# Joint Budget Development Committee

## Overview of County Budget

SEPTEMBER 10, 2014

# The Economy and County Revenues

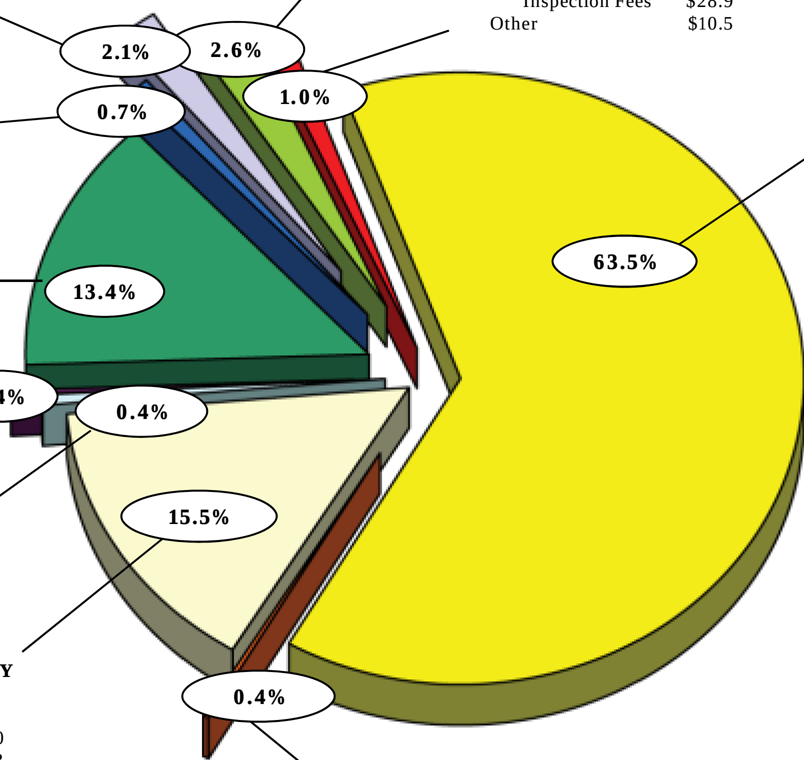
# The Economic and Budget Situation

- Economic growth in the County remains tepid and uneven
  - FY 2014 GF revenues grew at a modest 2.4%
  - FY 2014 revenues were only $8.3 million, or just 0.2% above the budget estimate
  - FY 2015 revenue is projected to rise 3.5%
- A combination of projected modest revenue growth and increasing requirements for both County and School services and programs means that the County faces a projected budget ***shortfall*** in FY 2016
- One primary means of addressing this projected budget gap is through service reductions and holding down cost increases
- Staff is closely monitoring economic conditions to determine the impact on various revenue sources and is revalidating the need for spending increases or new requirements

# FY 2015 General Fund Receipts

## ("Where it Comes From")

**(subcategories in millions)**




* 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.

** Total County resources used to support the budget include the revenues shown here, as well as a beginning balance and transfers in from other funds.

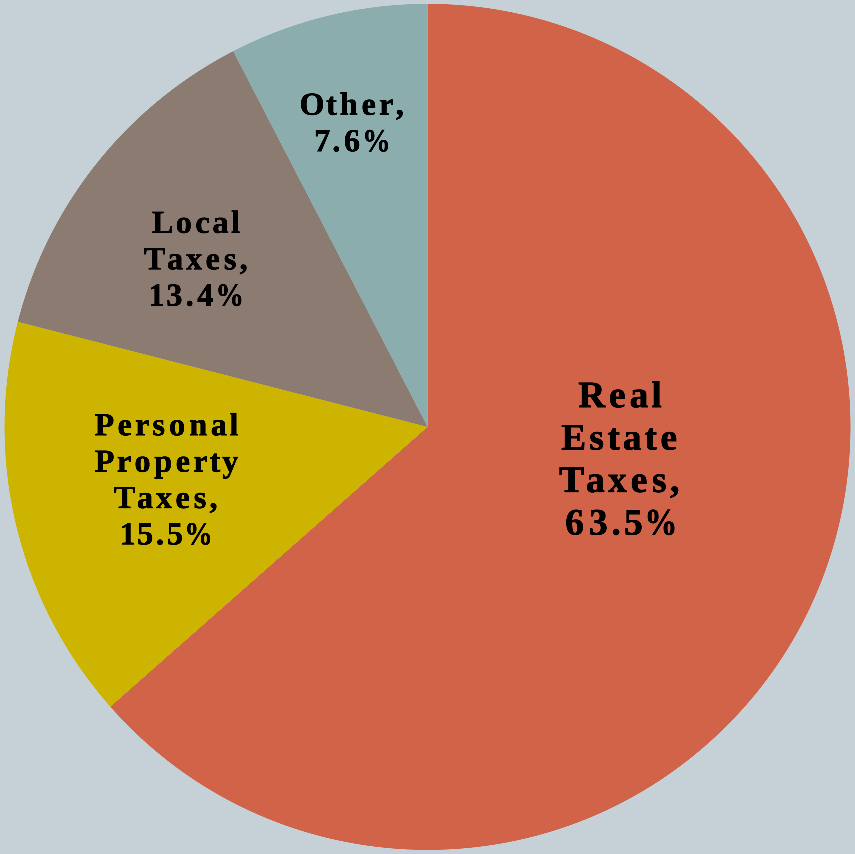
**FY 2015 GENERAL FUND RECEIPTS** = $3,708,563,492**

# Dillon Rule and County Revenues

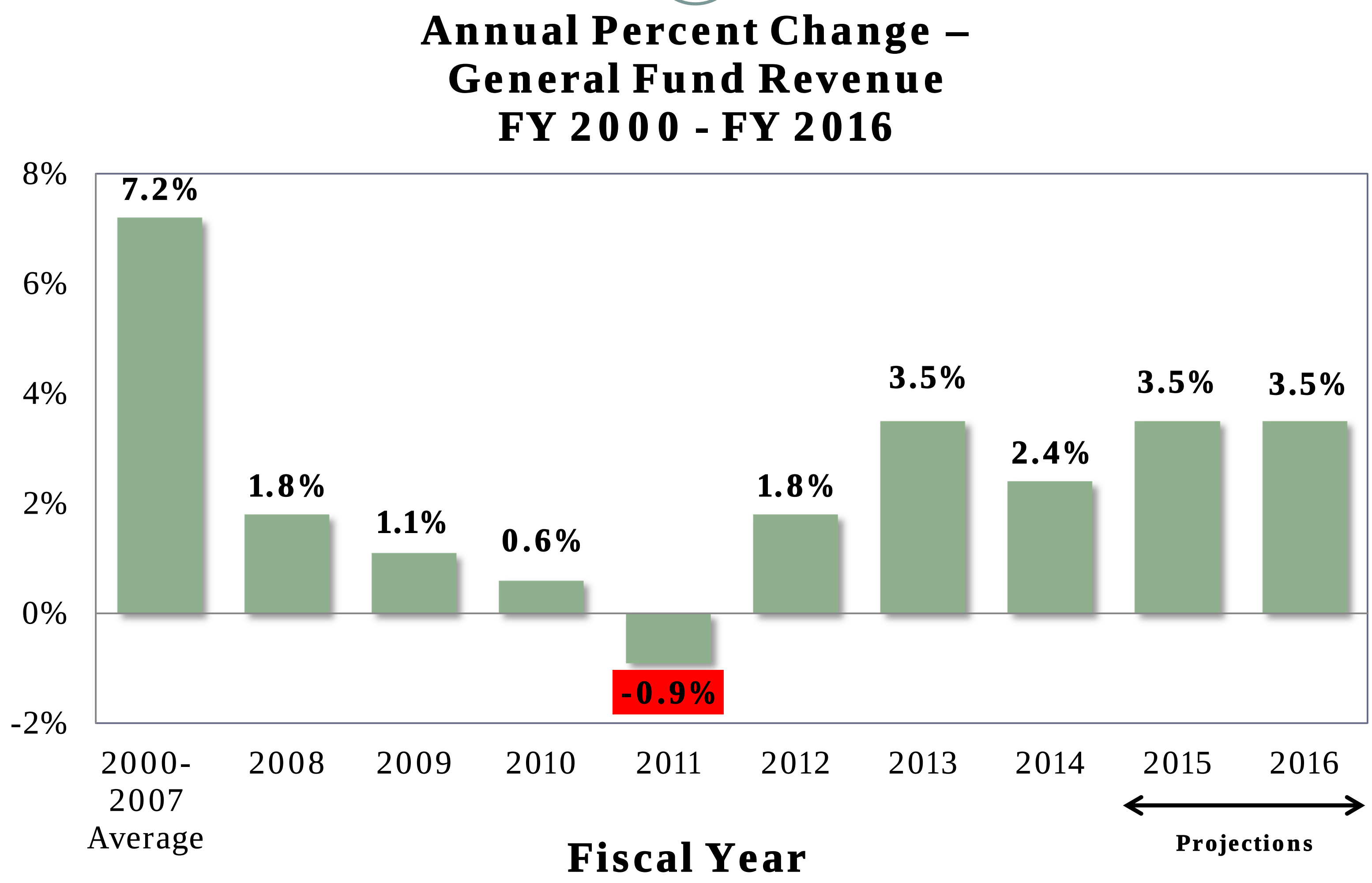
- Counties have only those powers expressly granted to them by the General Assembly
- Limits County's flexibility to raise revenue and diversify tax base, as examples:
  - Cigarette Tax levied at the maximum 30 cents/pack
  - Transient Occupancy Tax levied at maximum 4%
  - Restaurant Meals Tax requires a voter referendum in order to levy

