BUDGET, CAPITAL IMPROVEMENT PROGRAM (CIP) & DEBT OVERVIEW

BOARD OF SUPERVISORS RETREAT

JANUARY 16, 2024

FY 2025 COLLECTIVE BARGAINING AND BUDGET TIMELINES

COLLECTIVE BARGAINING

- July 1: Collective bargaining negotiations must begin for effect in FY 2025 (July 1, 2024)
- September 1: No agreement triggers impasse
- October 15: Collective bargaining negotiations must conclude
- December 5: Board Item on CBA for Board Approval (no later than last day of December)

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
2023						2024					

ANNUAL BUDGET PROCESS

- BUDGET GUIDANCE PROVIDED TO AGENCIES
- AGENCY BUDGET DEVELOPMENT & SUBMISSIONS
- COUNTY EXECUTIVE BUDGET DEVELOPMENT WITH MANAGEMENT & BUDGET
  - November 28: County/Schools Joint Fiscal Forecast to Board
- BOARD OF SUPERVISORS AND PUBLIC DELIBERATION
  - February 20: County Executive's Advertised Budget released
  - March 5: Board authorizes maximum tax rates
  - April 16-18: Public Hearings
  - May 7: Board of Supervisors adopts Budget
- ADOPTED BUDGET PUBLISHED

CY 2024 COUNTY BUDGET DATES

February 20	County Executive presents FY 2025 Advertised Budget and FY 2025-2029 Capital Improvement Program (CIP)
February 27	Joint County/Schools Budget Committee Meeting
March 5	Board advertises FY 2025 tax rates
March 12	Budget Committee Meeting
March 19	Board authorizes advertisement of *FY 2024 Third Quarter Review*
April 16-18	Board holds public hearings on FY 2025 Budget, FY 2025-2029 CIP, and *FY 2024 Third Quarter Review*
April 26	Budget Committee Meeting (Pre-Mark-up)
April 30	Board marks up FY 2025 Budget, approves FY 2025-2029 CIP and *FY 2024 Third Quarter Review*
May 7	Board adopts FY 2025 Adopted Budget
July 1	FY 2025 Budget Year begins
July 30	Board authorizes advertisement of *FY 2024 Carryover Review*
September 17	Budget Committee Meeting
September 24	Board approves *FY 2024 Carryover Review*

FAIRFAX FISCAL POLICIES AND GUIDELINES

TEN PRINCIPLES OF SOUND FINANCIAL MANAGEMENT

- Initially adopted in 1975 – Cornerstone of County's financial policy
- Statement of Board's commitment to the County's financial policies
- Outlines required reserves
- Establishes limits to borrowing & benchmarks for debt ratios
    - Annual Debt Service less than 10% of total disbursements
    - Net outstanding debt less than 3% of total assessed value
- Directs that non-recurring funds at quarterly reviews be directed to capital expenditures to the extent possible

COUNTY BOND RATINGS

- Ratings History
  - AAA from Moody's Investor Services since 1975
  - AAA from Standard & Poor's (S&P) since 1978
  - AAA from Fitch since 1997
- Fairfax is one of only 47 counties in the country with a Triple-A bond rating from all three rating agencies
  - Allows the County to finance capital needs with lower interest rates, helping the County save millions of dollars

RECENT RATING AGENCY ISSUES AND CONCERNS

- In August 2011, the County's rating with Moody's was placed on negative outlook due to the linkage with the federal government and the federal government's failure to increase the country's debt limit. The outlook was changed back to stable in July 2013.

