



FY 2025 BUDGET FORECAST

Joint Meeting of the
Board of Supervisors
and School Board

November 28, 2023



Preface

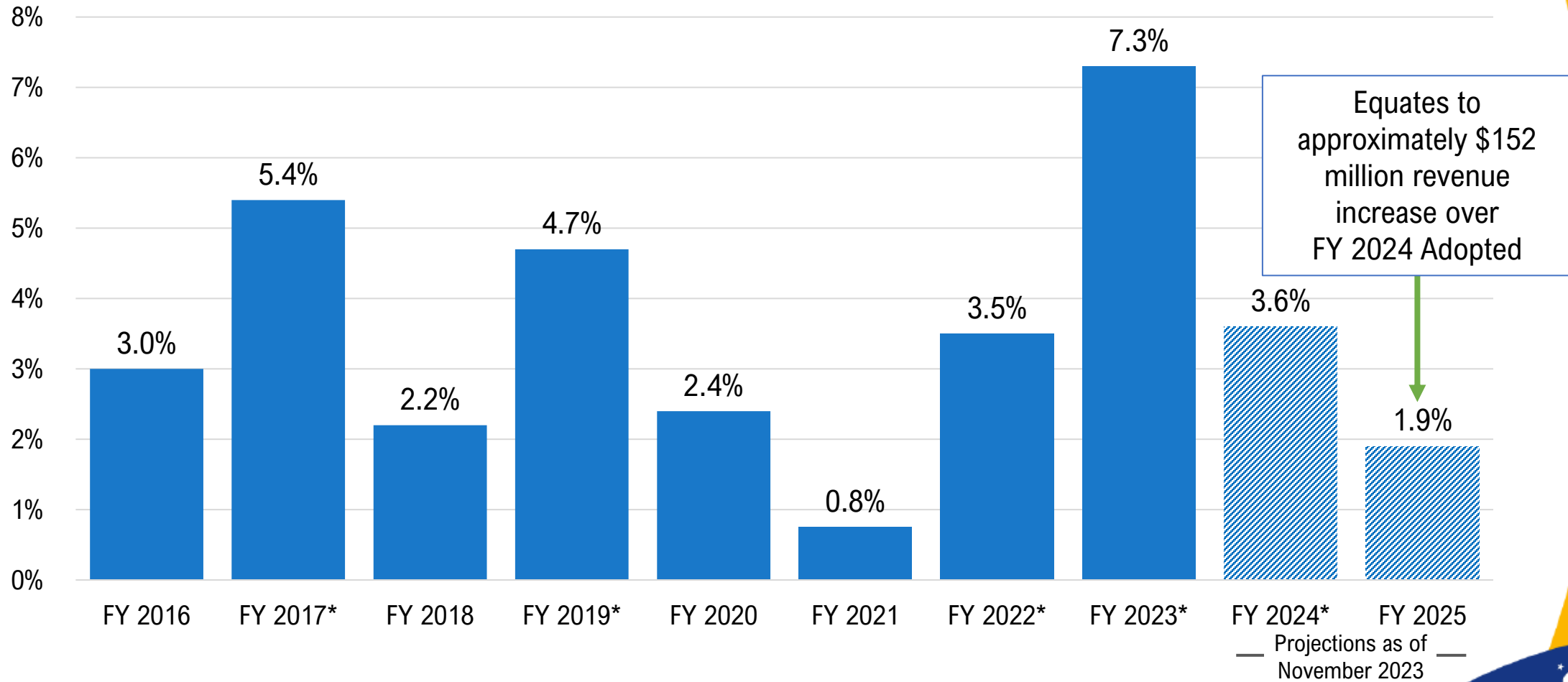
- Forecast includes early estimates of available revenues based on current information
 - Projections based on existing tax rates
- Relatively flat Real Estate market is impacting assessment growth
- Focus is on the largest disbursement requirements, including collective bargaining agreements, continued investments in employee salaries and benefits, and Metro
- 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 25, 2024
 - County Executive's Advertised Budget release on February 20, 2024