# Fairfax County’s Tax Structure

- Over-reliant on Real Estate Taxes, which make up over 63% of total General Fund revenue
  - Over 75% of Real Estate Tax revenue comes from Residential property
- State limits/controls/caps nearly 90% of the County’s non-real estate tax revenue



# General Fund Revenue Growth



# Annual Growth in Major Revenue Categories

| (Dollars in millions) | FY 2012 | FY 2013 | FY 2014* | FY 2015 Adopted* | FY 2016* |
|---|---|---|---|---|---|
| Real Estate - Current | $2,039.0 | $2,114.4 | $2,208.0 | | |
| Percent Change | 1.5% | 3.7% | 4.4% | 6.2% | |
| Personal Property - Current | $514.5 | $555.3 | $556.5 | | |
| Percent Change | 2.6% | 7.9% | 0.2% | 1.6% | |
| Sales Tax | $162.8 | $166.9 | $165.5 | | |
| Percent Change | 5.2% | 2.5% | (0.9)% | 2.3% | |
| BPOL - Current | $149.7 | $156.2 | $152.0 | | |
| Percent Change | 3.2% | 4.3% | (2.7)% | 1.6% | |
| Recordation & Deeds | $31.0 | $33.7 | $25.1 | | |
| Percent Change | 17.4% | 8.5% | (25.4)% | 5.0% | |
| Transient Occupancy Tax | $19.6 | $19.0 | $17.7 | | |
| Percent Change | 6.7% | (3.0)% | (6.8)% | 2.0% | |
| **Total General Fund** | **1.8%** | **3.5%** | **2.4%** | **3.5%** | **3.5%** |

*Projections. FY 2014 represents unaudited actuals.

# The Labor Market Picture: Local Economy Underperforming

## National

- **Consumer confidence in July was at its highest level since October 2007 primarily due to recent strong job growth**
- **US unemployment rate was 6.2% in July, down from 7.3% a year ago**
- **For six consecutive months through July, the US economy has added more than 200,000 jobs per month – the longest streak since the mid-'90s**

## Local


- **Ripple effects from sequestration cuts more long-lasting than initially expected**
- **Northern Virginia job market is improving but slowly – 13,900 jobs added compared to the prior year. Job growth is 1% versus 2.4% prior to the recession**
- **The cornerstone sectors of the local economy – federal government and professional services – are losing jobs**

# Real Estate Tax Revenue

- $2.35 billion, 63.5% of total GF revenues
- Tax base – both residential and commercial properties
- Housing market dynamics impact real estate values
  - Inventory/supply of homes for sale on the market
  - Negative equity/"underwater"
  - Demand for new homes/affordability
- Commercial market impacted by new development, vacancy rates, absorption, rent rates

# Fairfax County's Housing Market

- The sluggish labor market is weighing on the housing market
  - July was the 5th consecutive month with year-over-year declines in home sales
    - For the first 7 months of 2014, number of home sales is down 11.7%
  - Supply of homes on the market is increasing – puts downward pressure on prices
    - 3,747 listings in July, up 57.2% over last July
  - Many homes are still "under water" according to Zillow
    - 10.1% of homes in Fairfax County as of the first quarter 2014
    - Compares to 18.8% nationwide
  - Home prices rising very modestly
    - Average sales price of homes sold in the County is up 1.1% for the first 7 months of 2014 compared to the same period of 2013

# Commercial Real Estate Conditions in Fairfax County

- The stalled labor market also impacts non-residential property values
  - 115 million square feet in the County's office space inventory
    - 2nd greatest amount of any suburban office space market after Orange County, California
  - Office vacancy rates are high due to local economy shedding jobs in professional services and government sectors, as well as changes in workplace culture (telecommuting, less space per worker, etc.)
    - 17 million square feet vacant in Fairfax County: 14.4% direct, 16.7% with sublets
    - Countywide office asking rental rates are flat year-over-year
    - Decreased federal procurement dollars coming to County
  - Metrorail's new Silver Line extension through Tysons to Reston to spur new commercial activity
    - Concerns with absorption
  - Non-residential property values flat in last 2 years, expected to remain level in FY 2016

# Lingering Effects of the Great Recession

## Real Estate Assessed Values (in millions)

| Fiscal Year | Residential | Non-residential | Total |
|---|---|---|---|
| 2008 | 176,498 (peak) | 52,001 | 228,499 |
| 2009 | 171,891 | 57,779 (peak) | 229,670 |
| | | | |
| 2015 | 164,968 | 54,053 | 219,021 |

**Real estate property values as of FY 2015 indicate:**

Residential values still 6.5% below their 2008 peak values
 A revenue loss of $126 million at the current tax rate

Non-residential values still 6.4% below their 2009 peak values
 A revenue loss of $41 million at the current tax rate

# Impact on the Typical Fairfax County Household

| Fiscal Year | Mean Assessed Value of Residential Property | Real Estate Tax Rate Per $100 of Assessed Value | Average Tax Per Household | Increase / (Decrease) | Percent Change | Household Income |
|---|---|---|---|---|---|---|
| FY 2008 | $542,409 | $0.89 | $4,827.44 | ($18.97) | (0.4)% | $107,448 |
| FY 2009 | $525,132 | $0.92 | $4,831.21 | $3.77 | 0.1% | $102,499 |
| FY 2010 | $457,898 | $1.04 | $4,762.14 | ($69.07) | (1.4)% | $103,010 |
| FY 2011 | $433,409 | $1.09 | $4,724.16 | ($37.98) | (0.8)% | $105,797 |
| FY 2012 | $445,533 | $1.07 | $4,767.20 | $43.04 | 0.9% | $107,096 |
| FY 2013 | $449,964 | $1.075 | $4,837.11 | $69.91 | 1.5% | $107,131 |
| FY 2014 | $467,394 | $1.085 | $5,071.22 | $234.11 | 4.8% | $108,646 |
| FY 2015 | $497,962 | $1.09 | $5,427.79 | $356.57 | 6.5% | $111,117 |
| **FY 2001-FY 2015** | **+139.3% 6.4% per year** | | **+112.0% 5.5% per year** | | | **+31.2% 2.0% per year** |
| **FY 2001-FY 2008** | **+160.6% 14.7% per year** | | **+88.6% 9.5% per year** | | | **+26.9% 3.5% per year** |
| **FY 2008-FY 2015** | **-8.2% -1.2% per year** | | **+12.4% 1.7% per year** | | | **+3.4% 0.5% per year** |

