

Joint Meeting of the Fairfax County Board of Supervisors and the Fairfax County School Board



NOVEMBER 29, 2011

Our Budget



- **Fairfax County's total budget (\$6.1 billion in FY 2012) is larger than the budgets of several states**
- **61.6% of total General Fund revenue comes from Real Estate Taxes**
- **FY 2012 General Fund budget is \$3.4 billion**
 - 52.5% goes to Fairfax County Public Schools
- **Fairfax County has a Triple A bond rating from the three major rating agencies**
 - One of only 8 states, 39 counties, and 33 cities currently have this coveted rating (as of October 2011)
 - Provided savings to the County of over \$486 million

How We Are Different



- **We are a full-service County**
- **Virginia is a Dillon Rule state**
 - Counties have only those powers expressly granted to them by the General Assembly
 - Limits locality's flexibility to raise revenue and diversify tax base
 - If Fairfax County had the same taxing authority as surrounding cities, over \$100 million could be generated, enough to lower the real estate tax by 5 cents
- **Tax Structure**
 - State limits/controls/caps nearly 90 percent of the County's non-real estate tax revenue
 - State levies and collects all income tax



Perspective

Jobs

- 584,000 jobs in Fairfax County

Office Space

- 113.4 million square feet countywide
 - more space than Miami, San Diego, Oakland, Charlotte and Kansas City
- Tysons Corner alone is home to 26.6 million square feet of office space



Spending Reductions and Savings



- **The County has reduced spending through:**
 - Across-the-Board reductions
 - Program elimination
 - Service hour modification
 - Specific agency budget cuts
- **The County has reduced paydown project funding as well as new IT investment**
- **The County has maximized savings from current years and reserved ending balances from previous budget years to meet fiscal requirements**
 - In other years, where balances resulted, the County has established and funded additional reserves
- **The County has managed the real estate tax rate with the affordability to the homeowner in mind**

Compensation and Positions



- **Since 1992:**
 - All or a portion of employee compensation increases were eliminated in 5 fiscal years (FY 1992, FY 1993, FY 2010, FY 2011, FY 2012)
 - The ratio of County positions per 1,000 residents has decreased from 13.57 to 11.09, an 18.3% decrease. At the same time, the County has opened a large number of new facilities, including police and fire stations, SACC centers, and human service facilities.