- In 2014, rating agencies identified three areas of concern which threatened the County's AAA rating. Staff developed recommendations to address these concerns and actions were approved by the Board and taken in 2015, including:
  - Ending reliance on one-time funds to balance annual budget
  - Increasing the County's reserve target from 5% to 10% of General Fund disbursements
  - Instituting guidelines to strengthen pension funding status

COUNTY RESERVE REQUIREMENTS

- As part of the FY 2016 Budget, the Ten Principles were revised to require reserves totaling 10% of General Fund disbursements
  - Increased required reserves from 5% of General Fund disbursements to be more in-line with other AAA jurisdictions
  - Combined reserves have been at or over the 10% target since FY 2020
  - <u>To maintain the 10% level, a 10% load is funded on all disbursement increases</u>
- The 10% in reserves is divided as follows:
  - 5% in the Revenue Stabilization Fund – can only be accessed when revenues are projected to decline during a fiscal year and must be combined with expenditure cuts
  - 4% in the Managed Reserve – would only be accessed in the event of a catastrophic event
  - 1% in the Economic Opportunity Reserve – a revolving reserve for use by the Board of Supervisors for specific economic development initiatives

COUNTY PENSION GUIDELINES

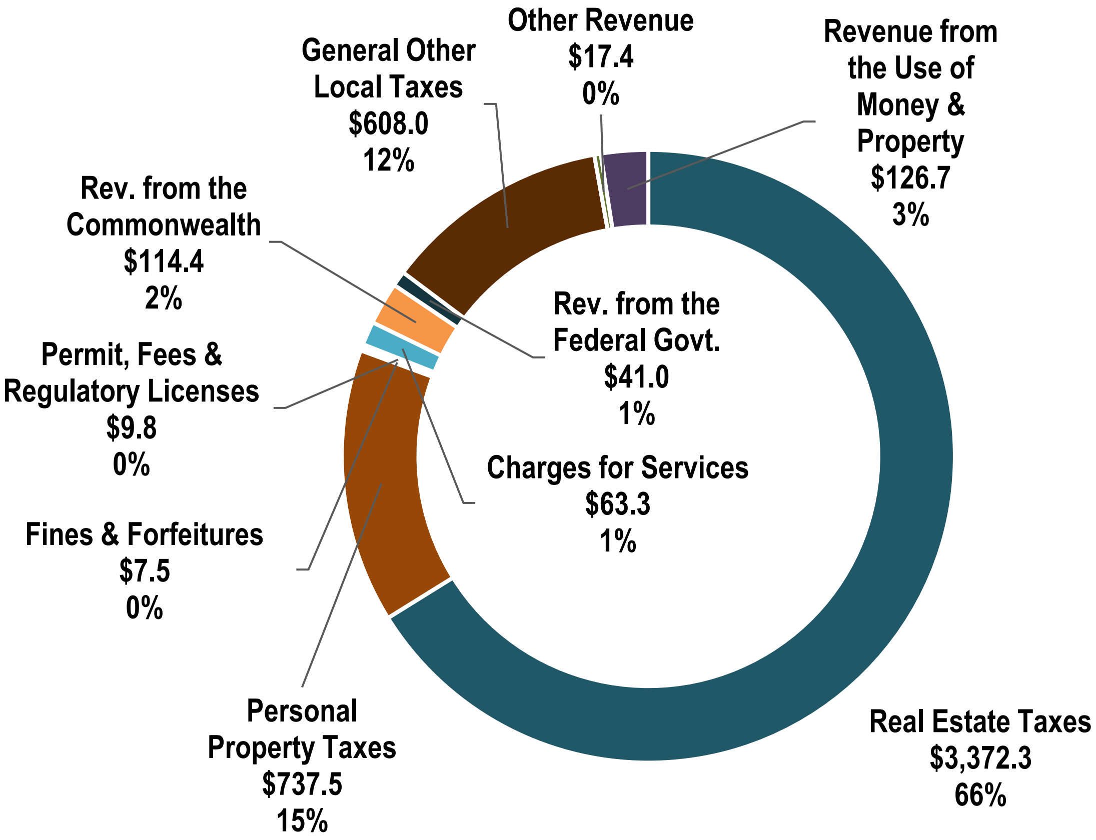
- As part of the adoption of the FY 2016 Budget, the County's Board of Supervisors approved a multi-year strategy to improve the funding position of the County's retirement systems.
- Each year, in discussions with Bond Rating Agencies, the County provides updates and confirms that each of these guidelines is still being met