Global Impacts on Local Economy

The U.S. economy has continued to grow solidly despite tightening monetary policy; however, economic performance in the Washington Metro region has trailed the nation

- Factors impacting the local economy:
 - Inflation has come down, but is still above target; continued Federal Reserve tight monetary policy
 - Elevated mortgage interest rates impact housing affordability and availability
 - Office vacancies up due to structural shift toward hybrid model and remote work, impacting property assessed values
 - Consumer spending is on a downward trend; pandemic savings are being depleted and consumer debt is up
 - Federal deficits/rising federal debt service impact federal procurement spending
 - Geopolitical conflicts generated by the war in Ukraine and the Middle East
 - Recession monitoring
- Revenue projections assume positive forecasted GDP growth
 - Slow job growth, with unemployment rate steady

Annual Change in General Fund Revenue FY 2016 - FY 2025



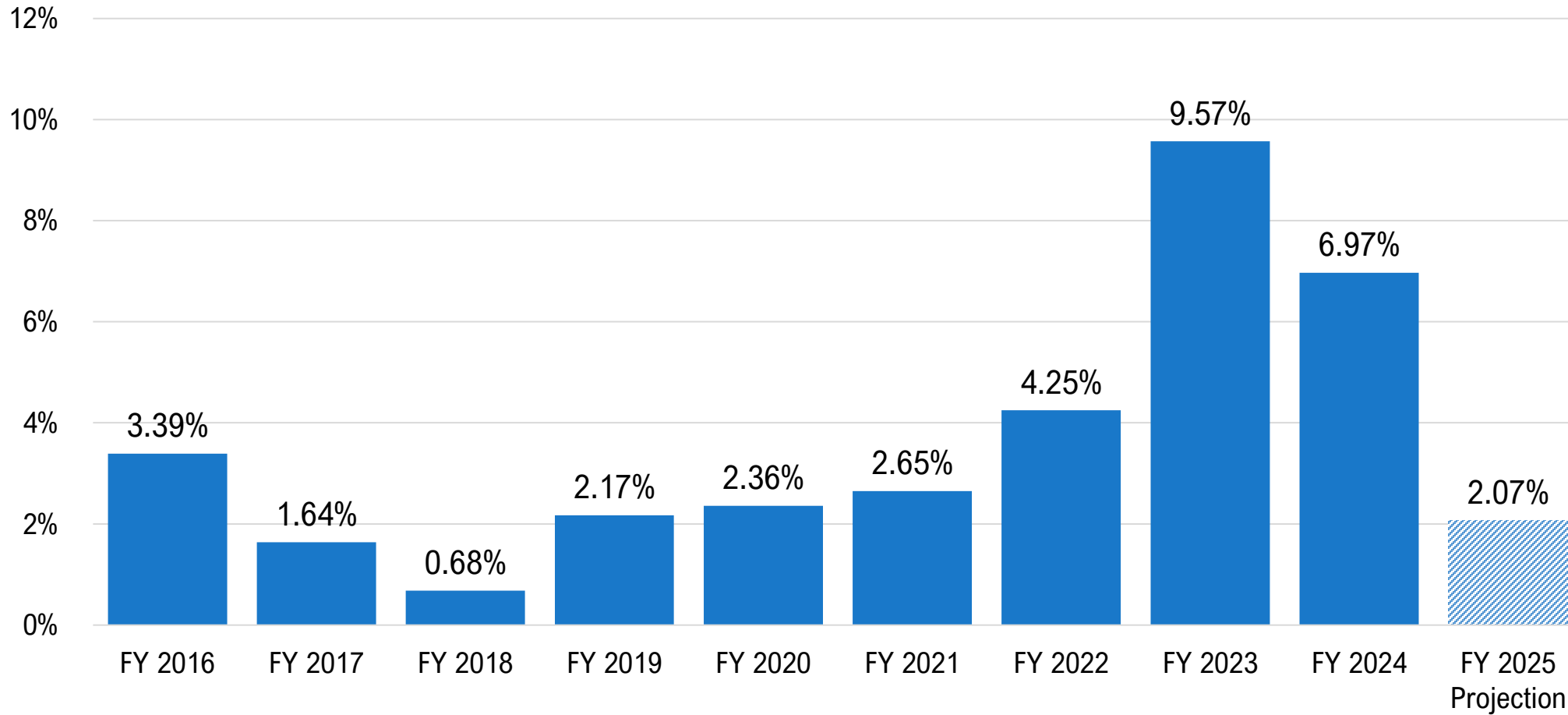
* Revenue change includes impact of real estate tax rate adjustments
Growth rates exclude the impact of one-time federal stimulus in FY 2020, FY 2021, and FY 2022