* Data is not adjusted for inflation

# Personal Property Taxes

## (FY 2015= $574.3 million, 15.5% of total GF revenues)

- Personal Property taxes are paid on vehicles and business property – vehicle portion is 73% of the total
  - Over 977,000 vehicles in the County
  - Taxable Value is based on the National Automobile Dealers Association (NADA) trade-in value as of January each year
  - Projections are based on an analysis of current vehicles in the County valued with NADA information as of November and assumptions of new vehicle purchases – which are impacted by employment, consumer confidence, etc.
- Personal Property Tax Relief Act (PPTRA) of 1998 - Fairfax County's fixed allocation is $211.3 million
- FY 2014 receipts were flat, increased just 0.2%
- FY 2015 revenue is expected to rise less than 1%

# Sales Tax
## (FY 2015=$167.4 million)

- Sales Tax receipts declined 0.9% in FY 2014, the first decline in 4 years
  - Decrease due to federal sequestration, severe winter weather, and several refunds
  - Receipts would have been lower – started to receive sales tax on Amazon purchases in September 2013
- Projecting a modest 1% growth in FY 2015
- Sales tax receipts react quickly to changing economic conditions
  - Consumer confidence
  - Job market – reductions in federal workforce, layoffs at fed contractors
  - Other – weather, refunds

# Business, Professional and Occupational Licenses (BPOL) - FY 2015=$158.4 million

- BPOL revenue declined 2.7% in FY 2014
  - Combined Consultant and Business Service Occupations categories, which represent 44% of total, decreased 7.1%
  - Professional and Specialized Occupations, which is over 11% of total and includes attorneys and doctors, decreased 1.6%
  - Retail category, which is 19% of total, rose 1.7%
- FY 2015 receipts are hard to project since little information is known until March when businesses file and pay based on prior year's gross receipts
  - Use calendar year Sales Tax receipts and employment in an econometric model – modest growth is expected
  - Major tax appeals that threaten the entire BPOL category
- Over the years, numerous attempts have been made by the state to reduce or eliminate the BPOL tax
  - A 2013 General Assembly requested study by the Joint Legislative Audit and Review Commission (JLARC) indicated that changing the basis of the BPOL tax from gross receipts to net income could reduce local revenue from the tax by about 95 percent.

# Revenue from the Commonwealth

- State revenue deficit is cause for concern
- Updated revenue forecast in August
  - Even with a withdrawal from the revenue stabilization reserve,$346 million will need to be cut from FY 2015 and $536 million from FY 2016 to balance the state's budget
- Little information is available about potential reductions at the state level that might have an impact on both County and School system
  - Direct aid to localities is 46% of the state's General Fund budget
  - The Governor can make administrative adjustments to FY 2015 spending / aid to localities
  - FY 2016 reductions would be included in the Governor's budget released in December

# Revenue Review and Forecasting

- Monthly revenue monitoring and trends
- Econometric forecasting models for major categories
- Monthly meetings with Tax Admin, Finance and Land Development Services to discuss revenue trends
- Monthly Economic Indicators newsletter
- Periodic Real Estate forecasts from Tax Admin
- Budget reviews – Carryover, Fall, Third Quarter
- User fee studies as part of the Annual budget process
- State budget and fiscal analysis of new legislation and impact on County revenue

# Potential New Revenue Sources

***Taxes NOT currently levied:***

| Revenue Category | Information | Action Required | Rate Limitations | Potential Revenue |
|---|---|---|---|---|
| Restaurant Meals Tax | There are no restrictions for the use of revenue generated. All cities and towns in Northern Virginia levy a meals tax. | Requires approval in a voter referendum. | Not to exceed 4% | 1%=$22.5 million<br>4%=$90.0 million |
| Admissions Tax | The tax would apply to concerts, movies, and live theater events, etc. The tax could not be imposed on federal venues (Wolf Trap). The tax would apply to non-university related events at the Patriot Center. | Public hearing, approval by the Board of Supervisors and ordinance change | Not to exceed 10% of admission price | 1%=$0.6 million<br>5%=$3.0 million<br>10%=$6.0 million |
| Probate Tax | All localities may levy a probate tax on wills at one-third the state rate which is currently 10 cents per $100 on estates valued greater than $15,000. | Public hearing, approval by the Board of Supervisors and ordinance change | $0.033 per $100 of estates valued at greater than $15,000 | $0.2 million |

# Taxes with Rates That Could be Adjusted

***Taxes currently levied:***

| Revenue Category | Information | Action Required | Rate Limitations | Potential Revenue |
|---|---|---|---|---|
| Real Estate Tax - Current ($2,344.7 million) | The Real Estate tax is the County's primary source of revenue. The tax applies to land and buildings. | Public hearing, approval by the Board of Supervisors. | There is no restriction on the tax rate that may be imposed. | 1 real estate penny = $21.9 million (FY 2015) |
| Personal Property Tax - Current ($564.0 million) | All localities in Virginia may levy a tax on personal property owned by businesses and individuals including motor vehicles, business furniture, fixtures and computers. The County receives $211 million annually from the state for personal property tax relief. | Public hearing, approval by the Board of Supervisors. | There is no restriction on the tax rate that may be imposed. | 1 cent on the personal property tax rate= $1.1 million (FY 2015) |
| BPOL - Business, Professional, Occupational Licenses ($155.2 million) | BPOL is currently levied on the gross receipts of businesses in the County. Rates vary by business category. County rates are below the State maximums allowed except for one category. | Public hearing, approval by the Board of Supervisors and ordinance change. | State maximum rates by business category. | 1 cent increase in all rates that are below the state max=$7.1 million |

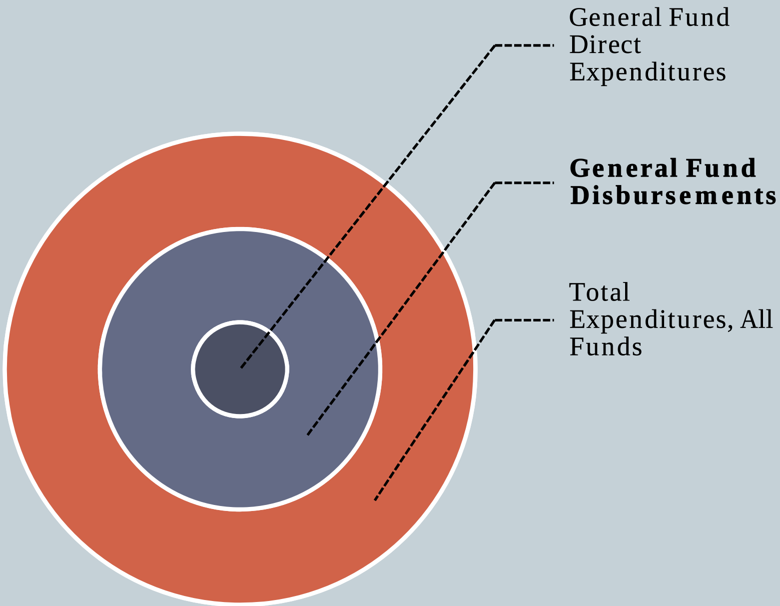
# Question of Sustainability

- County experienced robust revenue growth from FY 2001 to FY 2008
  - Home values increased, on average, 14.7% per year
  - Commercial values increased, on average, 10.2% per year
  - Median Household income increased, on average, 3.5% per year
- A different picture from FY 2008 to FY 2015
  - Home values **decreased**, on average, 1.2% per year
  - Commercial values **decreased**, on average, 0.8% per year
  - Median Household income is projected to increase, on average 0.5% per year
- In the future, modest growth is anticipated
  - Home values are projected to grow between 2% and 3.5% for the next several years
  - Commercial values are flat

# County Spending

# Budget Levels

- General Fund Direct Expenditures support operations of most agencies – i.e. Police, Family Services, Libraries
- General Fund Disbursements includes Direct Expenditures plus transfers to other funds, such as the School Operating Fund, Debt Service Funds, and Capital Funds
- Total Expenditures includes expenditures from all funds, including the General Fund and all other appropriated funds, such as the Community Services Board, Sewer and Retirement Funds
- The budgetary focus is primarily on the General Fund