Community Input

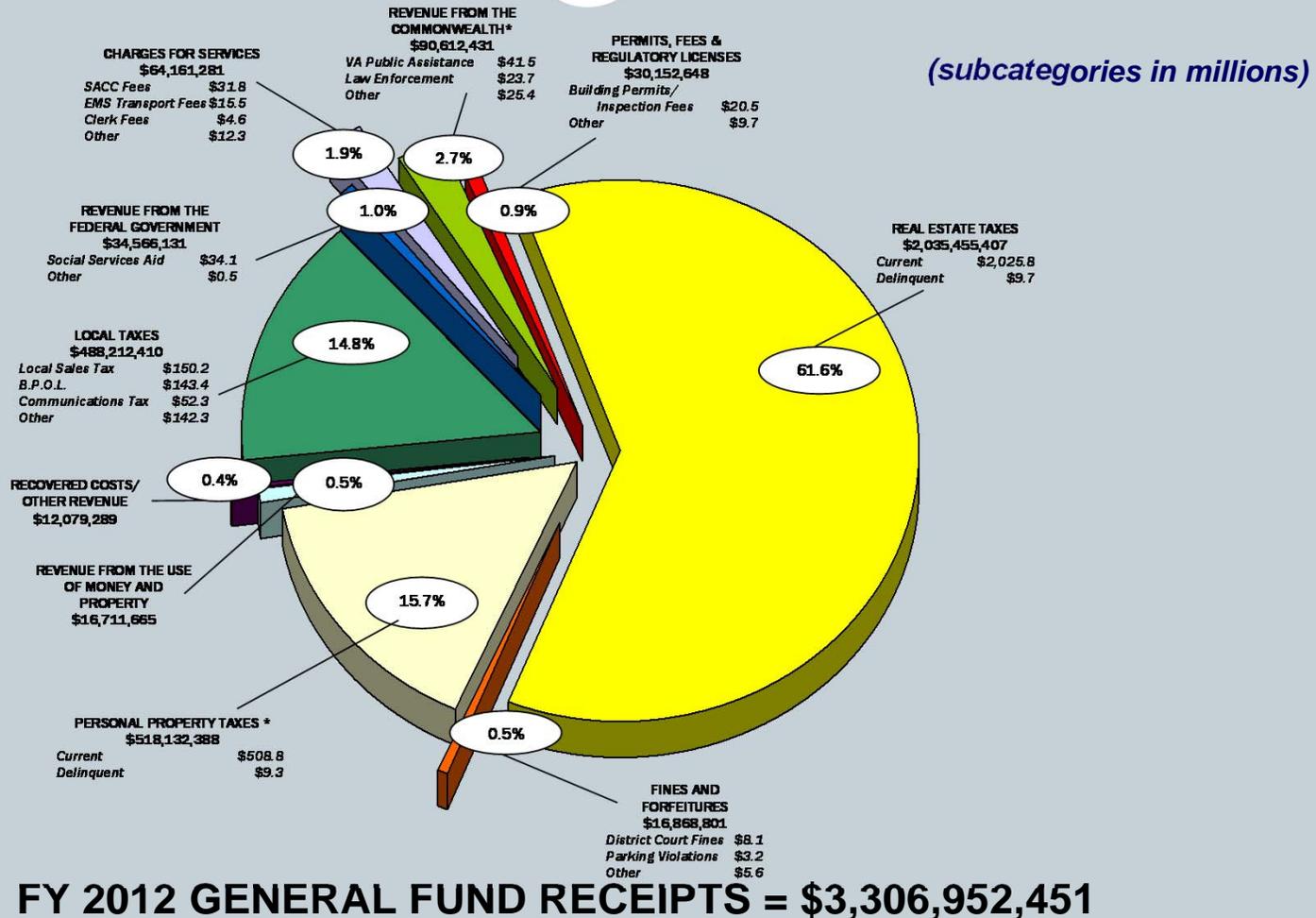


- **Budget decision-making has benefited from:**
 - Lines of Business-type reviews
 - Citizen budget committees – by district and countywide
 - Community dialogues
 - Online feedback from citizens

Economic Outlook and Revenue



FY 2012 General Fund Receipts: ("Where It Comes From")



* For presentation purposes, Personal Property Taxes of \$211,313,944 that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property Taxes category.

National Economy – Where We Have Been



- **Great Recession (December 2007 – June 2009)**
 - more severe and recovery weaker than last 3 recessions
- **8 million jobs lost during the recession**
 - Unemployment rate peaked at 10.1% in October 2009
- **Economy contracted for 4 consecutive quarters in 2008 and 2009**
 - GDP dropped 8.9% in Q4 2008 and 6.7% in Q1 2009
- **Consumer Confidence hit record lows in 2009**
- **Inflation remained in check**

Local Economy – Where We Have Been



- **Northern Virginia lost over 68,000 jobs during the downturn (from peak in June 2008 to low in February 2010)**
 - Unemployment rate reached 5.9% in January 2010
- **Fairfax County's unemployment rate peaked at 5.6% in January 2010**
 - Prior to the downturn, it was 2.2% in 2007 and 2.9% in 2008
 - Never exceeded 4% in the last 3 recessions
 - Over 33,000 unemployed residents
- **Foreclosures in Fairfax County peaked in September 2008 at 2,257**

National Economy – Current Conditions



- **US economy grew in the third quarter of 2011 at its fastest pace in a year, supported by:**
 - Consumer spending
 - Business Investment
- **Job Growth has averaged 125,000 per month over the past 12 months**
- **Unemployment rate in narrow range from 9.0% to 9.2% since April 2011**
 - 13.9 million unemployed persons
- **Case-Shiller Home Price Index for the nation still declining**
 - Dropped 3.8% in August 2011 from a year earlier

Local Economy – Current Conditions



- **Job Growth**
 - NoVa. experiencing job growth each month since April 2010 compared to the same month the previous year
 - NoVa. unemployment rate at 4.8% in Sept 2011
- **Fairfax County's unemployment rate at 4.6% in September 2011**
 - Almost 28,000 unemployed residents
- **As of September 2011, 746 foreclosed homes in Fairfax County**
 - Down from 873 in September 2010
 - Up from 670 in May 2011
 - Less than $\frac{1}{4}$ of 1% of all homes in the County