FY 2025 Real Estate Projections

- Substantially lower growth in the real estate tax base is projected for FY 2025
- Residential real estate market is softening due to high mortgage rates
 - However, exceptionally low supply has helped keep values up
- Non-residential values are projected to decline primarily driven by accelerating losses in office property values

Changes in Assessments	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate as of Nov. 2023
Residential	4.25%	9.57%	6.97%	2.07%
Nonresidential	(4.05%)	2.27%	1.65%	(1.60%)
New Construction	0.86%	0.85%	0.91%	0.47%
Total Real Estate base	2.88%	8.57%	6.59%	1.68%

Annual Changes in Residential Equalization

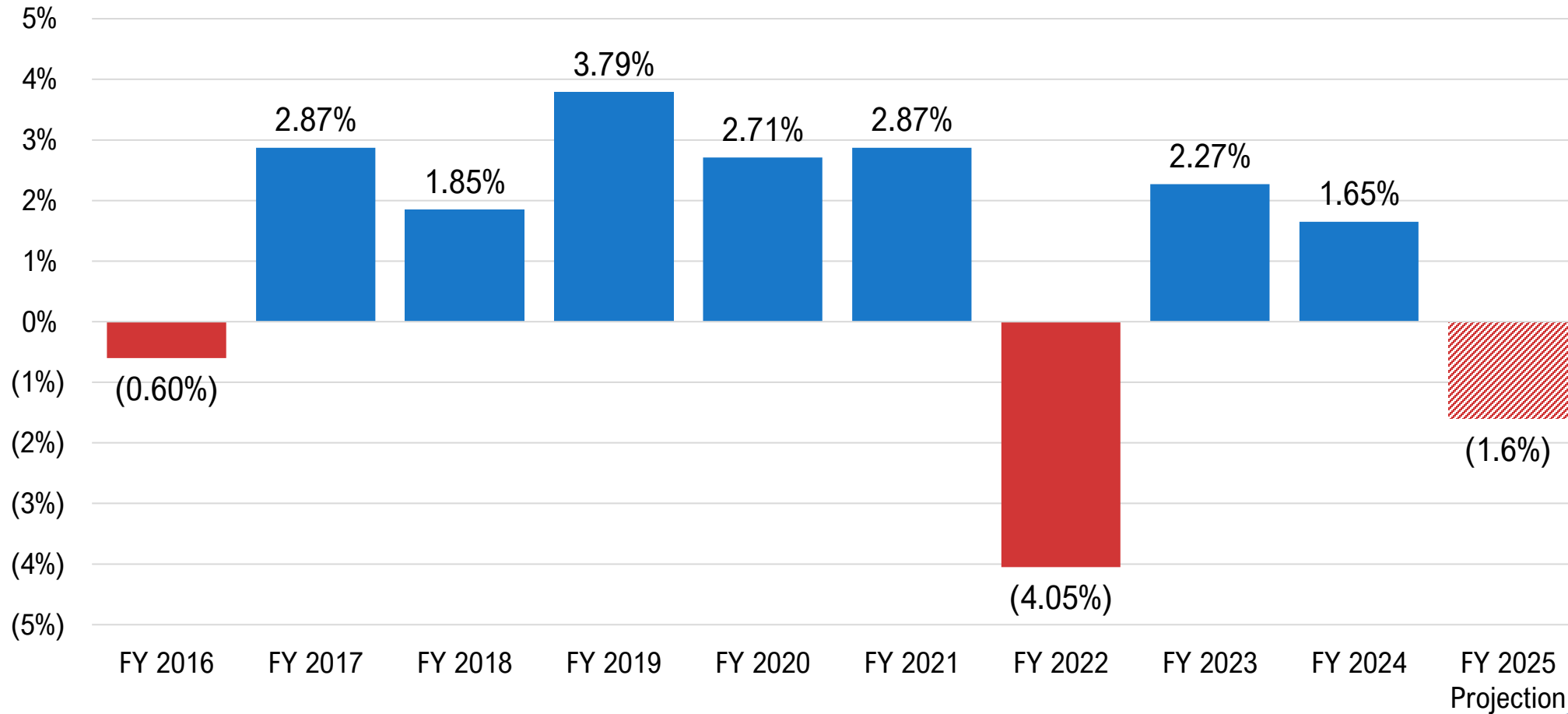


Fairfax County's Housing Market

Residential values are projected to increase 2.07% in FY 2025

- According to BrightMLS, the average sales price of all homes is up 3.3% through October 2023
- Mortgage rates reached 8% in October, significantly diminishing housing affordability
- Through October, the number of home sales in the County is down over 23% compared to a year ago
 - The number of active listings for sale is down almost 33%
- October average days on the market was 17 compared to 25 in October 2022

Annual Changes in Nonresidential Equalization



Non-residential Real Estate

Non-residential values are projected to decrease 1.6% in FY 2025

- Office Elevator properties are expected to decline in value between 7.5-9.0%
 - Continued pressure on market due to stalled return to office and teleworking
 - Vacancy rates are up 1.2% year-over-year
 - Expenses have increased as a result of inflation; cap rates have also increased
- Multi-family property values are expected to increase 2% after substantial increases in 2021 and 2022
- Retail property values are projected to increase 2%