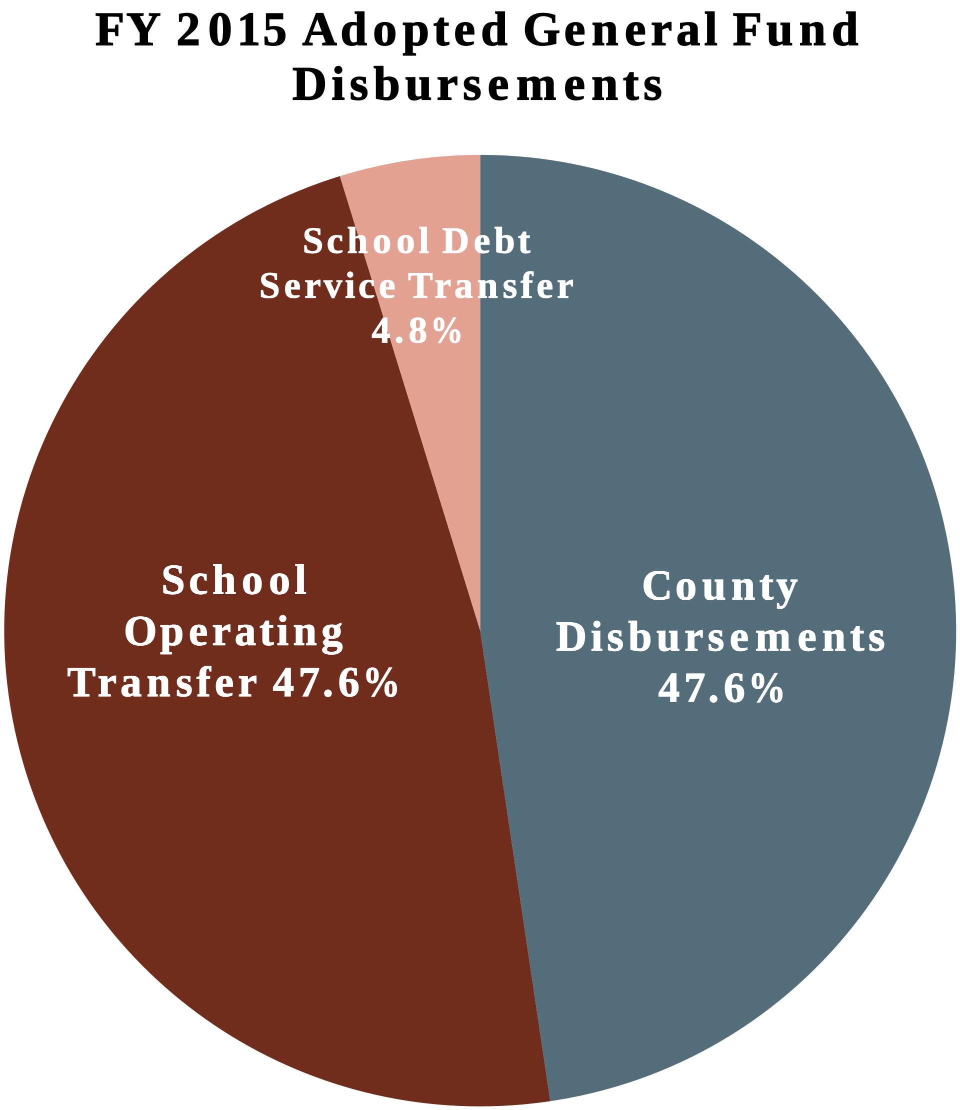


# FY 2015 Overview

- General Fund disbursements total $3.72 billion, an increase of $129.99 million, or 3.6%, over the FY 2014 Adopted Budget
  - Of the increase, $56.28 million supports increased transfers to the School Operating and Debt Service funds
  - Over half of the County increase ($38.39 million) funds employee pay increases and benefits requirements
  - One-third of the increase ($24.09 million) supports capital and debt service requirements
  - Other increases include support for the County’s E-911 fund, new facilities (Wolftrap Fire Station, Providence Community Center, Merrifield Center), contract rate increases, and Special Education Graduates in the Community Services Board

# Support for Fairfax County Public Schools

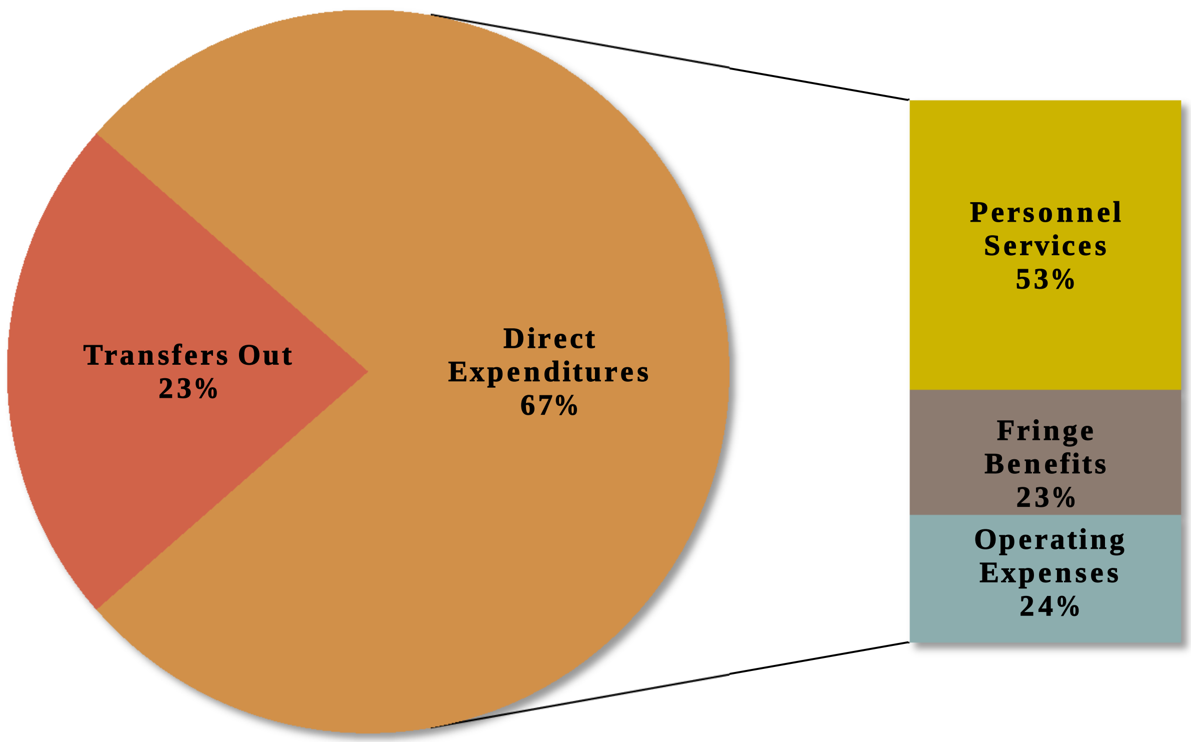
- County contributions supporting Schools were 52.4% of total disbursements in FY 2015
- In addition, $72.1 million in County disbursements supports School programs and requirements such as Head Start, School Health, School Resource Officers, School Crossing Guards, after-school programming, field maintenance, and recreational programs, among others.



