



Joint Meeting of the Board of Supervisors and School Board

FY 2019 County and Schools Fiscal Forecast

November 28, 2017





Joint Fiscal Forecast Format

- **Developed collaboratively, incorporating respective priorities**
- **Presented together**
- **Unified methodology**
 - **Format and order of presentation**
 - **Revenue presentation**
 - **Expenditure presentation**
 - **Calculation of gap between projected revenue and expenditures**

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County's Economic Outlook



National Economy – Growing slowly but steadily

- **Positive:**

- Employment continues to grow
- Consumer confidence is strong
- Stock market is at record levels
- Income growth
 - Real median household income up 2.4% in 2016 after gaining 5.2% in 2015

- **However:**

- Uncertainty about U.S. fiscal policy and tax reform impact
- Federal government is funded through a continuing resolution that expires on December 8
- Sequestration cuts are scheduled to kick back in for the current fiscal year – would have a significant impact in Northern Virginia
- How long will the current economic expansion continue?

State and Local Revenue Picture

- State revenue in FY 2017 was higher than forecasted
 - However, sales tax growth was lower than projected
 - According to the state, sales tax growth in Virginia is among the worst in the nation – fell 25% between 2000 and 2016 in real terms
 - Economy has shifted from manufacturing to service-based and Virginia taxes fewer services than many other states
- According to the state, resources should be adequate to cover major budget drivers in FY 2019-FY 2020 biennium budget – but not much left for other items
- In Fairfax County, continued modest growth during FY 2017 in two revenue sources that are a good indicator of economic activity:
 - Sales tax was down 1.2% primarily due to a significant refund; adjusted growth was 1.5%
 - BPOL tax – growth of only 1.2%

Local Labor Market



■ Job Growth in Fairfax County:

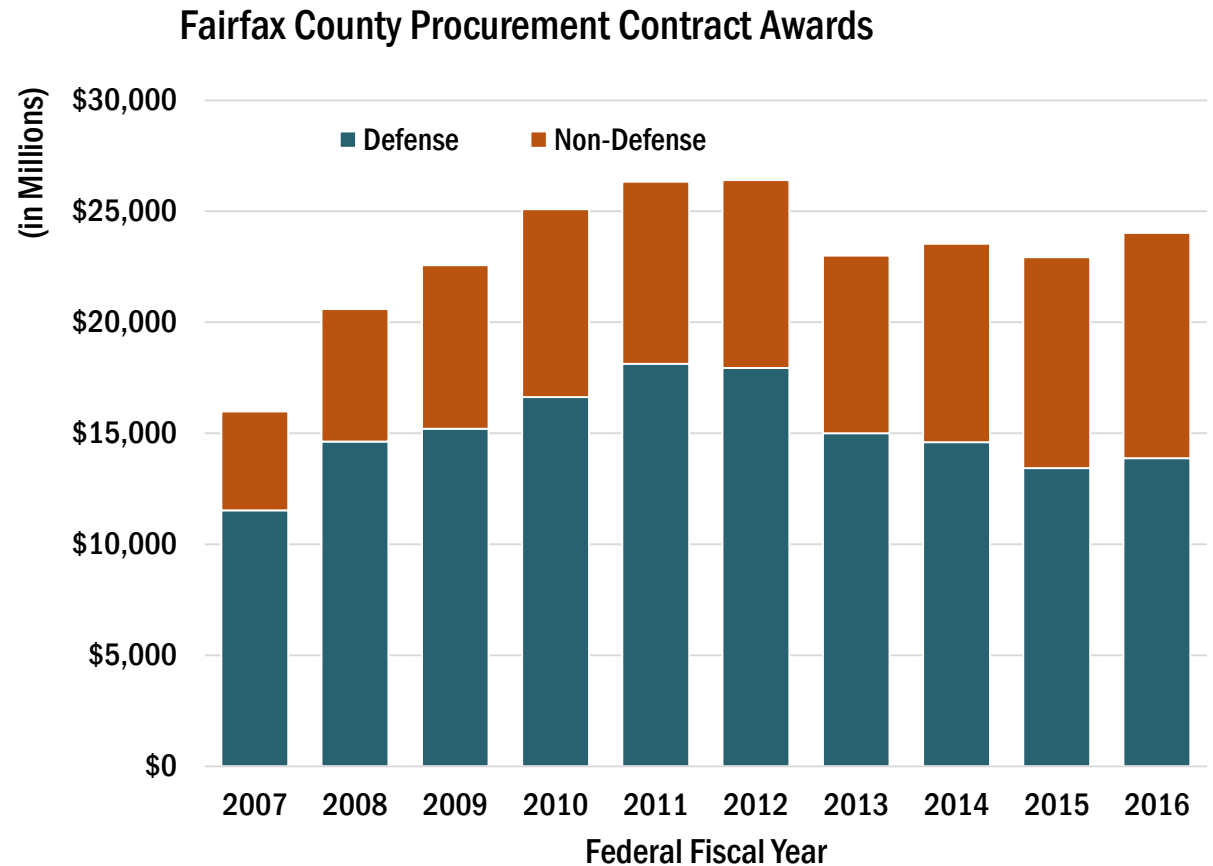
	Total Increase	% Change	Prof/Bus Services	% Change
2011	7,600	1.3%	2,600	1.2%
2012	9,400	1.6%	4,500	2.1%
2013	(3,700)	(0.6%)	(3,800)	(1.7%)
2014	(7,300)	(1.2%)	(8,800)	(4.0%)
2015	7,300	1.3%	300	0.1%
2016	8,400	1.4%	2,400	1.1%

