

# Joint Meeting of the Board of Supervisors and School Board



## FY 2024 FISCAL FORECAST

November 22, 2022

# PREFACE

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- **Forecast includes early estimates of available revenues based on current information**
  - Projections based on existing tax rates
- **Rapidly changing Real Estate market is impacting assessment growth**
- **Focus will be on continued investments in employee salaries as recruitment and retention issues remain**
  - Will be limited flexibility for other priorities
- **Forecast does not include many important priorities**
- **County and Schools continue reviewing budget submissions and building their proposed budgets**
  - FCPS Superintendent's Budget release on January 12, 2023
  - County Executive's Advertised Budget release on February 21, 2023



# Economic Outlook and Revenue Projections

# GLOBAL IMPACTS ON LOCAL ECONOMY

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## *Local economy facing vulnerabilities in the coming months*

- **The local economy is being impacted by negative national and global economic forces, including:**
  - Elevated inflation rates above 8%
  - Surging mortgage interest rates above 7%
  - Energy supply disruptions
  - Geopolitical conflicts generated by the war in Ukraine
  - Sustained tight labor market
  - Falling consumer confidence
  - Federal Reserve monetary policy
- **As the economic outlook is uncertain, staff is approaching FY 2024 revenue forecasting very conservatively**

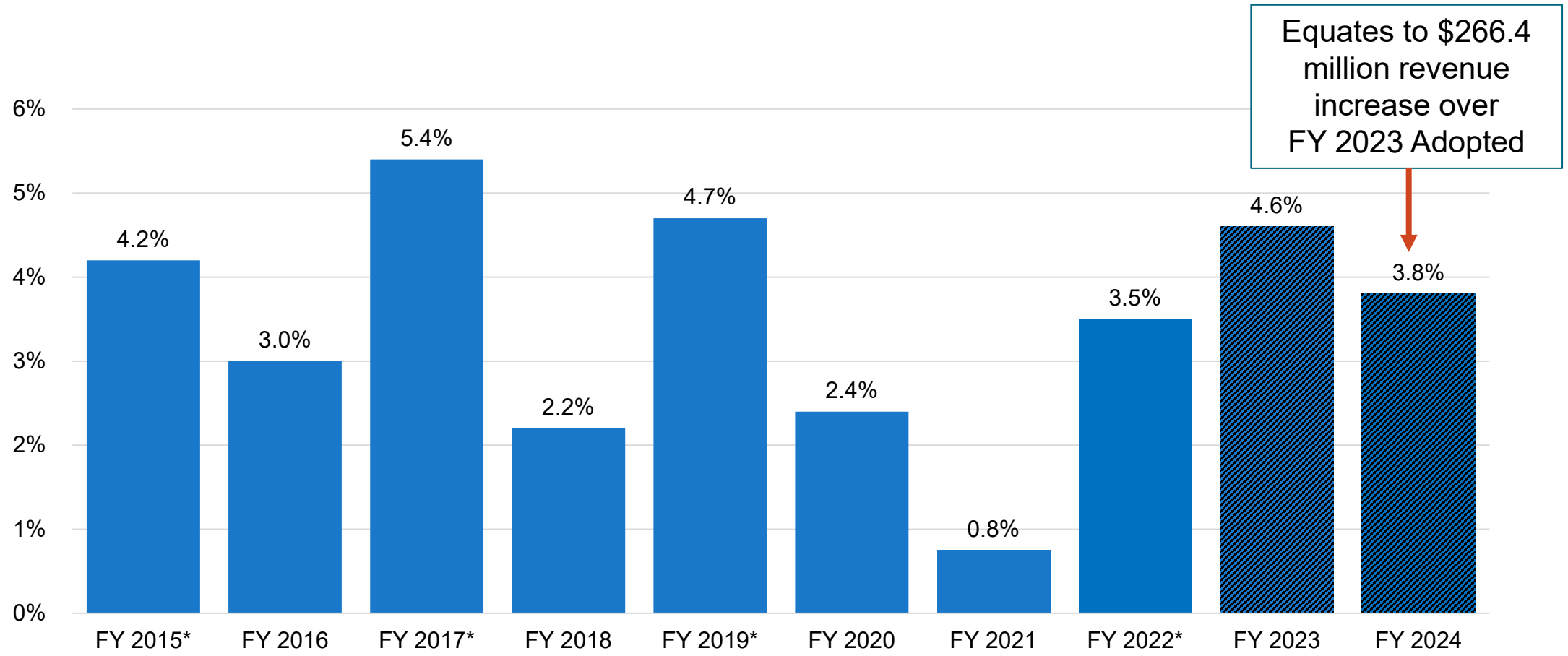
# LOCAL ECONOMY

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## *County's economy has continued to recover from the pandemic-related disruptions*