1. By 2020 at the latest, the County will amortize 100% of the unfunded actuarial accrued liability for all systems, still using a conservative 15-year amortization period.
2. Until each system reaches 100% funded status, the County will not reduce employer contributions for that system.
3. Any additional liability created as a result of approved benefit enhancements will be fully funded. It is the intent that no adjustments to benefit levels will reduce the funded status of any of the systems.

REVENUE & DISBURSEMENTS

GENERAL FUND REVENUE SOURCES

FY 2024 Adopted Budget (in millions)



$211.3 million reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property category

- FY 2024 budgeted General Fund revenues total $5.10 billion
- Real Estate Taxes make up 66% of all General Fund Revenue
  - This has increased from 58% in FY 1992 primarily because adjustments to the Real Estate Tax rate remain the primary option to generate significant revenue
- Revenue in all funds totals $10.34 billion as of the Adopted Budget

REAL ESTATE PROPERTY TAXES

- Real estate property tax revenues are computed by applying the tax rate set by the Board of Supervisors ($1.095 in FY 2024) to every $100 of assessed value of taxable real estate
  - In FY 2024, the Main Assessment Book Value was $315.3 billion
- For FY 2024, one penny on the tax rate equaled approximately $31.4 million
  - In FY 2024, the mean assessed value of all residential properties in the County was $719,522
  - With a tax rate of $1.095 per $100, the average residential tax bill was $7,878.77
  - Based on the mean assessed value, a penny change to the tax rate would have changed the average residential tax bill by $71.95