■ Job growth in Fairfax County continued in 2016 for a second consecutive year

- While Professional and Business Services sector gained 2,400 jobs, the jobs lost as a result of the sequester are yet to be recovered

Federal Procurement Spending in Fairfax County

- Federal procurement spending in Fairfax County grew 13.3% per year from FY 2007-2011
- Flat in FY 2012, but decreased 12.8% in FY 2013 as a result of the sequester
- In FY 2016, increased 4.8% after decreasing 2.6% in FY 2015; level is 9.0% below peak FY 2012
- Defense contract awards are 23.4% below peak level in FY 2011



Source: Federal Procurement Data System

Northern Virginia Real Estate Market

- Average home sales price through October 2017 compared to the same period of 2016

Jurisdiction	Average Home Sales Price	% Change
Arlington	\$661,077	4.3%
Alexandria	\$552,020	4.4%
Fairfax County	\$563,906	3.4%
Prince William	\$375,762	3.4%
Loudoun	\$501,570	4.4%

Source: Metropolitan Regional Information Systems (MRIS)

- Office vacancy rates remain elevated in historical terms

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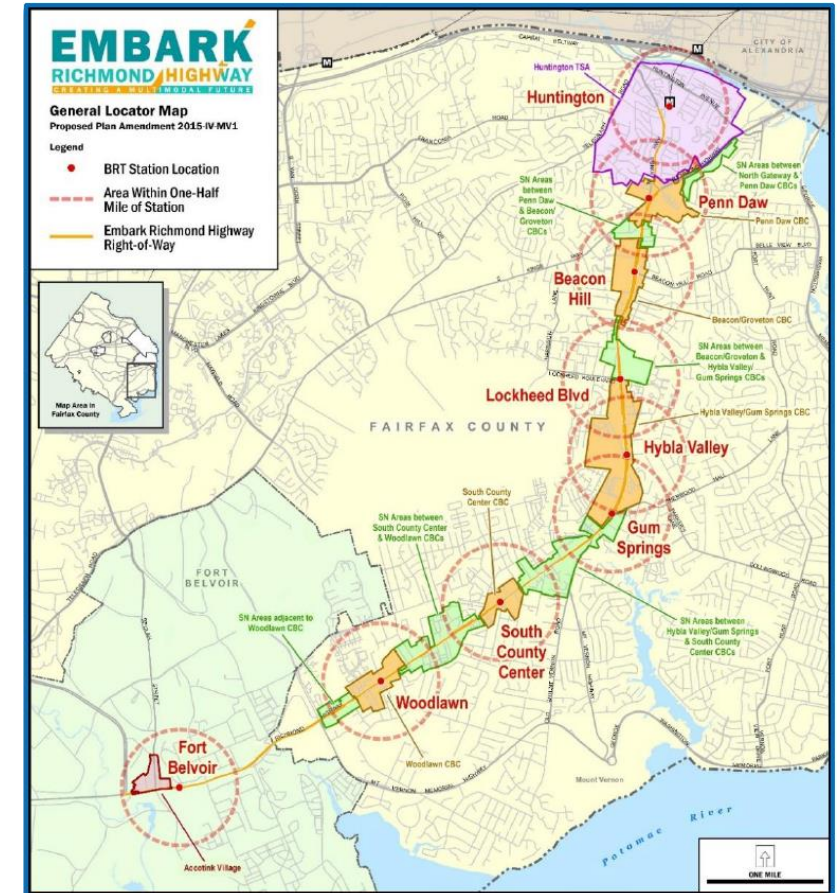
County Strategic Initiatives