Unemployment Rates



- **Fairfax County's Unemployment Rate is Stable**

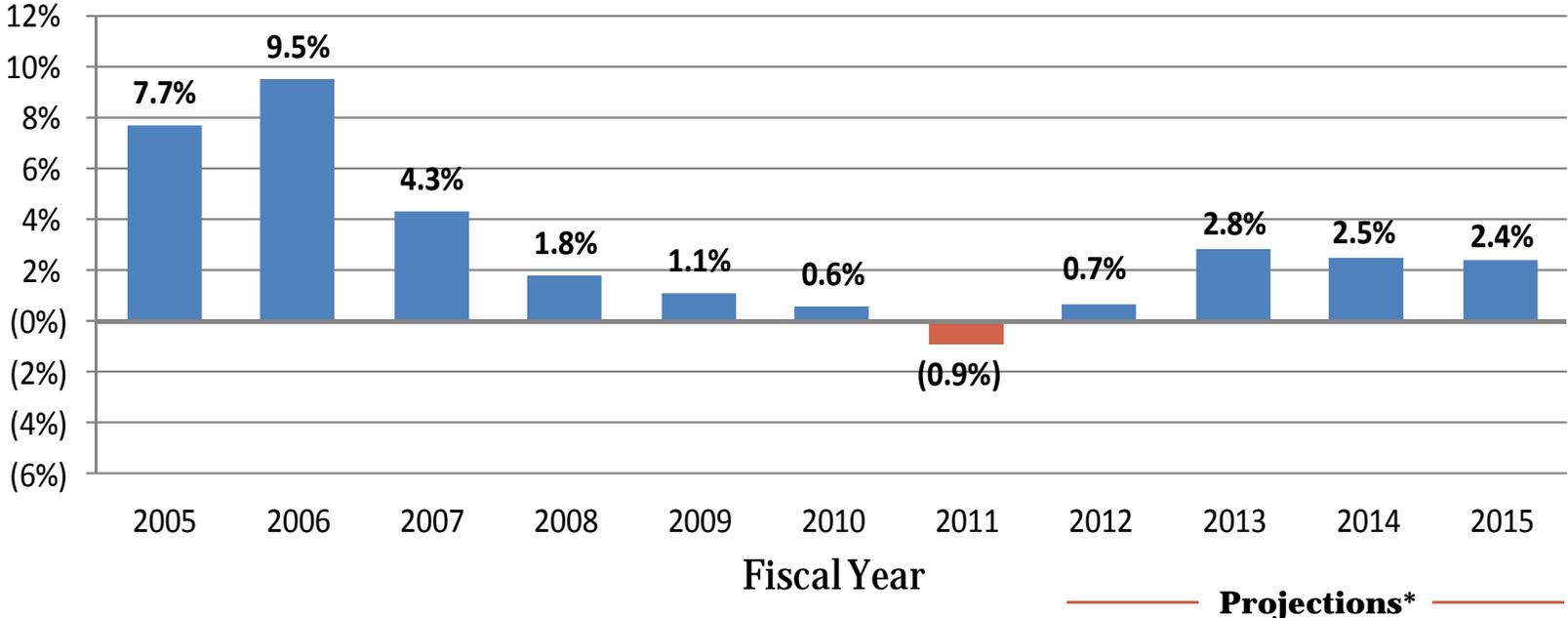
	Sept 2010	January 2011	Sept 2011
Fairfax County	4.6%	4.8%	4.6%
Virginia	6.5%	6.9%	6.4%
Nation	9.6%	9.1%	9.0%

Economy Future Projections



- **Economic growth will depend on consumer spending and business investment**
- **Modest economic growth will restrain job creation**
- **Unknowns**
 - Federal Spending Cuts to Reduce the Deficit
 - State Aid - The Governor asked for agencies to provide potential reductions of 2%, 4% and 6% for the upcoming state budget

Percent Change in General Fund Revenue



	FY 2009	FY 2010	FY 2011
Growth rate without tax adjustment:	(1.0%)	(6.9%)	(3.7%)
Real estate tax adjustment	+3¢	+12¢	+5¢