# County Disbursements by Category

- Direct Expenditures for County agencies make up 67% of total County Disbursements, while the remaining consists of transfers to other County funds
- Over three-quarters of Direct Expenditures is for costs related to Personnel, including Salaries, Overtime, and Fringe Benefits
- The two largest Transfers Out are for County Debt Service and the Community Services Board

## FY 2015 Adopted County General Fund Disbursements

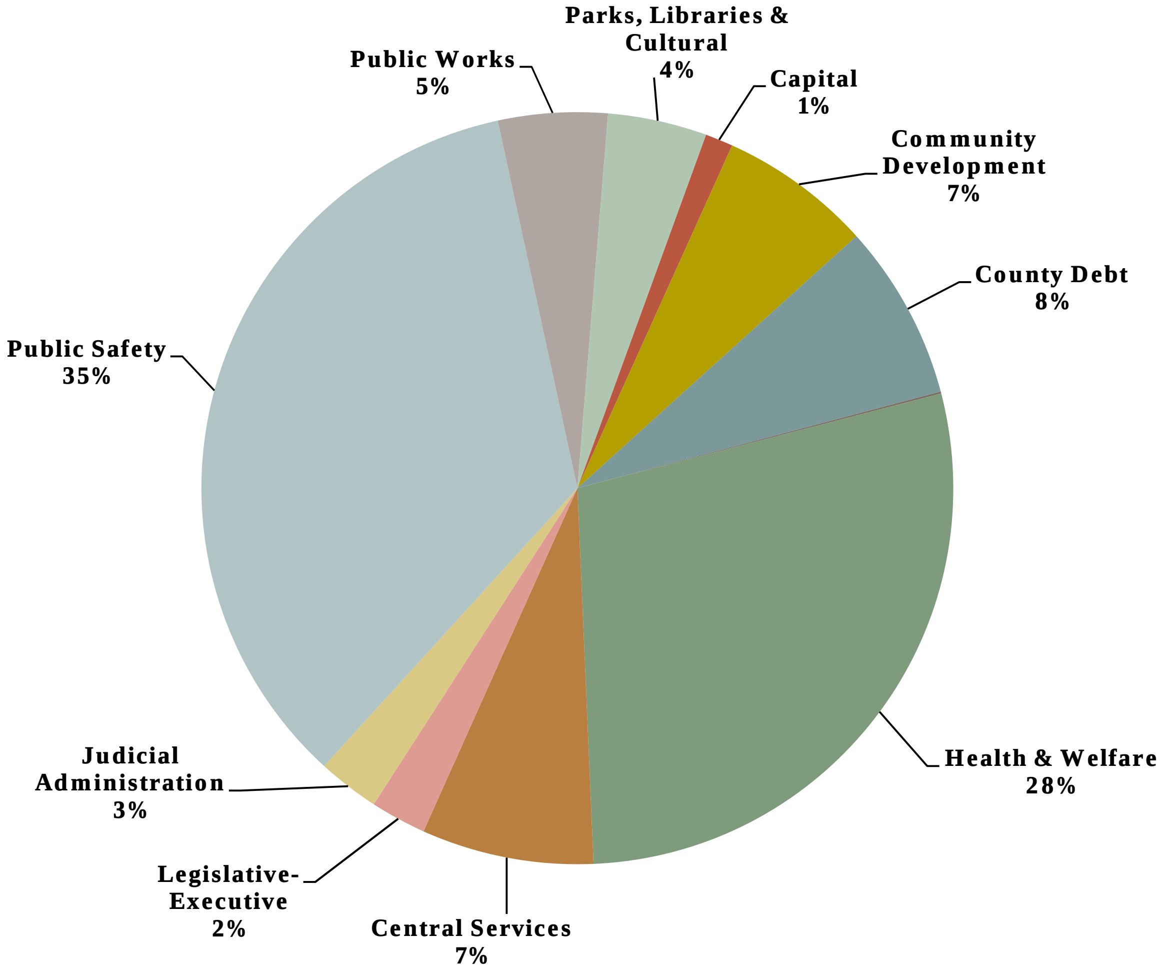



Note: Recovered Costs have been spread to Personnel Services and Operating Expenses based on the line item cost recovered.

# Breakdown of County Spending by Program Area

- Approximately 63% of County spending supports Public Safety and Health & Welfare program areas
- Fringe Benefits expenditures are spread across program areas based on salary and position data

## FY 2015 Adopted County General Fund Disbursements



# Budget Drivers

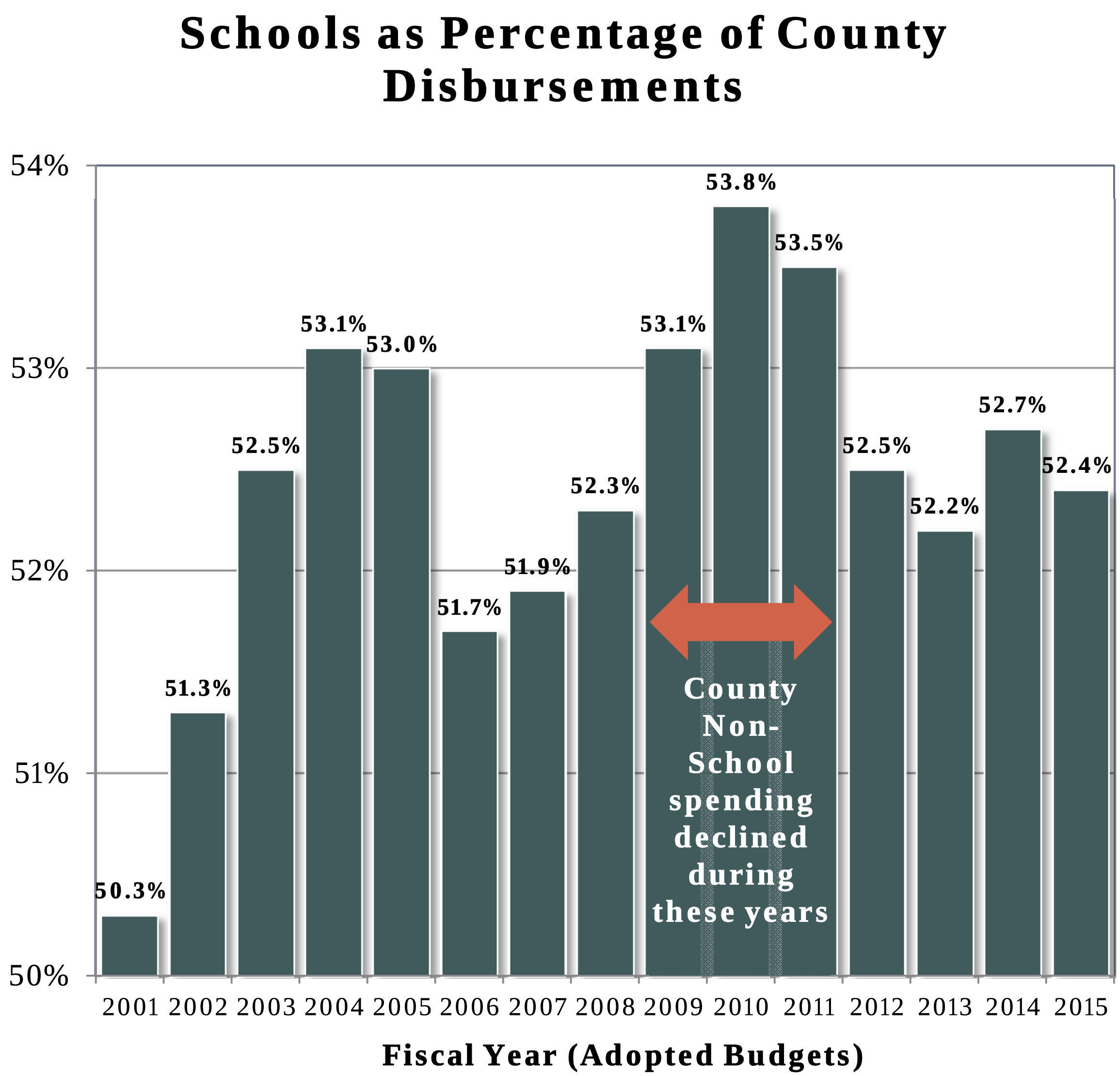
- Employee Pay and Benefits
  - Retirement
  - Retiree Health
  - Health Insurance
- New Initiatives/Facilities
  - Silver Line
  - Public Safety Headquarters
- Public Safety Requirements
- Safety Net Programs
- State and Federal Mandates
- Federal Sequestration
- State Budget Cuts
- Population Growth
- Contractual obligations and Contract Rate increases
- Utilities
- Inflation