Initiatives Underway

- **Lines of Business, Phase 2**
 - Work groups focused on program efficiencies to better address service needs
 - Updates by the end of the year
- **Multi-year fiscally constrained plan for Board priorities under development including, but not limited to:**
 - Diversion First
 - Public Safety Staffing Plan
 - Human Services Resource Plan
- **IT Projects and process improvements, such as with the permitting process**
- **Economic Success Strategic Plan initiatives including, but not limited to:**
 - Embark Richmond Highway
 - zMOD

Embark Richmond Highway

- Response to Route 1 Alternatives Analysis
- Comprehensive Plan amendment
 - Corridor-wide goals and objectives
 - Multimodal Improvements
 - Bus Rapid Transit and future Metrorail
 - 6-lane roadway with pedestrian, bicycle facilities
 - Land use within station areas
 - Urban design and other guidance
- Extensive outreach and communication
 - Advisory group and greater community





zMOD: Zoning Ordinance Modernization Project

- **Makes the County's Zoning Ordinance more agile, flexible and forward-thinking**
 - Zoning Ordinance established 40 years ago
 - Supports the County's strategic plan to grow and diversify the economy
- **zMOD goals**
 - Reformation and restructure the ordinance to make it more user-friendly
 - Prioritize key Zoning Ordinance amendments
 - Improve the County's overall process of how the Zoning Ordinance is updated
 - Integrate with, but not replace, Zoning Ordinance Amendment Work Program



FCPS' Educational Outlook

Strategic Plan Drives Priorities



Student Success

We commit to reach, challenge, and prepare every student for success in school and life.

Caring Culture

We commit to foster a responsive, caring, and inclusive culture where all feel valued, supported, and hopeful.

Premier Workforce

We commit to invest in our employees, encourage innovation, and celebrate success.

Resource Stewardship

We commit to champion the needs of our school communities and be responsible stewards of the public's investment.





Successes

- **Ninety-six percent – 187 of 194 Fairfax County public schools have earned full accreditation from the Virginia Department of Education for 2017-18**
- **Seniors in the class of 2017 exceeded state and national averages on the SAT**
- **Students earned more than 18,500 VDOE-approved industry certifications and licenses in 2015-2016**
- **The number of teacher vacancies at the beginning of the school year decreased from approximately 170 last year to 99 this year**