* As of November 2011

Real Estate Tax Base



	1993	1994	1995	1996	1997	1998	1999
Equalization	(6.48)%	(2.46)%	(1.29)%	0.36%	0.57%	0.80%	1.77%
- Residential	(3.74)	(0.52)	0.01	0.49	(0.23)	(0.50)	0.04
- Nonresidential	(13.22)	(7.86)	(5.28)	(0.09)	3.27	5.05	7.12
Growth	0.40	1.08	1.97	2.16	2.13	1.93	2.19
TOTAL	(6.08)%	(1.38)%	0.68%	2.52%	2.70%	2.73%	3.96%
	2000	2001	2002	2003	2004	2005	2006
Equalization	2.96%	5.13%	9.70%	11.72%	9.94%	9.54%	20.80%
- Residential	0.77	5.13	11.26	16.27	14.55	11.29	23.09
- Nonresidential	9.24	5.15	5.92	0.52	(2.94)	3.74	12.74
Growth	3.37	3.81	3.94	3.42	2.54	2.50	2.69
TOTAL	6.33%	8.94%	13.64%	15.14%	12.48%	12.04%	23.49%
	2007	2008	2009	2010	2011	2012	2013 Projection
Equalization	19.76%	2.47%	(1.02)%	(10.52)%	(8.98)%	2.67%	2.34%
- Residential	20.57	(0.33)	(3.38)	(12.55)	(5.56)	2.34	0.84
- Nonresidential	16.64	13.57	7.00	(4.51)	(18.29)	3.73	7.00
Growth	2.94	1.68	1.53	0.57	(0.22)	0.60	0.34
TOTAL	22.70%	4.15%	0.51%	(9.95)%	(9.20)%	3.27%	2.68%

Projected Value of “One Penny” in FY 2013 = \$19.8 million

Current Residential Real Estate



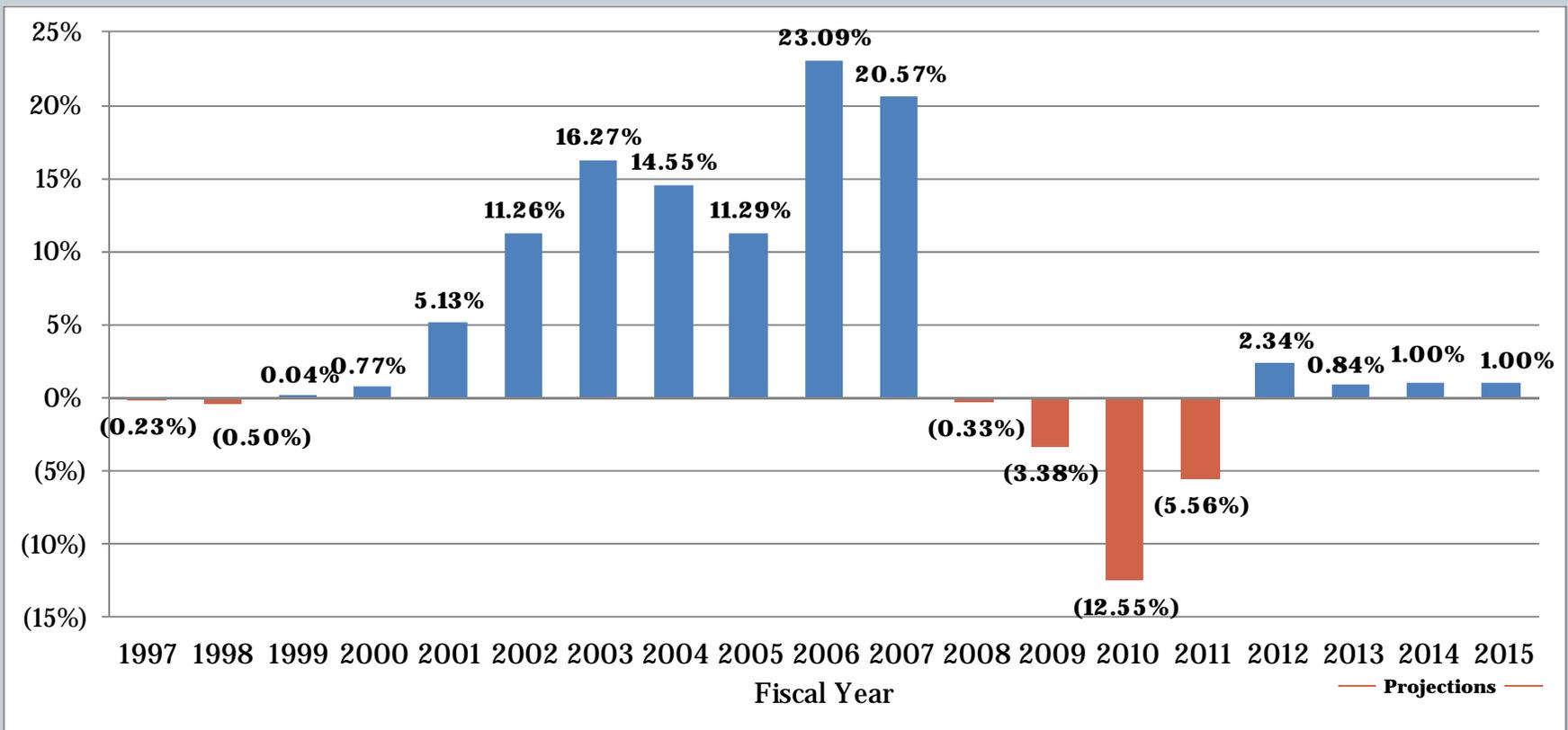
- **Fairfax County**
 - During the first 10 months of 2011, the number of homes sold has fallen 12.9% from 11,858 to 10,329
 - October home prices stabilizing
 - ✦ Average price of \$455,863, essentially level with October 2010
 - ✦ Median price of \$383,000, up 2.3% over October 2010
 - Average days on the market in 2011 are in-line with the time it took to sell a home in 2006 - prior to the downturn
 - The percentage of seriously delinquent loans is declining
 - ✦ Prime loans that are seriously delinquent (90+ days past due) fell to 1.5% in the 2nd quarter of 2011 from 2.4% in the 2nd quarter of 2010. Subprime mortgage delinquencies fell from 16.1% to 10.5%