# Disbursement Growth Since FY 2001

- Over the past 14 years (from the FY 2001-2015 Adopted Budgets), General Fund Disbursements have increased $1.57 billion, or 4.0% annually
  - Three-quarters of the total growth during this period occurred during the first 7 years (FY 2001-2008), with increases of $1.17 billion, or 6.4% annually
  - During the last 7 years of the period (FY 2008-2015), disbursement growth slowed, as increases were offset by reductions necessary to balance the budget
    - Growth during this period was $398.96 million, an average annual growth of only 1.6%

# School Contribution Trend

- The Schools Percentage of General Fund Disbursements has averaged 52.4% since FY 2001
- The percentage spiked in FY 2010 at 53.8% - a year in which County spending decreased by over $31 million

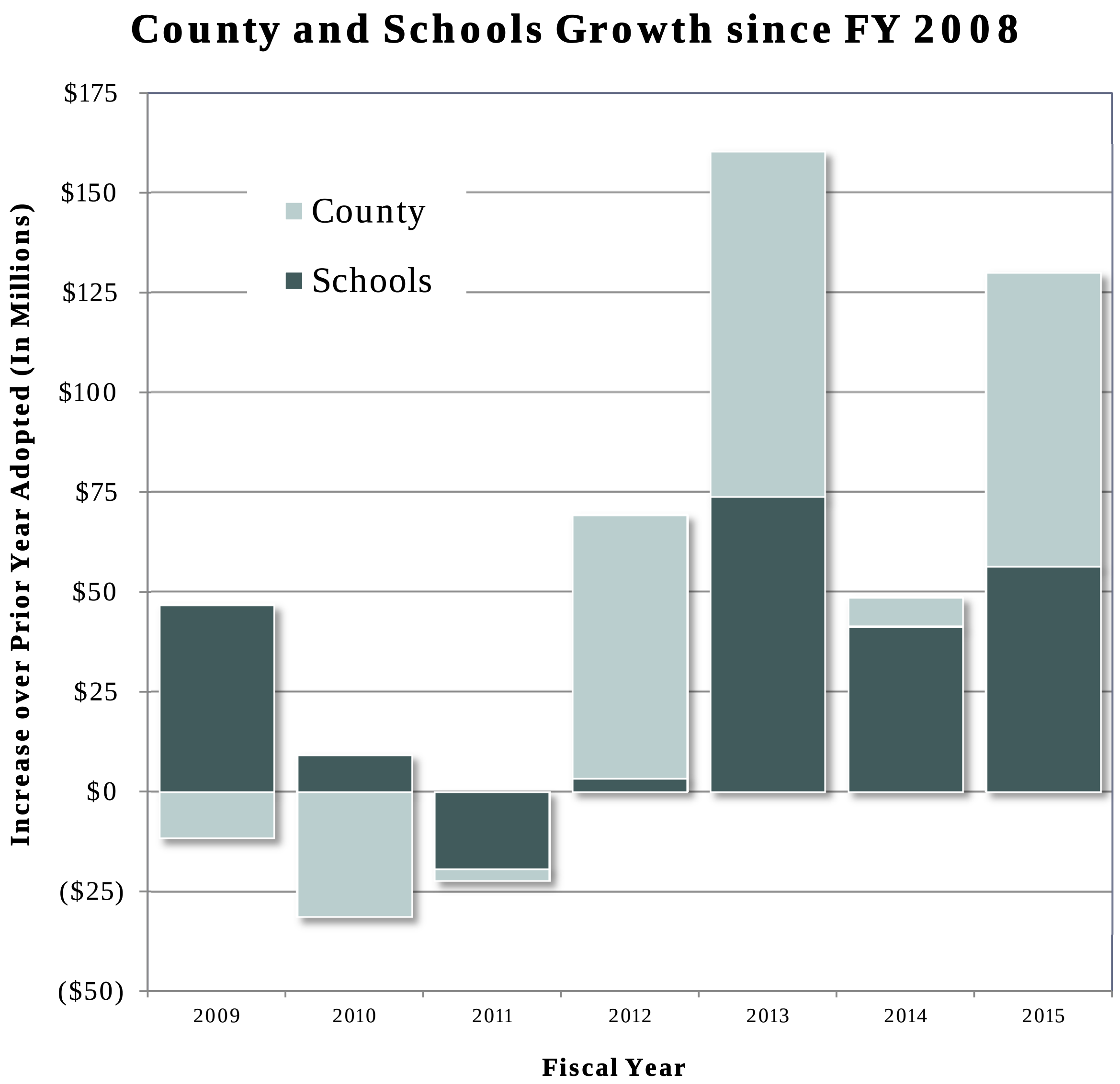


# Disbursement Growth Since FY 2008

- From the FY 2008 to FY 2015 Adopted Budgets, General Fund Disbursements have increased by $398.96 million
  - This represents an average annual increase of 1.6%
  - Approximately 53% of the increase, or $211.18 million, has gone towards the School Operating and Debt Service funds
- Total County disbursements fell for 3 straight years (FY 2009-2011)

# Growth in Disbursements since FY 2008

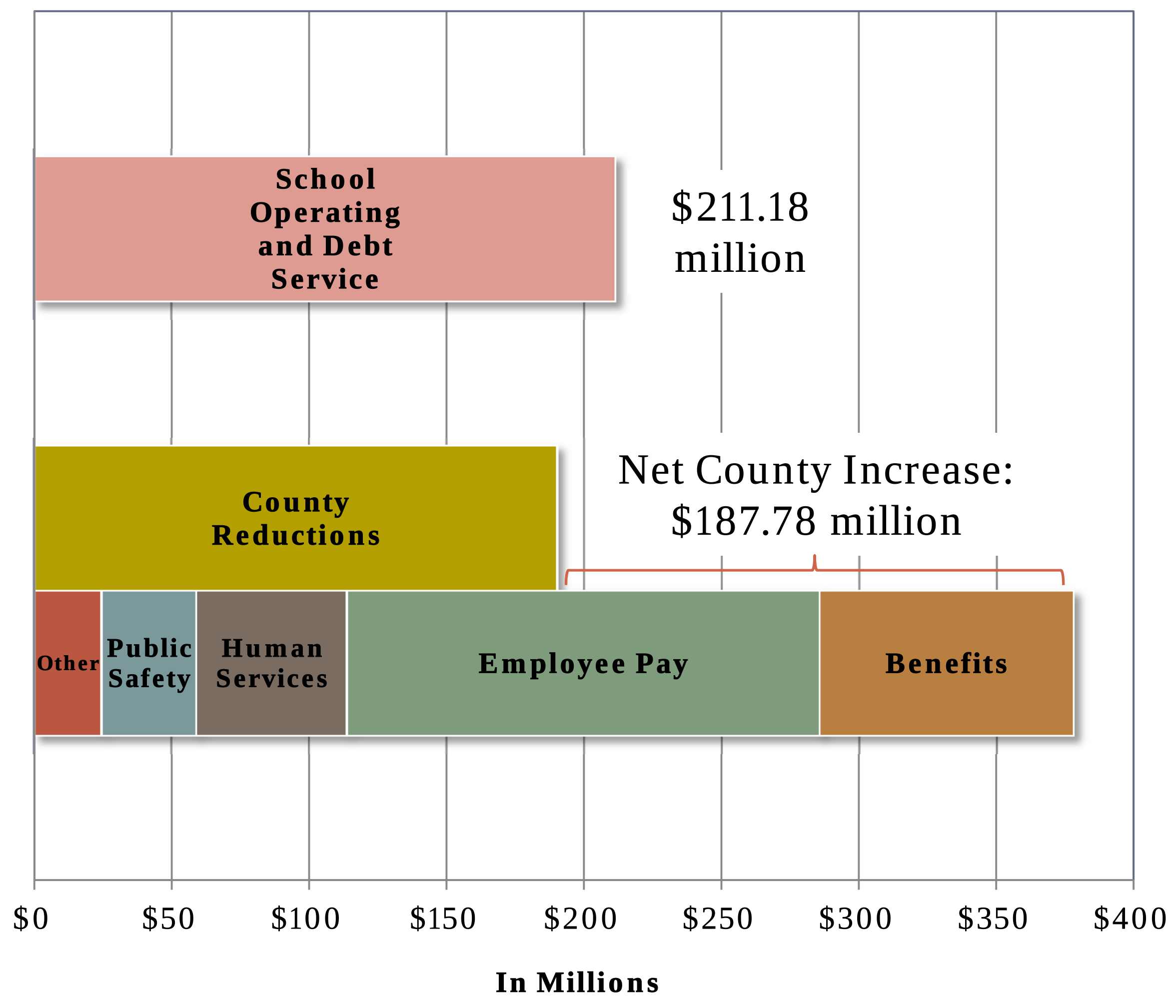
- From the FY 2008 to FY 2015 Adopted Budgets, total General Fund Disbursements have grown $399 million.
- Depending on requirements during each year, increases for both components fluctuate.
- Of the growth, 53% supported Schools while the remaining 47% supported County requirements.