- Hotels are projected to increase 10-15%

FY 2025 Projections for Other County Revenue Categories

Tax Revenues

- Personal Property Tax – preliminary analysis indicates car values are down compared to January 2023
 - Assessment ratio of 90% used in FY 2024 to mitigate unprecedented valuation increases
- BPOL – expected to increase 1.5% in FY 2024 and FY 2025
- Sales Tax – growth of 1.0% in FY 2025 after a projected increase of 1.6% in FY 2024
- Transient Occupancy Tax – increase of 2.0% in FY 2025 after a projected increase of 3.7% in FY 2024

Non-Tax Revenues

- Investment Interest revenue – projected annual yield of 4.00%
 - The Federal Reserve has kept the Fed funds rate unchanged in the last 2 meetings at a range of 5.25%-5.50%
 - The Fed is expected to keep the rate elevated until inflation aligns more closely with the 2% target
- Many General Fund user fees are under review for potential revenue enhancements to align with surrounding jurisdictions and account for cost increases

Schools Revenue Projections

REVENUE CATEGORY	CHANGE FROM FY 2024 APPROVED
<ul style="list-style-type: none"> • Beginning Balance Assumes funding will be set aside at the same level as FY 2024 	\$0.0 million
<ul style="list-style-type: none"> • County Transfer Assumes County transfer is level with FY 2024 	\$0.0 million
<ul style="list-style-type: none"> • State Revenue Assumes projected increase of 6.9 percent 	\$64.6 million
<ul style="list-style-type: none"> • Federal Revenue Assumes federal funding is level with FY 2024 	\$0.0 million
<ul style="list-style-type: none"> • Fairfax City Based on projected expenditures 	\$1.6 million
TOTAL	\$66.1 million

Projected Available Resources

- County revenue growth projected at 1.9% generates \$152.3 million
- In addition, Schools projects an increase in revenue of \$66.1 million