Expectations for the Residential Real Estate Market



- **Very modest increases through FY 2015**
- **Interest rates will remain favorable**
- **Extension of higher conforming loan limits for jumbo mortgages is expected to help provide stability to the housing market through 2013**

Annual Changes in Residential Equalization



Impact on Typical Fairfax County Household



Fiscal Year	Mean Assessed Value of Residential Property	Real Estate Tax Rate per \$100	Tax per Household
FY 2005	\$361,334	\$1.13	\$4,083.07
FY 2006	\$448,491	\$1.00	\$4,484.91
FY 2007	\$544,541	\$0.89	\$4,846.41
FY 2008	\$542,409	\$0.89	\$4,827.44
FY 2009	\$524,076	\$0.92	\$4,831.21
FY 2010	\$459,228	\$1.04	\$4,762.14
FY 2011	\$433,409	\$1.09	\$4,724.16
FY 2012	\$445,533	\$1.07	\$4,767.20
FY 2013 Projection	\$449,275	\$1.07	\$4,807.24

\$40.04 more than FY 2012
\$39.17 less than FY 2007

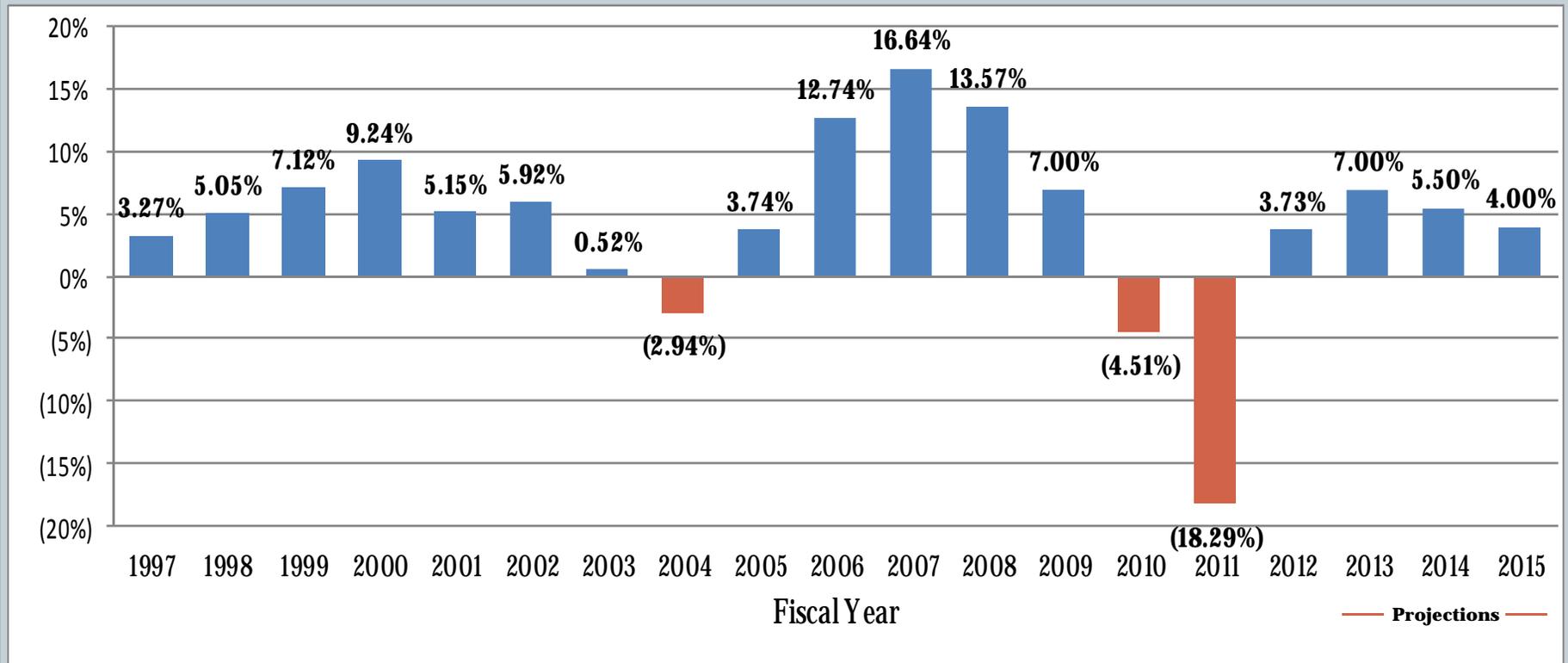
Projected value of "One Penny" on FY 2013 Real Estate Revenue = \$19.8 million
Each penny change = \$44.93 on the tax bill

Nonresidential Real Estate



- **Fairfax County's Office Vacancy Rates at Mid-year 2011**
 - Direct – 12.8% down from 13.3%
 - Including sublet space – 14.7% down from 15.3%
- **Total 113.4 million square feet of office space in the County**