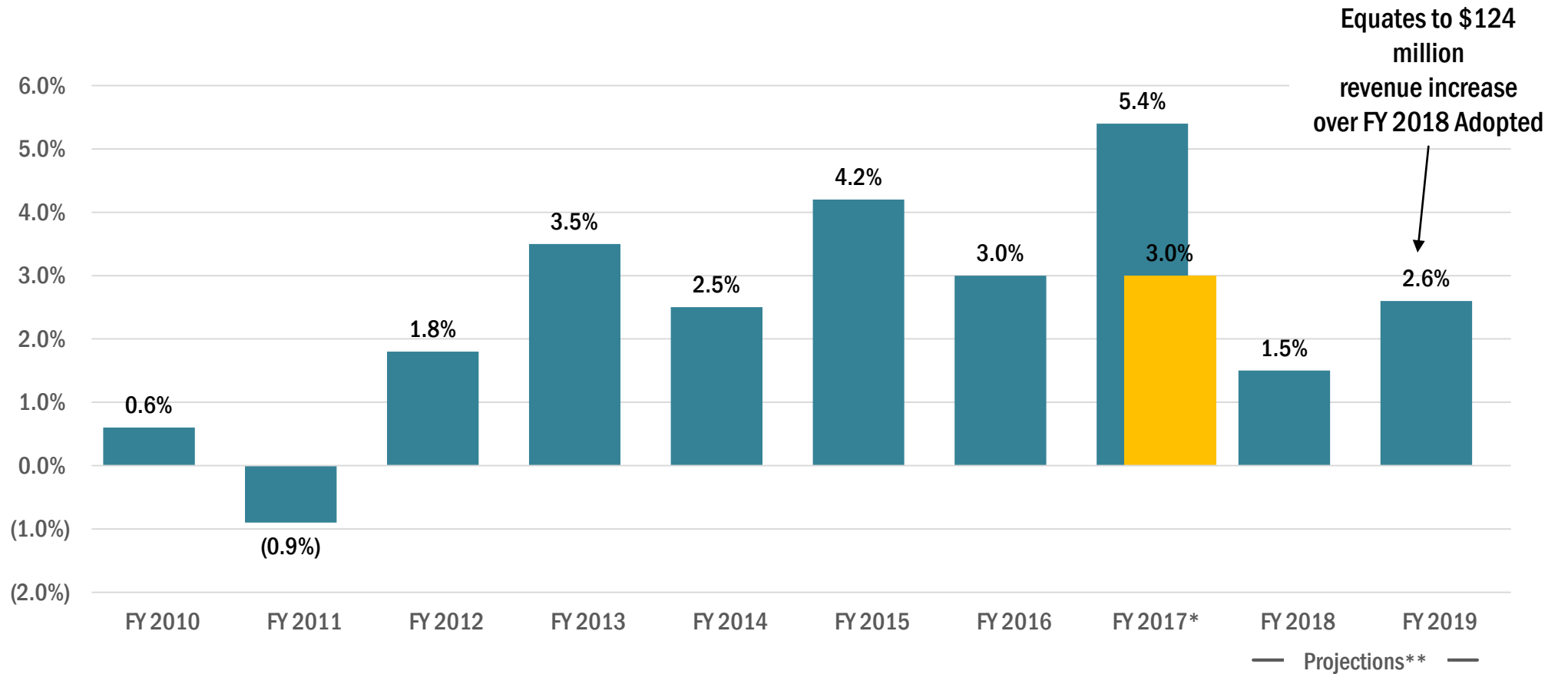
Opportunities

- **Ensuring all students achieve Portrait of a Graduate Outcomes**
- **Closing achievement gaps**
- **Starting the school year with a qualified teacher in every classroom**
- **Ensuring teacher pay reaches the market average**