- **In 2021 Fairfax County's real gross county product (GCP) is estimated to have increased by 7.0% and is forecasted to grow by another 1.6% in 2022**
  - For 2023, forecasts project a contraction of 1.3% in the County's GCP
- **The County's unemployment rate as of August 2022 is 2.7%, down from 5.8% in 2020**
  - The current labor force is lower than pre-pandemic levels as workers have dropped out of the labor market
- **The number of jobs in the County increased by 2.6% in 2021 after declining 4.9% in 2020. As of March 2022, employment was still down by almost 10,000 jobs compared to March 2020**
  - While the number of jobs in the professional and business services sector has increased relative to pre-pandemic levels, the recovery in the hard-hit leisure and hospitality sector is still lagging
  - For 2022, forecasts project an increase of 3.0% in total employment, followed by a decline of 1.7% in 2023
  - Professional and Business Services employment is projected to increase 1.3% in 2022 and decline 5.0% in 2023

# ANNUAL CHANGE IN GENERAL FUND REVENUE FY 2015 - FY 2024



Equates to \$266.4 million revenue increase over FY 2023 Adopted

\* Revenue change includes impact of real estate tax rate increase  
 Growth rates exclude the impact of one-time federal stimulus in FY 2020 and FY 2021

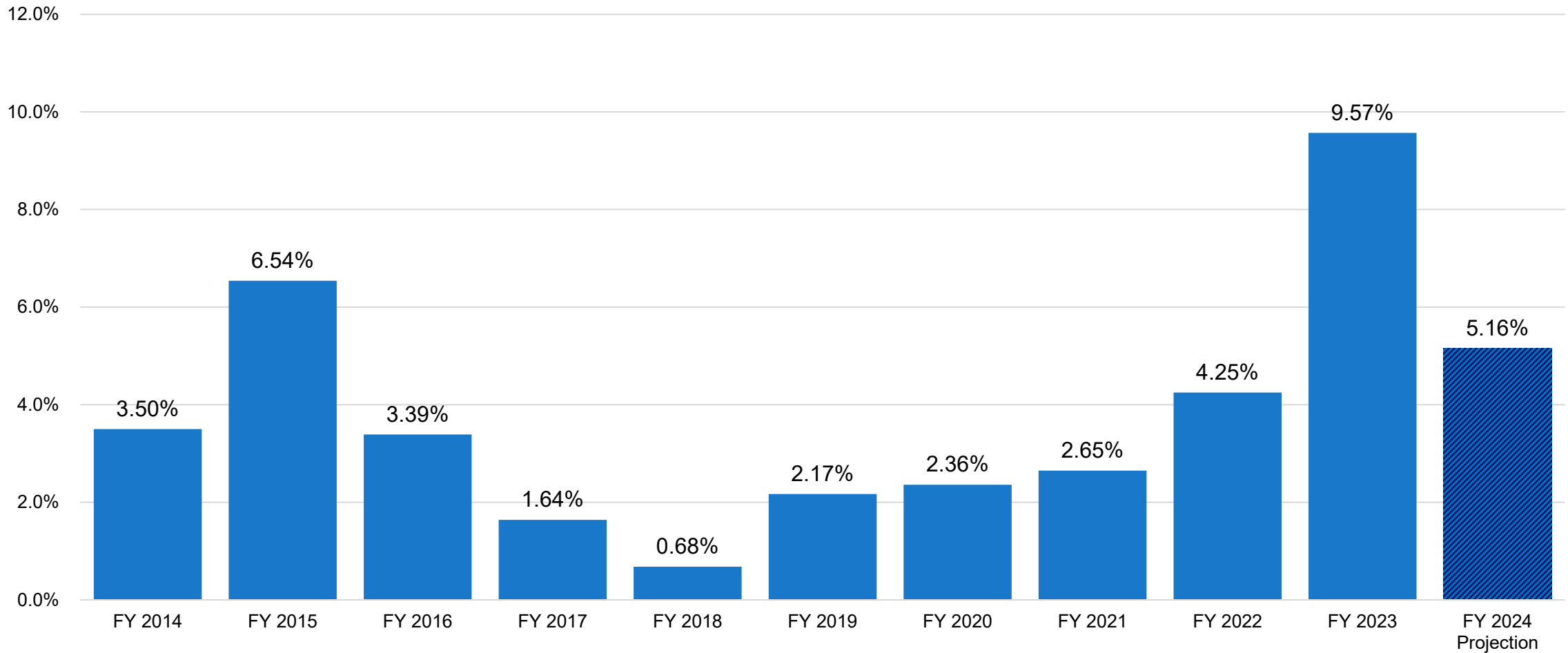
— Projections as of November 2022 —

# FY 2024 REAL ESTATE PROJECTIONS

- Real Estate tax is by far the largest source of revenue, comprising more than 67% of total General Fund revenue
- Increases in all categories expected to be moderated from prior year

Changes in Assessments	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Estimate as of Nov. 2022
Residential	2.65%	4.25%	9.57%	5.16%
Nonresidential	2.87%	(4.05%)	2.27%	0.61%
New Construction	1.06%	0.86%	0.85%	0.49%
<b>Total Real Estate base</b>	<b>3.77%</b>	<b>2.88%</b>	<b>8.57%</b>	<b>4.55%</b>