FY 2025 Summary

COUNTY	Funding in \$ millions	SCHOOLS
--	Projected Schools Revenue	\$66.1
(\$180.5)	Employee Pay and Benefits	(\$166.1)
(\$17.4)	Debt Service and Capital Requirements	(\$10.9)
(\$16.0)	Metro	--
(\$29.4)	Other Adjustments	(\$102.6)
\$20.0	Reductions	--
(\$223.3)	TOTAL	(\$213.5)

With County revenues estimated to increase \$152.3 million, there is a **combined net projected budgetary shortfall of \$284.5 million**

Collective Bargaining Agreements

- Negotiations with IAFF and SSPBA started in spring
- 3-year agreements reached with both unions
 - Two items taken to arbitration with SSPBA
- Membership of both unions ratified agreements in November
- Agreements will be presented to the Board at its December 5 meeting for approval
- Contract provisions take effect on or before July 1, 2024

Police Bargaining Unit (SSPBA)

- Base pay
 - 3% scale adjustment
 - 2% COLA (or funded MRA, if higher)
 - Merit and longevity increases including a new 10-year longevity step
- Other provisions such as
 - Full-day holiday for Christmas Eve
 - Education incentive plan
 - Detective and operational hazard stipends
 - Foreign language stipend
- Total FY 2025 cost of up to \$37.5 million
 - \$29.7 million cost of contract with 2.0% COLA
 - \$5.8 million additional cost if 4.1% MRA is funded
 - \$2.0 million due to full-year impact of FY 2024 compensation adjustments

Fire and Emergency Services Bargaining Unit (IAFF)

- Redesigned pay plans with 26 steps
 - Increased minimum pay of Firefighter to \$67,400
 - Increased minimum pay of Public Safety Communicator to \$52,400
 - Includes a 3 percent scale adjustment in addition to any impact of being slotted to the new pay scale
 - Merit increases with elimination of longevity steps and holds
- Other provisions such as
 - Full-day holiday for Christmas Eve
 - Education incentive plan
 - Specialty training for TROT and HAZMAT
- Total FY 2025 cost of \$23.7 million
 - \$21.8 million cost of contract
 - \$1.9 million due to full-year impact of FY 2024 compensation adjustments

Metro

- Metro has projected a deficit of \$750 million in FY 2025
 - Ridership loss during the pandemic
 - Spenddown of one-time stimulus funds
 - Shift to teleworking
- Potential scenarios to reduce this deficit include:
 - Fare increases
 - Cost efficiencies
 - Service reductions
 - Preventative maintenance transfers
 - Increased jurisdictional support
- Impact to Fairfax County operating subsidy estimated between \$39 and \$77 million
 - Estimated General Fund impact could range from \$16 to \$55 million after applying other resources, including gas tax revenue and state aid
- Metro General Manager will release FY 2025 Budget in December 2023
- Working groups from MWCOG and NVTC reviewing options to develop future Metro operating budgets

County Salary and Benefits

EXPENDITURE CATEGORY	CHANGE FROM FY 2024 ADOPTED
• Police Bargaining Unit (SSPBA)	\$37.5 million
• Fire and Emergency Services Bargaining Unit (IAFF)	\$23.7 million
• Impacts of Collective Bargaining Agreements on Non-Represented Employees	\$4.7 million
• Market Rate Adjustment for Non-Represented Employees Calculated at 4.10% per established formula	\$48.4 million
• Performance/Longevity Increases for General County Average of 1.91%, range from 0% to 4%	\$17.9 million
• Merit/Longevity Increases for Non-Represented Uniformed Public Safety Average of 2.45%, range from 0% to 5%	\$2.1 million
• Market Study Placeholder	\$11.8 million
• Retirement Rate Adjustments	\$34.4 million
TOTAL	\$180.5 million