# County Spending Growth since FY 2008

- Support for the School Operating and Debt Service funds has increased by over $211 million
- County increases of $378 million have been offset by over $190 million in reductions, for a net increase of $188 million
- Almost 70% of County growth during this timeframe has gone towards employee pay and benefits

**Growth in General Fund Disbursements since FY 2008**



# Reductions

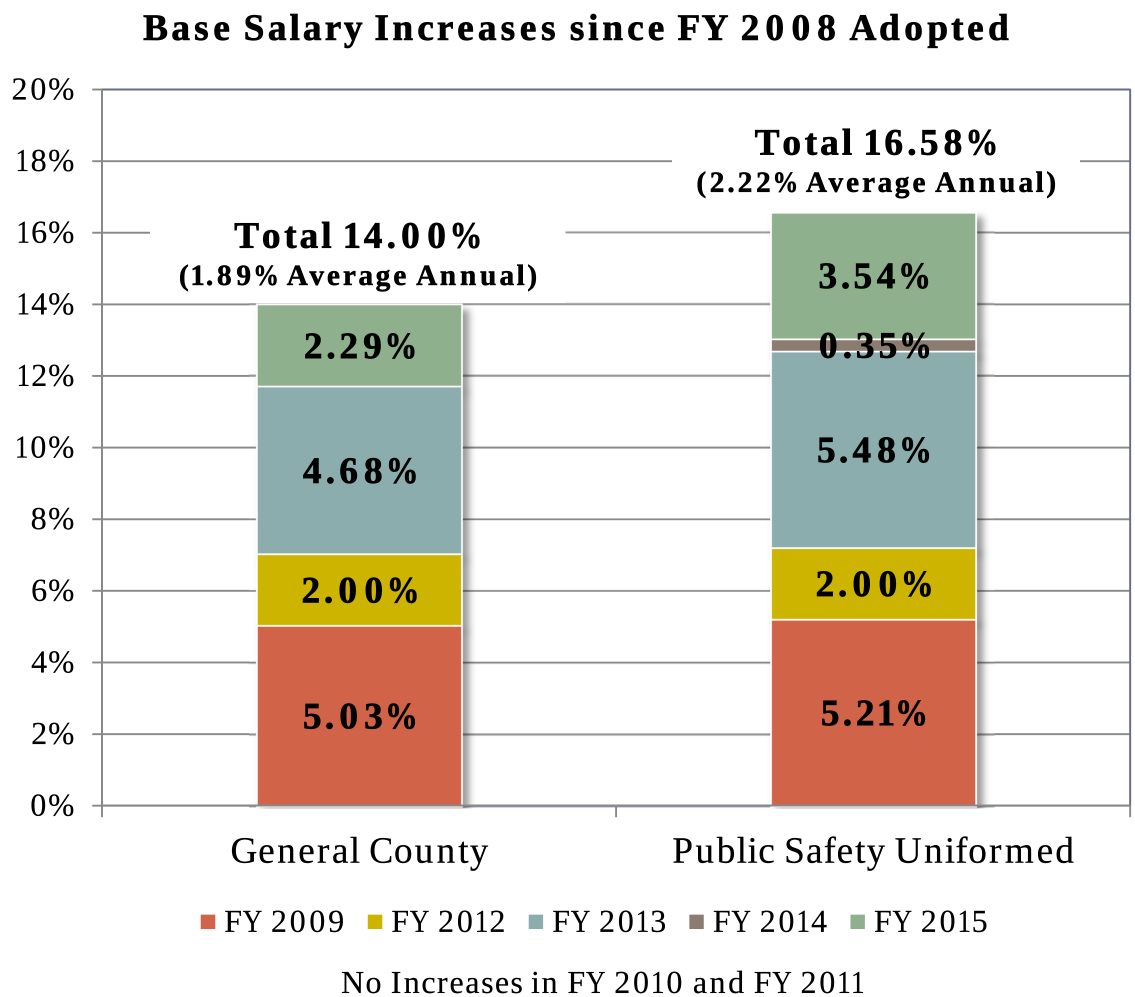
- Total reductions – including revenue adjustments and accelerated reductions taken at quarterly reviews – total over $269 million
  - Programmatic reductions exceed $178 million
    - Three agencies – Police, Fire and Rescue, and Family Services – have had reductions of over $15 million each
    - Only two agencies have had no programmatic reductions
  - Other reductions, such as across-the-board reductions, total over $70 million
  - Revenue adjustments total over $20 million
- In addition, 653 positions have been eliminated
  - Seven agencies have had more than 25 positions cut

# Employee Pay and Benefits

- Since FY 2008, increases related to employee pay have totaled $171.9 million
  - Employee pay was over 45% of all increases during this timeframe, despite no base pay increases being given in 3 of the 7 years for most employees
- Increases related to benefits have totaled $92.4 million during this timeframe
  - Increases in benefits were over 24% of all increases
  - Retirement, Health Insurance, and Retiree Health (OPEB – Other Post Employment Benefits) have driven increases in benefits

# Employee Pay Increases

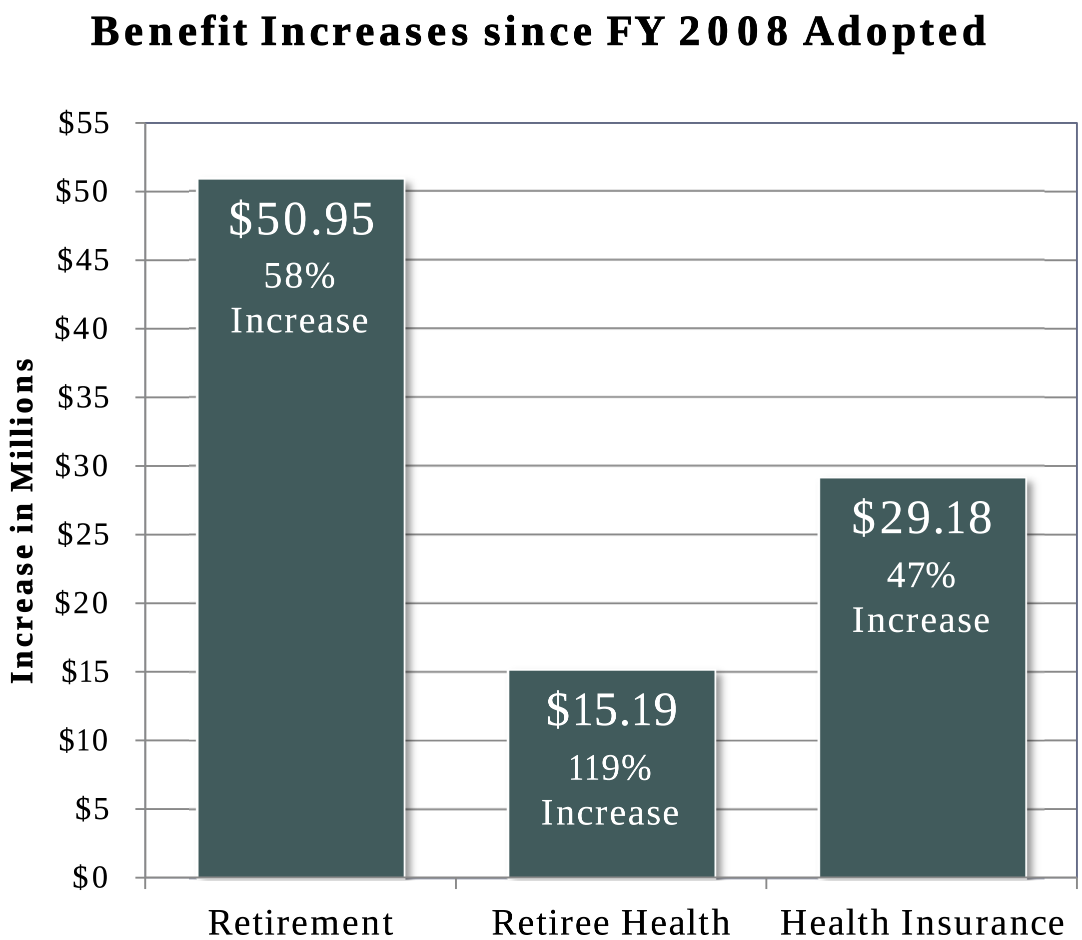
- In FY 2009, average Pay for Performance increases were 5.03% for non-uniformed employees. Uniformed public safety employees received a 2.96% market rate adjustment (MRA) and steps/longevities (45% eligible).
- No increases in FY 2010 and FY 2011
- In FY 2012, a 2.00% MRA was given to all employees
- In FY 2013, a 2.18% MRA was given to all employees along with a 2.5% performance award for non-uniformed and steps/longevities for uniformed (66% eligible)
- In FY 2014, only uniformed longevities were awarded (7% eligible)
- In FY 2015, a 1.29% MRA was given to all employees along with an additional 1.00% for non-uniformed and steps/longevities for uniformed (45% eligible)