# ANNUAL CHANGES IN RESIDENTIAL EQUALIZATION





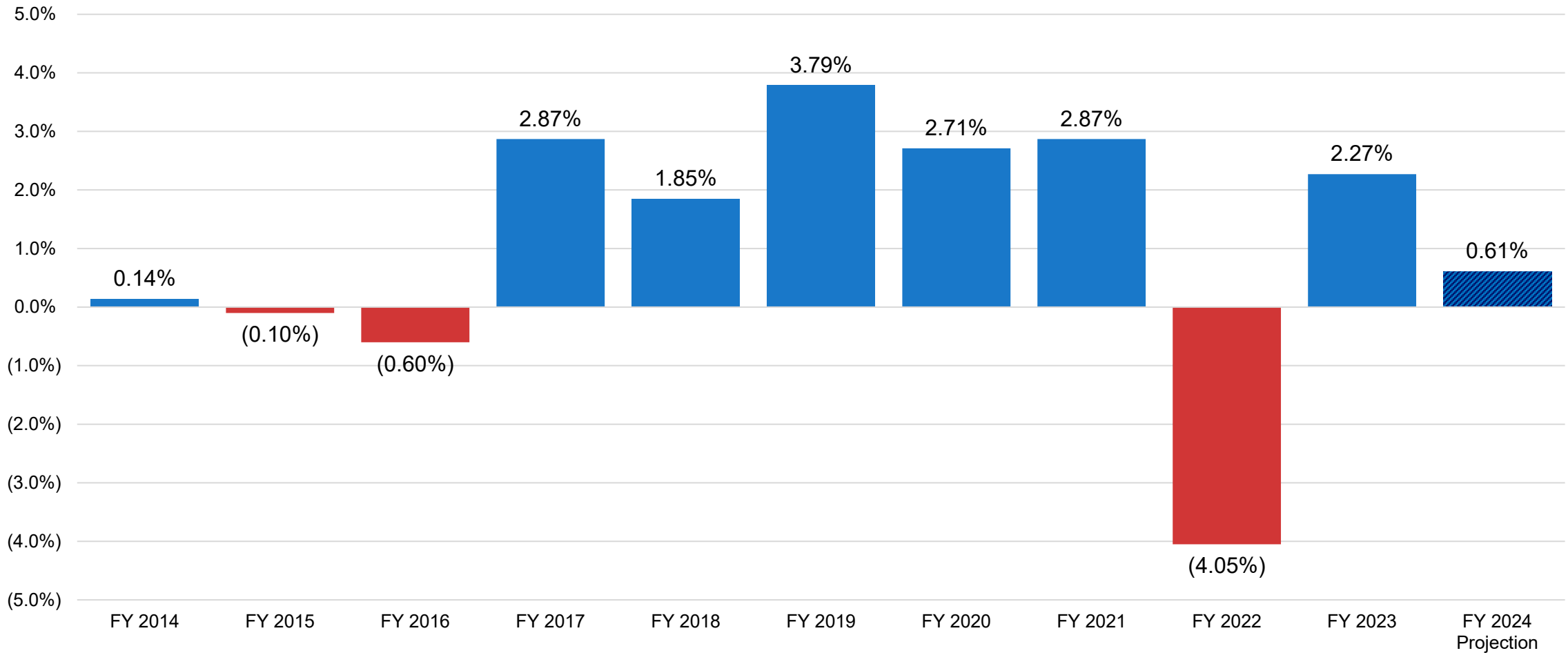
# FAIRFAX COUNTY'S HOUSING MARKET

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*Residential values are projected to increase 5.16% in FY 2024*

- **Through October 2022, the average sales price of all homes is up 7.4%, but the increases have been decelerating in more recent months as the market absorbed the impact of higher mortgage rates**
  - The growth rate in home sale prices is expected to flatten in 2023
- **Mortgage rates are increasing at the fastest rate since the early 1980s**
- **The 30-year fixed rate has increased significantly and averaged 7.08% during the week of October 27, diminishing housing affordability**
  - Freddie Mac forecasts 30-year fixed rate to average 6.4% in 2023
- **Through October, the number of home sales in the County is down 22.1%**
- **October average days on the market was 25 compared to 22 in October 2021**

# ANNUAL CHANGES IN NONRESIDENTIAL EQUALIZATION



# NON-RESIDENTIAL REAL ESTATE

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*Non-residential values are projected to increase only 0.6% in FY 2024*

- **Office Elevator properties are expected to decline between 5.5-6.5%**
  - Continued pressure on market as employees shifted to teleworking during pandemic
  - Vacancy rates are up 1.4% year-over-year
  - Expenses have increased as a result of inflation
- **Apartments are projected to increase 2-3%**
- **Retail is projected to increase 6-8%**
- **Hotels are projected to increase 10-15%**

# FY 2024 PROJECTIONS FOR OTHER COUNTY REVENUE CATEGORIES

## Tax Revenues

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Personal Property Tax – projected to be flat in FY 2024, pending more detailed staff analysis

- Assessment ratio of 85% used in FY 2023 to mitigate unprecedented valuation increases