County General Fund Revenues

Annual Change in General Fund Revenue FY 2010 – FY 2019



* Without the 4 cent Real Estate tax increase, revenue would be up 3.0%

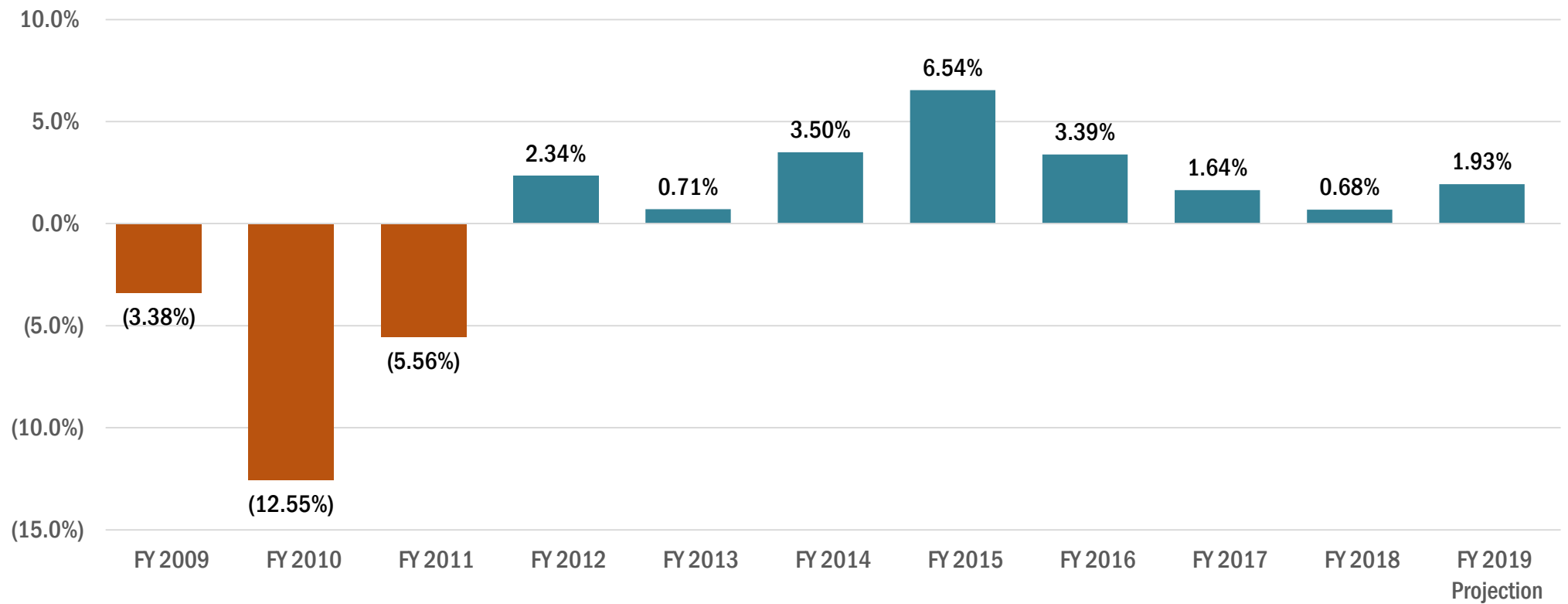
**Projections as of November 2017

Real Estate Projections - Multi-Year Versus November Estimates

- Compared to the forecast included in the multi-year budget, the November Real Estate revenue estimate is up **\$34 million**

Changes in Assessments	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Multi-Year Estimate in FY 2018 Adopted Budget	FY 2019 Estimate as of Nov. 2017
Residential	3.39%	1.64%	0.68%	1.00%	1.93%
Nonresidential	(0.60%)	2.87%	1.85%	1.00%	3.20%
New Construction	1.06%	1.04%	0.92%	0.90%	0.91%
Total Real Estate base	3.46%	2.98%	1.89%	1.90%	3.17%

Annual Changes in Residential Equalization



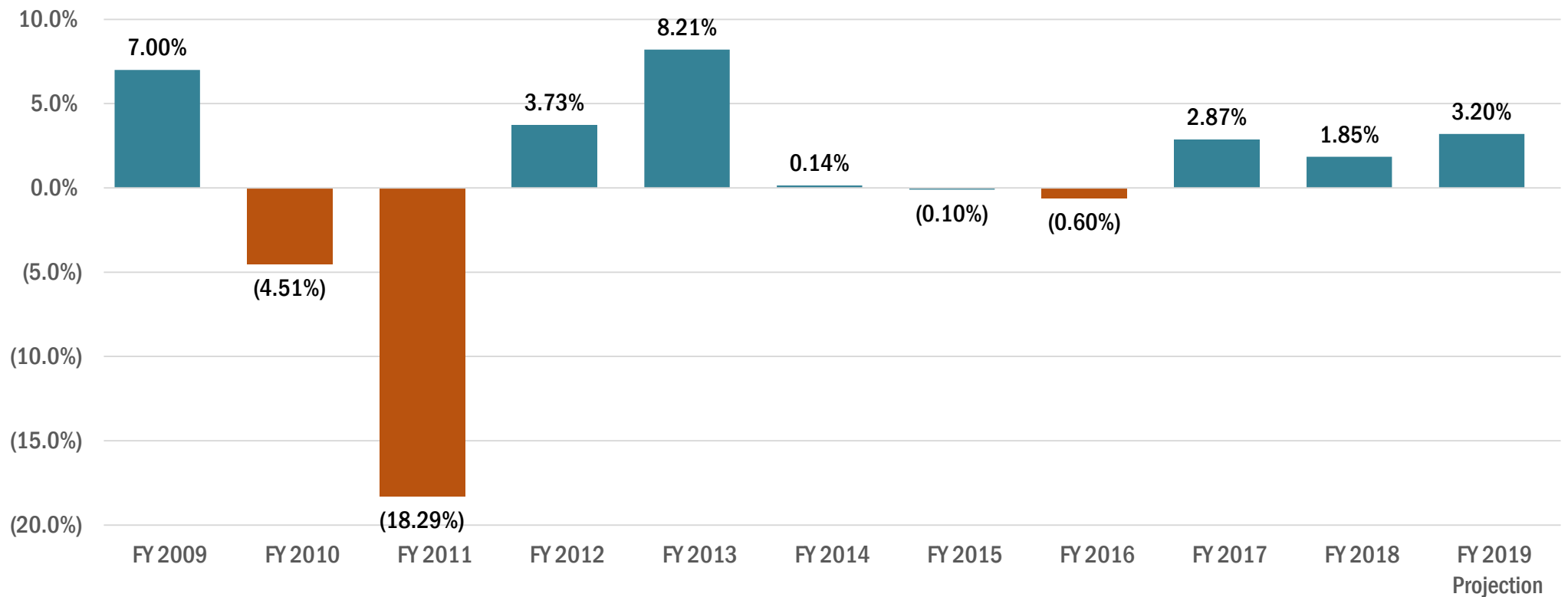


Fairfax County's Housing Market

**Residential Values are projected
to increase 1.9% in FY 2019**

- Home prices in Fairfax County are up 3.4% through October
- Year-to-date through October, the number of home sales has increased 2.8%
- Average number of days to sell a home is 45 days in October 2017 compared to 53 days last October
- Supply of homes for sale on the market is down 12.0% in October