 - 4 buildings totaling 870,000 square feet are under construction
- **Renewed Interest in Speculative Building**
 - 3 of the 4 buildings under construction are 100% speculative
- **Leasing activity is on track to meet or exceed the average, 10.8 million sq. ft., of the last 5 years**
 - Through the 3rd quarter of 2011, leased 9.2 million square feet

Annual Changes in Nonresidential Equalization



Summary

Annual Growth in Major Revenue Categories

(Dollars in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*	FY 2013*
Real Estate	\$1,962.3	\$2,035.7	\$2,105.6	\$2,008.8	\$2,031.1	\$2,086.4
Percent Change	4.1%	3.7%	3.4%	(4.6)%	1.1%	2.7%
Personal Property	\$509.7	\$516.5	\$496.0	\$501.6	\$515.1	\$542.1
Percent Change	0.3%	1.3%	(4.0)%	1.2%	2.7%	5.3%
Sales Tax	\$160.9	\$153.9	\$149.5	\$154.8	\$158.4	\$163.2
Percent Change	1.0%	(4.4)%	(2.8)%	3.5%	2.4%	3.0%
BPOL	\$138.3	\$139.9	\$138.5	\$145.1	\$150.9	\$156.9
Percent Change	4.4%	1.2%	(1.0)%	4.7%	4.0%	4.0%
Recordation & Deeds	\$29.9	\$25.0	\$24.9	\$26.4	\$26.2	\$25.6
Percent Change	(28.2)%	(16.4)%	(0.7)%	6.1%	(0.6)%	(2.3)%
Investment Interest	\$78.2	\$36.5	\$16.8	\$14.9	\$15.6	\$13.1
Yield	4.5%	2.0%	0.8%	0.8%	0.7%	0.6%
Total General Fund	1.8%	1.1%	0.6%	(0.9)%	0.7%	2.8%

*Projections. FY 2012 represents revised estimates as of the fall 2011.