BPOL – expected to be flat after a projected increase of 4.5% in FY 2023

Sales Tax – growth of 2.0% after a projected increase of 6.0% in FY 2023

Transient Occupancy Tax – increase of 10% after a projected increase of over 18% in FY 2023; projected revenue is still below FY 2019 level

## Non-Tax Revenues

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Investment Interest revenue – projected annual yield of 2.50%

- The Federal Reserve increased the Fed funds rate by another 75 basis points in October and moved it to a range of 3.75%-4.00%
- The Fed is expected to continue raising its funds rate through the end of the year, and potentially beyond

Stable FY 2024 outlook for revenue categories that recovered in FY 2023 from pandemic-related disruptions

# COUNTY REVENUE PROJECTIONS

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REVENUE CATEGORY	Change from FY 2023 Adopted
• Base Revenue Increase driven primarily by Real Estate growth	\$268.9 million
• Expanded Tax Relief for Seniors and the Disabled	(\$2.5) million
<b>TOTAL</b>	<b>\$266.4 million</b>

# SCHOOLS REVENUE PROJECTIONS

REVENUE CATEGORY	Change from FY 2023 Approved
<ul style="list-style-type: none"> <li>• <b>Beginning Balance</b> Based on funding set-aside at the FY22 Final Budget Review</li> </ul>	\$0.0 million
<ul style="list-style-type: none"> <li>• <b>State Revenue</b> Assumes state funding based on the adopted 2022-2024 biennial budget</li> </ul>	\$55.3 million
<ul style="list-style-type: none"> <li>• <b>Federal Revenue</b> Assumes federal funding is level with FY23.</li> </ul>	\$0.0 million
<ul style="list-style-type: none"> <li>• <b>Fairfax City and Other Revenue</b> Based on projected expenditures and assumes ADM enrollment is level</li> </ul>	\$1.0 million
<b>TOTAL</b>	<b>\$56.3 million</b>