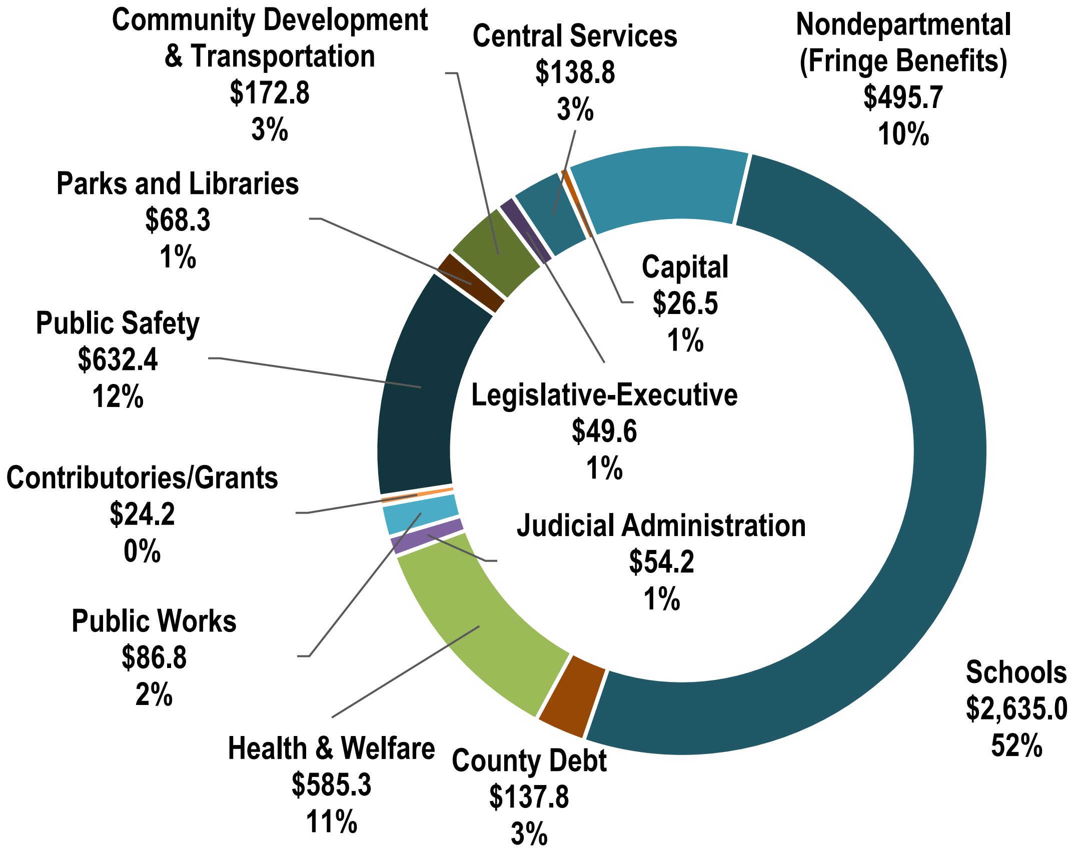
OTHER MAJOR SOURCES OF REVENUE

- Personal Property Taxes
  - $737m projected in FY 2024, with $211m from the state in tax relief
  - Revenue primarily driven from vehicles – which are normally a depreciating asset
    - Pandemic-related issues caused car values to spike – Board took action to reduce assessments for tax purposes
    - State funding has been frozen since FY 2007, which also increases tax bills as the same amount of tax relief is spread over more vehicles each year

- Investment Income
  - Category extremely sensitive to interest rates
  - As the Fed has increased rates, income from investments has increased - from just $17m in FY 2022 to a projected $125m in FY 2024
  - As interest rates start to come down, this revenue category will be negatively impacted

GENERAL FUND DISBURSEMENTS

FY 2024 Adopted Budget (in millions)



- FY 2024 budgeted General Fund disbursements total $5.11 billion
- Schools, Public Safety and Health & Welfare disbursements make up over 75% of all General Fund spending
- Since 1992:
  - School transfers have increased from 49.7% to 51.6%
  - Nondepartmental (primarily Fringe Benefit) expenses have increased from 6.2% to 9.7%
  - County Debt Service expenses have decreased from 5.1% to 2.7%
- Expenditures in all funds totals $9.95 billion as of the Adopted Budget

RECENT COMPENSATION INCREASES

Disbursement growth over past two years has been driven by compensation increases

- In the past two years, the Board of Supervisors has approved significant compensation packages for employees
- FY 2023:
  - 4.01% Market Rate Adjustment
  - Performance and Longevity Increases for General County employees (average of 2.15%)
  - Merit and Longevity Increases for uniformed Public Safety employees (average of 5.30%)
    - New 25-Year Longevity Step Added
  - For uniformed employees hired on or before June 30, 2021, an additional merit step increase was provided to address compression issues
  - For DPSC employees, 10.25% increase based on market comparisons
- FY 2024:
  - 5.44% Market Rate Adjustment
  - Performance and Longevity Increases for General County employees (average of 2.06%)
  - Merit and Longevity Increases for uniformed Public Safety employees (average of 2.39%)
  - 5% Adjustment for uniformed Police to support recruitment and retention
  - Regraded Fire Lieutenants from F22 to F23
  - Adjusted Fire Master Technician by 2.1%

CAPITAL IMPROVEMENT PROGRAM & DEBT OVERVIEW

CIP OVERVIEW

- The CIP is the County's planning document for creating, maintaining and funding present and future infrastructure requirements and is a key element in planning and controlling future debt service requirements

The **General Fund Capital Program** is developed as part of the Annual Budget and specific projects are included in the CIP

The **General Obligation Bond Referendum Plan** is developed as part of the CIP and is based on priority projects and adherence to the *Ten Principles of Sound Financial Management*

Rates for **self-supporting funds** are developed (Stormwater, Wastewater, Solid Waste, Housing) as part of the Annual Budget and support projects in the CIP

Economic Development Authority (EDA) bonds provide opportunities for the County to leverage public and private sector funds to advance major capital investments in infrastructure

The **Capital Sinking Fund** is approved as part of the Carryover Review by committing 30 percent of balances not needed for critical requirements. The Sinking Fund supports prioritized critical infrastructure replacement and upgrades projects.