Annual Changes in Nonresidential Equalization



Nonresidential Real Estate

**Nonresidential Values are projected
to increase 3.20% in FY 2019**

- Office vacancy rates remain at historically elevated levels, but are on a downward trend
 - As of mid-year 2017:
 - Direct office vacancy rate is 15.4% - the lowest since 2014
 - Overall vacancy rate (with sublets) is 16.2% - the lowest since 2012
 - At the current pace of space absorption, 2017 leasing activity could surpass the 10-year annual average
 - Tysons, Dulles, and Reston submarkets lead in leasing activity
 - Fairfax County was the 17th most active office construction market in the nation at mid-year 2017 with 9 buildings totaling 3.1 million s.f. under construction
 - Fairfax County is on pace to have the highest volume of office building sales in the past 10 years



Schools Revenue

Revenue Other Than County

Change from FY 2018
Approved in millions

■ Beginning Balance Decrease	(\$9.4)
■ State Revenue	22.6
■ 5.1% growth and includes rebenchmarking and VRS decrease	
■ Sales Tax	3.9
■ Federal Aid	1.6
■ Federal Budget impacts are still unknown	
■ Fairfax City and Other Revenue	<u>1.6</u>
■ Total Increase in Revenue Prior to County Transfer	\$20.3



FY 2019 Forecast Summary

Projected Available Resources

- **County revenue growth projected at 2.6% generates \$123.90 million**
 - **To maintain equal growth for both the Schools and County (2.95%), the revenue is allocated as follows for disbursement requirements:**
 - **Schools: \$64.02 million**
 - **County: \$57.03 million**
 - **Reserves: \$2.85 million**
- **In addition, Schools projects increase in revenue of \$20.30 million**
- **Combined revenue growth will not cover disbursement needs for either the Schools or the County**

Forecast Summary

COUNTY	Funding in \$millions	SCHOOLS
\$57.03	Available County Revenue (\$121 million after reserves)	\$64.02
--	Net Schools Revenue	\$20.30
\$57.03	TOTAL AVAILABLE	\$84.32
(\$50.50)	Employee Pay	(\$92.60)
(\$7.50)	Employee Benefits	(\$7.00)
(\$13.56)	Debt/Capital Requirements	(\$5.35)
(\$3.09)	County: Prior Commitments	--
(\$8.93)	County: Public Safety	--
(\$4.85)	County: Human Services	--
(\$8.92)	County: Cost of Operations	--
(\$10.12)	County: Transportation	--
--	Schools: Enrollment & Other	(\$18.20)
(\$5.47)	Net Additional Reserves	(\$4.11)
(\$112.94)	NET USES	(\$127.26)
(\$55.91)	Net Balance	(\$42.94)



Detailed Disbursements

County and Schools Employee Compensation

Employee Pay

County

- **FY 2019 Forecast includes increases of \$50.50 million, including:**
 - **Market Rate Adjustment - \$27.60 million**
 - 2.25% based on formula of 40% CPI, 50% ECI, 10% Federal Wage adjustment
 - All employees
 - **General County Performance/ Longevities - \$12.90 million for 8,900 employees**
 - 2.00% average
 - Non-Uniformed merit employees only
 - **Uniformed Merits/Longevities - \$10.00 million for 3,600 employees**
 - 2.25% average
 - Uniformed merit employees only

Employee Benefits

County

- **FY 2019 Forecast includes increases of \$7.50 million, including:**
 - **Retirement - \$8.10 million**
 - Funds retirement systems per the County's Funding Policy
 - **Health Insurance - \$2.30 million**
 - Assumes 5.5% increases in health insurance premiums for January 2019
 - **Other Benefits/Experience – (\$2.90 million)**