# FY 2024 Forecast Summary

# PROJECTED AVAILABLE RESOURCES

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- **County revenue growth projected at 3.8% generates \$266.4 million**
  - Includes \$2.5 million reduction related to expanded tax relief program
- **To maintain equal growth for both the Schools and County, the net revenue increase of \$266.4 million is allocated as follows for disbursement requirements:**
  - Schools: \$139.0 million
  - County: \$127.4 million
- **In addition, Schools projects an increase in revenue of \$56.3 million**



# FY 2024 SUMMARY

<b>COUNTY</b>	<b>Funding in \$ millions</b>	<b>SCHOOLS</b>
\$127.4	Projected Available County Revenue	\$139.0
--	Net Projected Schools Revenue	\$56.3
<b>\$127.4</b>	<b>TOTAL AVAILABLE</b>	<b>\$195.3</b>
(\$158.8)	Employee Pay and Benefits	(\$113.5)
(\$9.5)	Debt Service	(\$0.4)
(\$5.0)	Joint CIP Recommendations	(\$5.0)
(\$35.3)	Other Adjustments	(\$120.2)
<b>(\$81.2)</b>	<b>NET PROJECTED BUDGETARY BALANCE/(SHORTFALL)</b>	<b>(\$43.8)</b>

# COUNTY SALARY AND BENEFITS

EXPENDITURE CATEGORY	Change from FY 2023 Adopted
<ul style="list-style-type: none"> <li>• <b>Market Rate Adjustment</b> Calculated at 5.44% per established formula</li> </ul>	\$87.0 million
<ul style="list-style-type: none"> <li>• <b>Performance/Longevity Increases for General County</b> Average of 2.06%, range from 0% to 4%</li> </ul>	\$16.5 million
<ul style="list-style-type: none"> <li>• <b>Merit/Longevity Increases for Uniformed Public Safety</b> Average of 2.39%, range from 0% to 5%</li> </ul>	\$16.6 million
<ul style="list-style-type: none"> <li>• <b>Benefits</b> Retirement rate adjustments, health insurance premiums, and OPEB</li> </ul>	\$30.7 million
<ul style="list-style-type: none"> <li>• <b>Market Study Placeholder</b> Placeholder funding to address benchmark study results</li> </ul>	\$8.0 million
<b>TOTAL</b>	<b>\$158.8 million</b>

# DEBT SERVICE AND OTHER COUNTY ADJUSTMENTS

EXPENDITURE CATEGORY	Change from FY 2023 Adopted
<ul style="list-style-type: none"> <li>• <b>Debt Service Requirements</b> Includes increased County bond sales from \$120 million to \$145 million and estimated debt service on special project financing</li> </ul>	\$9.5 million
<ul style="list-style-type: none"> <li>• <b>New Facilities</b> South County Police Station and Animal Shelter, Patrick Henry Shelter, Patriot Park North, Maintenance Requirements</li> </ul>	\$6.2 million
<ul style="list-style-type: none"> <li>• <b>Inflationary Pressures</b> Utility increases, Lease adjustments</li> </ul>	\$4.2 million
<ul style="list-style-type: none"> <li>• <b>Contract Rate Adjustments</b> Includes recurring impact for FASTRAN as well as placeholder for human services agencies</li> </ul>	\$11.3 million
<ul style="list-style-type: none"> <li>• <b>Other Requirements</b> Estimated requirements for Metro and Connector, Tysons Community Alliance and other recurring Carryover adjustments</li> </ul>	\$13.6 million
<b>TOTAL</b>	<b>\$44.8 million</b>

# SCHOOL SALARY AND BENEFITS

EXPENDITURE CATEGORY	Change from FY 2023 Approved
<ul style="list-style-type: none"> <li>• <b>Step for Eligible Employees</b> Average increase of 2.22% for employees</li> </ul>	\$56.7 million
<ul style="list-style-type: none"> <li>• <b>Market Scale Adjustment (MSA)</b> Provide a 3% MSA for all employees</li> </ul>	\$78.5 million
<ul style="list-style-type: none"> <li>• <b>Benefits</b> Retirement rate adjustments</li> </ul>	\$1.7 million
<ul style="list-style-type: none"> <li>• <b>Market Comparative Placeholder</b> Placeholder funding to address market comparative analysis recommendations</li> </ul>	\$2.0 million
<ul style="list-style-type: none"> <li>• <b>Base Savings</b> Position turnover</li> </ul>	(\$25.4) million
<b>TOTAL</b>	<b>\$113.5 million</b>