ROLES OF COUNTY STAFF AND BOARD OF SUPERVISORS

COUNTY STAFF

Department of Management and Budget
Establish debt policies, debt service budgeting, forecasting and debt capacity analysis, bond sale preparation and planning

Department of Finance
Annual debt service payments, continuing disclosure, post issue compliance, investment of bond proceeds

Office of the County Attorney & Bond Counsel (Norton Rose Fulbright)
Review and draft all legal documents for bond sales

Financial Advisor (PFM)
Liaison with bond rating agencies, credit strategies, rating agency preparation and presentation materials, transaction management, bond pricing/structure

BOARD OF SUPERVISORS

Receive and provide feedback on capital project and debt financing updates at Committee meetings and as part of the annual budget process

Review follow-on updates for capital projects and debt financing details provided via Not in Package (NIP) memoranda

Meet with staff on respective district capital projects and debt financings

Consider staff recommendations for revisions to the County's *Ten Principles of Sound Financial Management*

Review of Action Items at Board meetings for proposed County and School bond referenda

Review of Action Items at Board meetings for all proposed bond deals

FY 2025 CIP AND BOND SALE TIMELINE

July 25: Board approval of Plain Language Explanation for 2023 Bond Referendum

November 7: Fall 2023 Schools Bond Referendum passed

December: Staff presents to Bond Rating Agencies

January 24: General Obligation Bond Sale

March: Planning Commission meetings on CIP

April 3: Planning Commission marks up CIP

June: Board adoption of resolution asking Circuit Court to order referendum in November 2024

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CIP GUIDANCE PROVIDED TO AGENCIES

AGENCY CIP DEVELOPMENT & SUBMISSIONS

COUNTY EXECUTIVE CIP DEVELOPMENT WITH MANAGEMENT & BUDGET

BOARD OF SUPERVISORS AND PUBLIC DELIBERATION

ADOPTED CIP PUBLISHED

September 12: Board Authorization for Extension of Bond Sales for Public Safety Facilities

December 5: Board Authorization of January Bond Sale

February 20: County Executive's Advertised CIP released

April 16-18: Public Hearings on CIP (and Budget)