Employee Pay

Schools

- **FY 2019 Forecast includes increases of \$92.6 million, including:**
 - **Step Increases - \$44.9 million**
 - 2.3% average for all employees
 - **Teacher Salary Scale Implementation - \$53.1 million**
 - Closes the gap with the projected future market by an average of 50%
 - **FY 2018 Step for Teachers on BA Lanes - \$1.3 million**
 - **Nonteacher Salary Scale Implementation - \$17.9 million**
 - 2.25% average
 - **Base Savings Decrease – (\$24.6 million)**

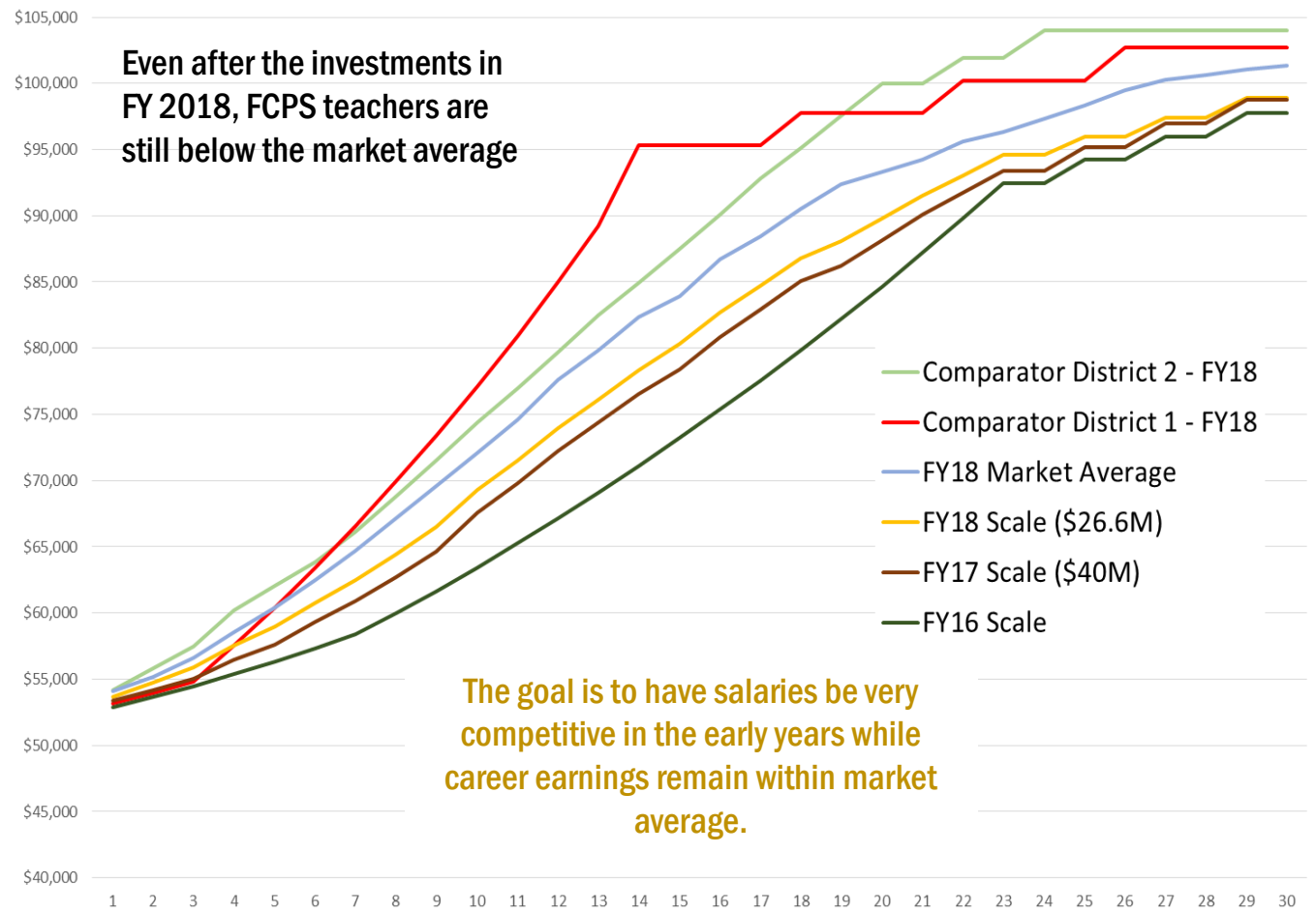
Employee Benefits

Schools

- **FY 2019 Forecast includes increases of \$7.0 million, including:**
 - **Retirement - FCERS – \$3.4 million**
 - **Per the County’s Funding Policy**
 - **Retirement – VRS Decrease (\$9.8 million)**
 - **Based on rate adopted by VRS Trustees**
 - **Health Insurance – \$13.4 million**
 - **Assumes 5.5% increase in health insurance premiums**