# SCHOOLS EXPENDITURE PROJECTIONS

REQUIRED ADJUSTMENTS	Change from FY 2023 Approved
<ul style="list-style-type: none"> <li>• <b>Enrollment</b> Assumes a projected increase of approximately 2,000 students</li> </ul>	\$28.7 million
<ul style="list-style-type: none"> <li>• <b>Contractual Increases</b> Cost escalation, utilities, major IT projects, facilities, inflation</li> </ul>	\$17.5 million
<ul style="list-style-type: none"> <li>• <b>Transfers to Other Funds</b> Construction equipment transfer, major maintenance, adult and community education</li> </ul>	\$4.9 million
<b>TOTAL</b>	<b>\$51.0 million</b>

# SCHOOLS EXPENDITURE PROJECTIONS

MULTIYEAR INVESTMENTS	Change from FY 2023 Approved
<ul style="list-style-type: none"> <li>• <b>HR Technology Infrastructure Project Year 2</b> Investment to update and fully-automate workflow system to support core operations for the entire Division</li> </ul>	\$9.6 million
<ul style="list-style-type: none"> <li>• <b>Joint Environmental Initiatives Year 2</b> Funding to address year two of a three-year plan to support carbon neutrality, Get2Green, and electric buses</li> </ul>	\$3.7 million
<ul style="list-style-type: none"> <li>• <b>Special Education Services Review Placeholder</b> Placeholder for the special education services review recommendations</li> </ul>	\$2.0 million
<ul style="list-style-type: none"> <li>• <b>Advanced Academic Program Year 3</b> Funding to support the final year of recommendations in response to an external review.</li> </ul>	\$1.4 million
<ul style="list-style-type: none"> <li>• <b>Special Education Elementary Teacher Leader Contract Days</b> Funding to address recurring cost of extend elementary special education teacher leader contract from 195-day to 209-day</li> </ul>	\$1.0 million
<ul style="list-style-type: none"> <li>• <b>Innovation Project at Lewis High School Year 2</b> Funding to support final year of specialized programming at Lewis HS</li> </ul>	\$0.4 million
<b>TOTAL</b>	<b>\$18.2 million</b>

# SCHOOLS EXPENDITURE PROJECTIONS

IDENTIFIED INVESTMENTS	Change from FY 2023 Approved
<ul style="list-style-type: none"> <li>• <b>Equitable Access Literacy Plan</b> Evidenced based Language Arts Basal Resources for all students in support of the division Equitable Access to Literacy Plan</li> </ul>	\$30.0 million
<ul style="list-style-type: none"> <li>• <b>Cybersecurity</b> Implementing a subset of the Center for Internet Security top 18 controls and a proactive framework-based approach to cybersecurity</li> </ul>	\$10.0 million
<ul style="list-style-type: none"> <li>• <b>Superintendent’s Strategic Reserve</b> Funding to address unforeseen divisionwide needs</li> </ul>	\$6.0 million
<ul style="list-style-type: none"> <li>• <b>FCPSOn PreK-2</b> Investment to support PreK-2 initiative</li> </ul>	\$5.0 million
<b>TOTAL</b>	<b>\$51.0 million</b>

# PAY ADJUSTMENT COMPARISONS

	COUNTY					SCHOOLS				
	General County (FCERS)	Fire & Rescue Uniformed (FCURS)	Police Uniformed (FCPORS)	Sheriff Uniformed (FCURS)	DPSC Uniformed (FCURS)	Teachers (VRS/ERFC)	Non-Teachers (VRS/ERFC)	Classroom Instructional Support (VRS/ERFC)	Trades/Custodial (FCERS)	Transportation Personnel (FCERS)
<b>FY 2023</b>	6.16%	9.31%	9.31%	9.31%	18.11%	6.68%	6.68%	6.68%	6.68%	8.68%
<b>FY 2022</b>	1.00%	1.00%	1.00%	1.00%	1.00%	2.00%	2.00%	4.24%	2.00%	5.70%
<b>FY 2021</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.32%	0.00%	0.00%
<b>FY 2020</b>	4.10%	4.35%	5.85%	4.35%	4.35%	6.36%	3.76%	6.24%	3.76%	3.76%
<b>FY 2019</b>	4.25%	4.50%	4.50%	7.50%	4.50%	6.38%	6.06%	6.06%	6.06%	6.06%
<b>TOTAL</b>	<b>15.51%</b>	<b>19.16%</b>	<b>20.66%</b>	<b>22.16%</b>	<b>27.96%</b>	<b>21.42%</b>	<b>18.50%</b>	<b>25.54%</b>	<b>18.50%</b>	<b>24.20%</b>
<b>Average</b>	<b>3.10%</b>	<b>3.83%</b>	<b>4.13%</b>	<b>4.43%</b>	<b>5.59%</b>	<b>4.28%</b>	<b>3.70%</b>	<b>5.11%</b>	<b>3.70%</b>	<b>4.84%</b>