Debt Service, Metro and Other County Adjustments

EXPENDITURE CATEGORY	CHANGE FROM FY 2024 ADOPTED
<ul style="list-style-type: none"> • Metro Operating Subsidy General Fund support is estimated to increase between \$16 and \$55 million 	\$16.0 million
<ul style="list-style-type: none"> • Debt Service and Capital Requirements Includes County bond sales of \$145 million, estimated debt service on special project financing and contributions to the Northern Virginia Regional Park Authority 	\$17.4 million
<ul style="list-style-type: none"> • Contract Rate Adjustments Includes human service agencies, Connector, and other service providers 	\$25.0 million
<ul style="list-style-type: none"> • Other Requirements Includes requirements based on Board budget guidance and recurring Carryover adjustments 	\$4.4 million
TOTAL	\$62.8 million

County Agency Reductions

- County agencies submitted reduction options totaling 7 percent of their budgets
- Reductions are currently being reviewed to determine most feasible options
 - Focus on efficiencies and eliminating long-term vacant positions
- Conservative estimate of \$20 million in savings to be realized
- Concurrently reviewing user fees for potential adjustments

Schools Salary and Benefits

EXPENDITURE CATEGORY	CHANGE FROM FY 2024 APPROVED
<ul style="list-style-type: none"> • Compensation Increase of 6% Provide a 6% compensation increase for all employees 	\$172.7 million
<ul style="list-style-type: none"> • Benefits Retirement and Health Rate Changes 	\$19.1 million
<ul style="list-style-type: none"> • Base Savings Position turnover 	(\$25.7) million
TOTAL	\$166.1 million

Schools Required Adjustments

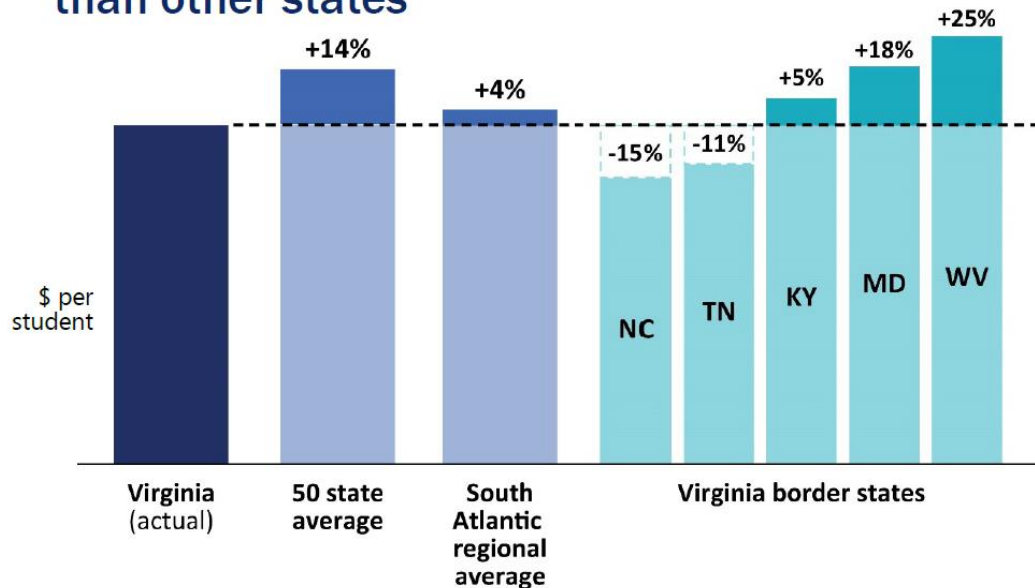
EXPENDITURE CATEGORY	CHANGE FROM FY 2024 APPROVED
<ul style="list-style-type: none"> • Enrollment and Student Needs Assumes student needs are expected to grow as a result of increases ESOL services, special education services, and eligibility for free or reduced-price meals 	\$17.1 million
<ul style="list-style-type: none"> • Contractual Increases Cost escalation, utilities, major IT projects, facilities, inflation 	\$9.9 million
<ul style="list-style-type: none"> • 2% Compensation Adjustment effective January 1, 2024 Full year impact of the state’s compensation adjustment 	\$57.6 million
<ul style="list-style-type: none"> • Baseline Recurring Adjustments Fine arts stipends, winter cheer, certified athletic trainers, achievement gap strategies, Administrators/Schedule C retention and recruitment adjustment 	\$10.5 million
<ul style="list-style-type: none"> • Transfers to Other Funds Turf and Debt service lease payment for gatehouse administrative center 	\$2.1 million
TOTAL	\$97.1 million