Disbursements



County Disbursements Perspective



- **Since FY 2009, General Fund disbursements have increased only \$24.9 million or 0.7%**
- **During the past three years, the County has:**
 - Eliminated 499 positions
 - Maintained the contribution to Schools at 53% of total budget (including debt service)
 - Funded required increases in debt service (\$15.0 million) and benefits (health care/retirement/OPEB) (\$79.6 million)
 - After no compensation increases in FY 2010 and FY 2011, a 2.0% market rate adjustment was approved for all employees as part of the *FY 2011 Carryover Review*

Projected FY 2013 Disbursement Requirements



Requirement	FY 2013 Cost Increase
Schools	\$80.5 million
FY 2013 increase assumes a 5% increase in the transfer for School Operating.	
Compensation	\$49.9 million
FY 2013 increase includes a 3% increase for all employees in FY 2013 at a cost of \$30.5 million. In addition, the full-year impact of the 2% increased approved as part of the <i>FY 2011 Carryover Review</i> , which was not included in the FY 2012 Adopted Budget baseline, is included at a cost of \$19.4 million.	
Debt Service	\$16.6 million
Based on current debt service commitments and the forecasted debt service as identified in the FY 2012-FY 2016 Adopted Capital Improvement Program. This increase is primarily due to a higher anticipated bond sale amount and a higher interest rate projected for the 2012 sale than in the previous year.	

Projected FY 2013 Disbursement Requirements



Requirement	FY 2013 Cost Increase
OPEB Retirements	\$6.0 million
<p>FY 2013 increase brings General Fund OPEB (Other Post-Employment Benefits) contribution to \$26 million. Increases in the Annual Required Contribution (ARC) of 5% are assumed each year. With this increase, it is projected that the County will fully fund the ARC in FY 2013. Based on the latest actuarial valuation (July 1, 2010), the County's total OPEB liability is \$489.2 million with an ARC of \$35.4 million.</p>	
Health Insurance & Retirement	\$5.8 million
<p>FY 2013 increase assumes a 10% health insurance premium increase in CY 2013 and reflects anticipated changes to retirement employer contribution rates.</p>	
Metro/CONNECTOR	\$8.1 million
<p>Assumes a 5% increase in the General Fund transfer for Metro at a cost of \$0.6 million. Additionally, includes \$2.9 million for estimated 5% increase in CONNECTOR operating budget as well as \$4.6 million for an estimated 20 bus replacements required in FY 2013.</p>	

Projected FY 2013 Disbursement Requirements



Requirement	FY 2013 Cost Increase
Fuel/DVS Maintenance & Operating	\$5.0 million
Assumes a 5% increase over current fuel prices at a cost of \$4 million. Another \$1 million included for DVS maintenance and operating expenses.	
Contract Rate Increases	\$3.0 million
Based on estimates from Human Services agencies, driven primarily by personnel costs.	
Nov. 2012 Presidential Election	\$0.5 million
Funding included for presidential election. More funding may be needed for replacement voting equipment.	

Projected Disbursement Increases

(in millions)



FY 2012 Base	FY 2013
Schools	\$80.5
Compensation (FY 2013)	\$30.5
Compensation (FY 2012)	\$19.4
Debt Service	\$16.6
Benefits	\$11.8
Metro/CONNECTOR	\$8.1
Fuel/DVS Maintenance	\$5.0
Contract Rate Increases	\$3.0
Nov. 2012 Presidential Election	\$0.5
Managed Reserve Impact	\$3.4
TOTAL	\$178.8

Reserves Used for FY 2012



Reserve	Amount (in millions)
Reserve for FY 2012	\$23.9
Retirement Reserve	\$15.0
Third Quarter Reductions	\$14.2
Additional FY 2011 Revenue	\$7.4
Other Balances	\$6.0
Total	\$66.5

FY 2013 Shortfall



	Amount (in millions)
Additional Revenue	\$130.9
Disbursement Increases	(\$178.8)
Balances used in FY 2012	(\$66.5)
Total	(\$114.4)

County Budget Actions



- In order to address the projected shortfall, the County is taking several actions:
 - Analyzing proposed agency reductions for 1%, 3%, and 5% of their FY 2012 expenditure level
 - Examining possible fee increases
 - Utilizing reserves (\$28.7 million reserve available for FY 2013 as of the *FY 2011 Carryover Review*)
 - Maximizing savings and increased revenue in the current fiscal year
 - Critically reviewing new funding requirements