# CAPITAL IMPROVEMENT PROGRAM (CIP) CHALLENGES

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- **Bids for current projects are coming in higher than anticipated**
  - Inflationary pressure and supply chain issues
  - Energy and environmental policies
- **These same pressures are impacting projections for future projects on bond plan**
  - Projects previously included on bond plan may need to be deferred
- **Rising interest rates also impacting debt service on bond sales**
- **Original Joint CIP Committee Recommendations included setting aside value of one penny on the Real Estate Tax Rate for debt service and paydown**
  - \$5 million was allocated in FY 2023 (split evenly between County and Schools)
  - Forecast includes additional \$10 million investment (also split evenly)

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# PRIORITIES NOT INCLUDED

## County

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Baseline funding for:

Information Technology Initiatives

Infrastructure Upgrades and Renewals

Increased investments in:

Affordable Housing

Early Childhood Initiatives

Environmental and Energy Programs

Program Expansions

## Schools

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Early Childhood Expansion

Math Curriculum Initiatives

Additional Cybersecurity Needs

# COUNTY STIMULUS FUNDING UPDATE

- **ARPA allocations currently total \$172.9 million, with \$50.0 million unallocated**
  - Does not include additional \$15 million allocation for Affordable Housing recently recommended by staff
  
- **Funds must be encumbered by December 2024 and spent by December 2026**
  
- **Stimulus Funding received by the County (including ARPA, CRF, FEMA reimbursements and other awards) totals \$762 million**

<b>Supporting Public Health Response</b>	
Contact Tracing Program	\$14,000,000
Behavioral Health Initiatives	\$2,000,000
School Health and Public Health Preparedness	\$8,000,000
Child Care	\$125,000
Fairfax Co-Responder Program	\$2,300,000
<b>Addressing Negative Economic Impacts</b>	
PIVOT Business Recovery Grant Program	\$17,236,300
THRIVE Small Business Recovery Technical Assistance Grant Program	\$7,000,000
Active and Thriving Community Grants Program	\$3,555,896
2022 Nonprofit Sustainability Grants	\$7,095,000
2022 Child Care Provider Grant Program	\$2,500,000
Affordable Housing Projects	\$30,000,000
Food Access Program	\$6,000,000
Capital Area Food Bank	\$5,000,000
Emergency Rental Assistance (ERA) Bridge Program	\$9,290,387
Job Training/Workforce Development	\$4,549,527
Economic Mobility Guaranteed Income Pilot	\$2,300,000
Homeless Shelters – Staffing Issues	\$2,000,000
<b>Provision of Government Services, to the Extent of the Loss of Revenue</b>	
Park Authority Support	\$32,522,122
FEMA Reimbursements Local Match	\$2,000,000
One-Time County Projects Placeholder (IT, Capital, Apparatus)	\$1,400,000
Replacement of Exterior Community Center Courts	\$2,300,000
Cybersecurity Support	\$5,000,000
Video Teleconference Solution	\$6,000,000
COVID-19 After Action Report	\$700,000
<b>Total Allocations</b>	<b>\$172,874,232</b>
<i>Unallocated</i>	<i>\$50,020,406</i>

# SCHOOLS ESSER III SPENDING UPDATE

- **FCPS ARPA ESSER allocations total \$188.8 million**
  - Funding is fully allocated using an intentional multi-year plan
  - As of September 30<sup>th</sup>, 40% of funding has been expended or obligated
- **Funds must be spent by September 2024**
- **Over 88% of funding was allocated to support interventions and learning loss for students**