April 30: Board of Supervisors adopts FY 2025-2029 Capital Improvement Program

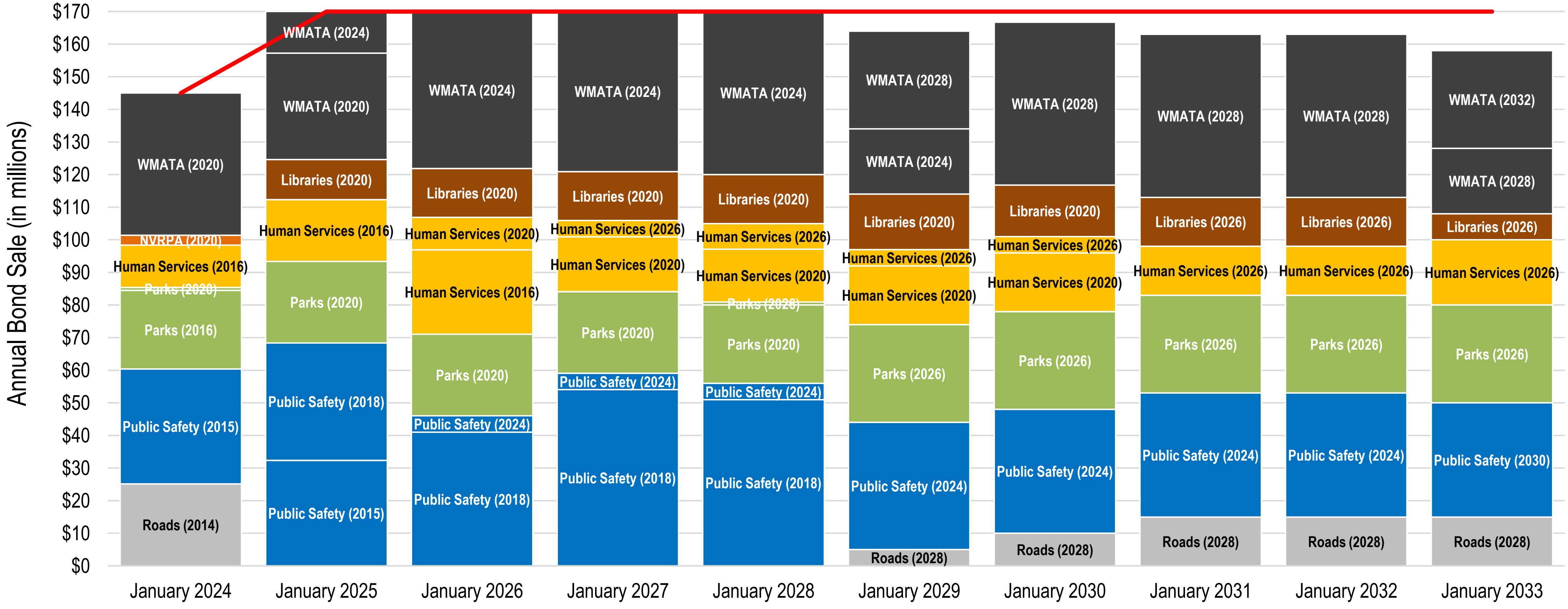
BOND REFERENDA CHART

Year	Category	Description	Total
Fall 2024	County	Public Safety $168 mil WMATA $180 mil	$348 mil
Fall 2025	Schools	Capital Enhancement, Renovation, Infrastructure Management	$460 mil
Fall 2026	County	Human Services $125 mil Libraries $44 mil Park Authority $180 mil	$349 mil
Fall 2027	Schools	Capital Enhancement, Renovation, Infrastructure Management	$460 mil

Source: FY 2024 – FY 2029 Adopted Capital Improvement Program

- Resolutions approved by School Board and Board of Supervisors
- Sunset Rule
  - Referenda expire eight years from date of voter approval
  - Two-year extension permitted upon petition to Circuit Court
- General Obligation Bond Sale
  - Issued annually (January/February)
  - Sell for County and Schools
  - Bond sale of $350 million scheduled for January 24 to include new money for projects

PROJECTED BOND SALES WITH FUTURE REFERENDA



RATING AGENCY FEEDBACK – COUNTY DEBT

"Fairfax County benefits from a large and dynamic economy and tax base with robust wealth metrics and strong income levels. The county's financial position is healthy, supported by strong management and a history of conservative budgeting. Long-term liabilities are manageable and fixed costs are in line with peers."

"Fairfax County's debt burden will remain manageable, despite future debt plans, given management's adherence to formal debt policies and continued revenue growth."

- Moody's (January 2024)

"Fairfax County has a demonstrated record of positive operating performance and maintenance of very strong reserve levels. Fiscal 2023 ended as expected, with another operating surplus, leading to maintenance of reserves consistent with 2022, at about 21% of adjusted operating expenditures. We expect continued balanced operating results annually, due to the very strong economic and financial management conditions underpinning the county's finances."

"The county is active in fostering economic growth, and we expect demand for housing and commercial space will lead to continued incremental growth in the tax base. We also expect its debt and liabilities profile will remain manageable, despite plans for modest growth in debt issuances, as its very strong economic profile, which participates in the broad and diverse Washington-Arlington-Alexandria metropolitan statistical area (MSA), can support an increased debt position."

- S&P (January 2024)