Schools Multiyear Investments

EXPENDITURE CATEGORY	CHANGE FROM FY 2024 APPROVED
<ul style="list-style-type: none"> • Joint Environmental Initiatives Year 3 of 3 Funding to address the final year of a three-year plan to support carbon neutrality, Get2Green, and electric buses 	\$1.8 million
<ul style="list-style-type: none"> • HR Technology Infrastructure Project Year 3 of 3 Investment to update and fully-automate workflow system to support core operations for the entire Division 	\$1.1 million
<ul style="list-style-type: none"> • Certified Athletic Trainers Year 2 of 5 Funding to address the second year of a 5-year plan to provide one additional certified athletic trainer at each of the 25 high schools 	\$0.6 million
<ul style="list-style-type: none"> • Position Conversion Family Liaison Year 2 of 4 Position conversion of existing family liaison funding to establish budgeted positions 	\$0.0 million
<ul style="list-style-type: none"> • Inclusive Preschool Expansion Funding to accommodate inclusive preschool classrooms 	\$2.0 million
TOTAL	\$5.5 million

2023 JLARC STUDY

Virginia divisions receive less funding per student than other states



NOTE: Adjusted, FY20 data. Includes funding for K-12 operations from all sources (federal, state, and local). Analysis controls for differentials in statewide cost of labor.

Source: 2023 JLARC Study

- Virginia school divisions receive less funding per student than the 50-state average and the regional average.
 - Many of Virginia's neighboring states spend more per pupil, including West Virginia, Kentucky, and Maryland.

2023 JLARC STUDY

- Standards of Quality (SOQ) formula calculations result in substantially less funding than actual K–12 spending and benchmarks in FY21
 - SOQ formula calculated divisions needed \$10.7 billion.
 - Divisions spent \$17.3 billion, or \$6.6 billion more than the funding formula indicated was needed.
 - The vast majority of the additional funding for school divisions comes from local governments.
- The SOQ formula does not adequately account for higher needs student or account for local labor costs.

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Priorities Not Included

County

- Baseline funding for:
 - Information Technology Initiatives
 - Infrastructure Upgrades and Renewals
- Increased investments in:
 - Affordable Housing
 - Environmental and Energy Programs
 - Basic Needs Assistance
- Program Expansions

Schools

- Impact of federal government lowering the CEP percentage from 40% to 25%
- Implementation of secondary security audit recommendations
- Market Comparative Placeholder
- ESSER funded initiatives (e.g., special education teacher 30 minutes)
- Expansion of Middle School Athletics
- Expansion of Lighthouse Schools
- Special Education Enhancement Plan
- Fine Arts Stipend Review

Looking Ahead

- Must monitor economic changes to determine impact on revenue
- Continue to monitor employee retention and recruitment
- Ongoing discussions regarding Metro budget
- Staff will continue to evaluate revenue trends and identify savings where possible

Budget Timeline

	COUNTY	FCPS	STATE
Governor introduces state budget			December 20
Superintendent releases FY 2025 Proposed Budget		January 25	
School Board holds public hearings on budget (February 6 if needed)		February 5	
County Executive presents FY 2025 Advertised Budget	February 20		
School Board adopts FY 2025 Advertised Budget		February 22	
Joint County/Schools Budget Committee Meeting to discuss FY 2025 budget and tax rate	February 27	February 27	
Board of Supervisors advertises FY 2025 tax rates	March 5		
Board of Supervisors holds public hearings on FY 2025 Budget	April 16-18		
Board of Supervisors marks up FY 2025 Budget	April 30		
Board of Supervisors adopts FY 2025 Adopted Budget	May 7		
School Board holds public hearings on budget		May 14	
School Board adopts FY 2025 Approved Budget		May 23	
FY 2025 Budget Year begins	July 1	July 1	July 1