FCPS ESSER III by Program as of 9/30/2022						
Program Number	Program Description	FY22 Actual Expenditures	FY23 Revised Budget	FY23 Exp/Obligations	FY24 Budget	Total ESSER Budget
1	Intervention Special Education Teacher Contracts	20,011,005	23,749,547	3,369,840	-	43,760,552
2	Wellness Intervention	4,378,187	17,305,961	746,937	-	21,684,149
3	Family Liaison	3,198,579	-	15,180	-	3,198,579
4	Grow Your Own Pathway Professional Development	156,572	1,737,683	137,752	621,247	2,515,502
5	Equity PD for School Teams	-	809,043	1,060	762,338	1,571,381
6	Graduation Requirements Summary Analysis and Reporting Tool	-	210,000	149,875	210,000	420,000
7	Family and School Partnerships Specialist	113,082	166,406	39,840	139,744	419,232
8	Equity PD for Equity Leads	-	-	-	46,705	46,705
9	Academic Intervention	13,162,318	37,211,583	2,821,703	-	50,373,901
10	Summer Learning Program (Summer 2022)	32,105	18,057,198	11,476,901	-	18,089,303
11	Afterschool Programming and Transportation HS	2,060,705	5,552,841	519,930	4,665,741	12,279,287
12	Compensatory Services	43,060	111,525	-	92,777	247,361
13	Mitigation Measures Team	858,690	455,472	-	-	1,314,162
14	IT Cybersecurity	278,678	6,721,323	44,240	2,000,000	9,000,000
15	Bandwidth & Zoom Licenses Fees	382,420	1,617,580	1,089,173	-	2,000,000
16	Indirect Rates	93,872	1,151,206	256,386	622,539	1,867,616
17	Translators	73,919	496,322	130,970	470,857	1,041,098
18	Multilingual Engagement Communications (OCCR)	42,808	291,523	48,577	281,407	615,739
19	Grants Administration	-	-	-	402,545	402,545
20	Budget Analyst	-	158,300	-	138,371	296,671
21	Multilingual Texting Service	-	300,000	-	-	300,000
22	Multilingual Interpretation Services	43,749	156,251	379,001	-	200,000
23	Hourly multilingual interpreter compensation	156,800	-	-	-	156,800
24	Online Translation Service for Written Communication	-	-	-	-	-
25	ESSER III Project Management Team	153,346	781,267	159,743	686,699	1,621,313
26	Bus Drivers Compensation and Stipends	2,507,156	520,942	2,667	-	3,028,098
27	Classroom, Outdoor & Dining Monitors	5,863,844	6,000,000	513,311	-	11,863,844
28	ESOL Staffing	131,423	38,515	6,822	-	169,937
29	School Health	48,798	230,556	40,410	-	279,354
<b>Total</b>		<b>53,791,116</b>	<b>123,831,043</b>	<b>21,950,317</b>	<b>11,140,969</b>	<b>188,763,129</b>

# LOOKING AHEAD

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- **Recruitment and retention of employees expected to remain a significant challenge**
- **Must monitor economic changes to determine impact on revenue**
  - High mortgage rates will continue to impact residential Real Estate market
- **Inflation and rising interest rates will impact debt service requirements, capital project timelines and costs**
  - Out-year CIP projects will be reviewed for affordability
- **FY 2025 will be first budget year impacted by collective bargaining**

# BUDGET TIMELINE

COUNTY DATES		FCPS DATES
	Superintendent releases FY 2024 Proposed Budget	January 12, 2023
	School Board holds public hearings on budget (January 24 if needed)	January 23, 2023
	School Board adopts FY 2024 Advertised Budget	February 23, 2023
February 21, 2023	County Executive presents FY 2024 Advertised Budget	
February 28, 2023	Joint County/Schools Budget Committee Meeting to discuss FY 2024 budget and tax rate	February 28, 2023
March 7, 2023	Board of Supervisors advertises FY 2024 tax rates	
April 11-13, 2023	Board of Supervisors holds public hearings on FY 2024 Budget	
May 2, 2023	Board of Supervisors marks up FY 2024 Budget	
May 9, 2023	Board of Supervisors adopts FY 2024 Adopted Budget	
	School Board holds public hearings on budget	May 16, 2023
	School Board adopts FY 2024 Approved Budget	May 25, 2023
July 1, 2023	FY 2024 Budget Year begins	July 1, 2023