 14-16
 - Video and written testimony are encouraged
 - DIT has developed an online form to make the submission of written testimony easier for residents

FY 2021 Budget Timeline

April 7, 2020	<i>FY 2021 Add-On Package submitted to Board of Supervisors with revised FY 2021 Budget Proposal</i>
April 14-16, 2020	Board of Supervisors holds Public Hearings on FY 2021 Budget, <i>FY 2020 Third Quarter Review</i> , and FY 2021-FY 2025 Capital Improvement Program
April 28, 2020	Board of Supervisors marks-up FY 2021 Budget, adopts FY 2021-FY 2025 Capital Improvement Program, and <i>FY 2020 Third Quarter Review</i>
May 5, 2020	Board of Supervisors adopts FY 2021 Adopted Budget
May 11-13, 2020	School Board holds public hearings on FY 2021 budget
May 21, 2020	School Board adopts FY 2021 Approved Budget
July 1, 2020	FY 2021 Budget Year Begins
July 28, 2020	<i>FY 2020 Carryover Review</i> submitted to the Board of Supervisors for Advertisement
September 22, 2020	<i>FY 2020 Carryover Review</i> approved by Board of Supervisors
Fall 2020	<i>FY 2020 Mid-Year Review submitted/approved (potential)</i>