Targeted increases resulting from market pay studies are not included. For example, the 3.00% increase for uniformed Fire and Rescue employees given in FY 2015 is not included in the above figures.

# Largest Benefit Cost Drivers

- Three areas have driven increases in benefits over the past 7 years
- Retirement increases were primarily driven by investment performance during the Great Recession
- Retiree Health increases have been required as the County meets its OPEB funding policy
- Cost growth in self-insured health insurance claims has averaged an annual increase of 9.2% during this period




Increases cited do not include those related to new positions or compensation adjustments. Percentage increases cited are over FY 2008 Adopted Budget Plan. All other benefit categories had a net total reduction of just under $3 million during this timeframe.

# Retirement Expenditures

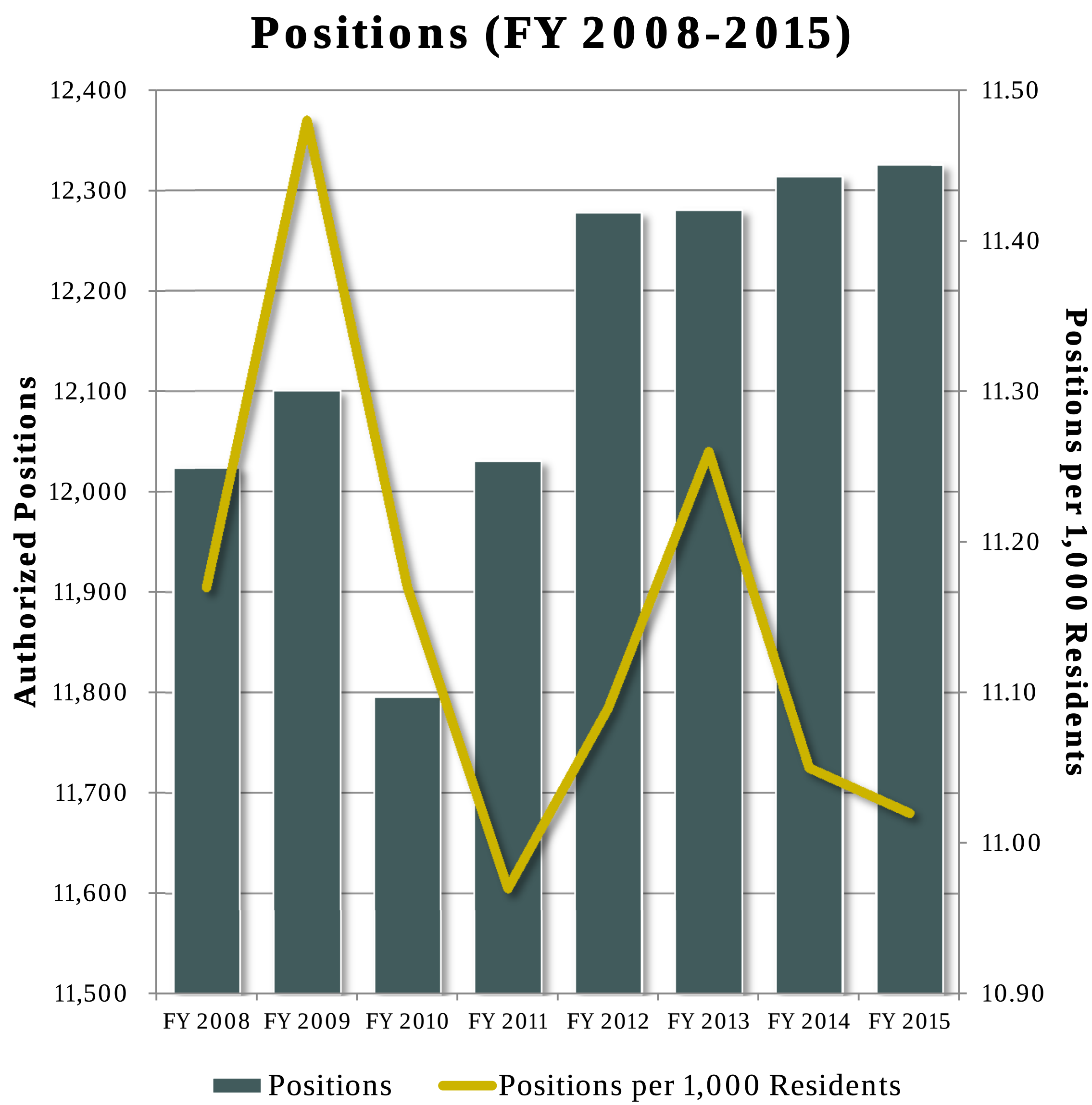
- Retirement expenses have increased $50.95 million since FY 2008
  - $48.9 million, or 96% of the total increase, is attributable to annual valuation and experience study results
    - Over three-quarters of this increase occurred in FY 2011-2012 and was the result of investment losses resulting from the global financial crisis that began in FY 2009
- Funding ratios as of June 30, 2013 were as follows:
  - 74.2% (Employees')
  - 82.4% (Uniformed)
  - 84.2% (Police Officers)
- The County is currently amortizing 93% of the unfunded actuarial accrued liability
  - To further strengthen the County's retirement systems and as a response to rating agencies focus on retirement funding, the County has committed to increasing employer contribution rates so that 100% of the liability is amortized by the end of the decade, which should place positive pressure on funding ratios.

# Other Expenditure Increases

- Since FY 2008, increases in other budget categories include:
  - Human Services – $54.68 million
    - Comprehensive Services Act
    - Self Sufficiency
    - Contract Rate increases
    - School Health
    - Special Education Graduates
    - CSB Support
    - Child Care Assistance and Referral
  - Public Safety – $34.50 million
    - Code Enforcement
    - E-911 Support
    - Tysons Police Staffing
    - Wolftrap Fire Station
  - Debt Service – $20.37 million

# Authorized County positions

- In the past 7 years, 302 net positions have been added to the County's count of authorized merit positions, an increase of 0.4% annually
  - Increased positions have supported Public Safety communications, SAFER and Wolftrap, Stormwater and Transportation requirements, and School Health
  - Almost 600 positions were converted from limited-term positions as a result of federal regulations and grant changes
- During this same time, the ratio of authorized positions per 1,000 residents has fluctuated but has dropped overall – from 11.17 in FY 2008 to 11.02 in FY 2015.



# Upcoming JBDC Meetings

- All meetings at 4:00pm at Gatehouse
- September 24, 2014
  - FY 2016 revenue forecast, County and Schools needs, and budget approach