Current Teacher Pay Comparison

Master's Lane Comparison FY 2018



Employee Pay is a Joint Priority

Average Projected Employee Increases in FY 2019

	General County	Uniformed Public Safety	Teachers	Non-Teachers
County				
Market Rate Adjustment	2.25%	2.25%	--	--
Steps/Longevities	--	2.25%	--	--
Performance/Longevities	2.00%	--	--	--
Schools				
Step	--	--	2.37%	2.00%*
Scale Implementation	--	--	3.86%	2.25%
Average Increase	4.25%	4.50%	6.23%	4.25%

*Estimated - new scales still in development



Other Detailed Disbursements

County General Fund

Debt Service and Capital Requirements

County

- FY 2019 Forecast includes increases of \$5.06 million for County Debt Service requirements
 - Maintains County at approximately \$120 million in annual GO Bond Sales
 - County will continue to monitor all refunding opportunities
 - Out-year debt ratios projected to remain under the 10% limit per the County's *10 Principles*
- Forecast also includes \$8.50 million to bring the County's General Fund contribution for Capital Paydown to \$15 million

Schools

- FY 2019 Forecast includes increases of \$5.35 million for School Debt Service requirements
 - Maintains Schools at \$155 million in annual GO Bond Sales
- As the CIP discussion unfolds relative to capital support for schools, it should be noted that for every \$25 million increase in bond sales debt requirements are increased approximately \$2.5 million



Prior Commitments

- **FY 2019 Forecast includes \$3.09 million for the recurring impact of adjustments approved as part of the *FY 2017 Carryover Review***
 - **Public Assistance Caseloads**
 - **Fairfax First Initiative**
 - **Parks Resident Curator and Equipment Reserve**
- **These adjustments are partially offset by additional associated revenues, already included in projected revenues, for a net impact of \$0.25 million**

Public Safety

- **FY 2019 Forecast includes increases of \$8.93 million and 31 positions, including:**
 - **New South County Police Station – 17 positions and \$3.40 million**
 - **Diversion First – 14 positions and \$2.00 million**
 - **Full-Year impact of Police Relief Sergeants added in FY 2018 - \$1.60 million**
 - **FRD Large Apparatus & Ambulance Replacement - \$1.00 million**
 - **Gang Prevention - \$0.50 million**
 - **SAFER Grant - \$0.43 million**

Human Services

- **FY 2019 Forecast includes increases of \$6.04 million and 31 positions, including:**
 - **Contract Rate Increases - \$3.00 million**
 - **ID Support Coordination in the Community Services Board (CSB) – 12 positions**
 - **Employment and Day Services**
 - **Medically Assisted Treatment for Opioid Epidemic in CSB – 9 positions**
 - **Adult & Aging Caseloads – 8 positions and \$0.85 million (offset by revenue)**
 - **Consolidated Community Funding Pool - \$0.56 million**
 - **School Readiness/Early Childcare Slots - \$0.54 million**
 - **School-Age Child Care (SACC) - \$0.43 million (partially offset by revenue)**
 - **Adult & Aging Congregate Meals - \$0.38 million**
 - **Medically Fragile Students in Schools - \$0.28 million**
- **With offsetting revenues, the net General Fund impact for Human Services priorities is \$4.85 million**



Cost of Operations

- **FY 2019 Forecast includes increases of \$8.92 million, including:**
 - **Information Technology Projects - \$7.00 million**
 - **Maintenance/Utilities at New Facilities - \$0.75 million**
 - **Fuel - \$0.75 million**
 - **Contractual Contributory increases - \$0.25 million**
 - **Lease-Related Costs - \$0.17 million**



Transportation

- **FY 2019 Forecast includes increases of \$10.12 million, including:**
 - **Metro - \$8.40 million**
 - In addition to increased use of State Aid, the General Fund contribution for operating expenses is increased by \$1.4 million.
 - Increased capital requirements are met through the use of WMATA financing, with the first associated debt service payments of \$7.0 million paid by the General Fund in FY 2019.
 - **Connector - \$1.72 million**

Metro Funding

- WMATA General Manager will release detailed FY 2019 Budget in December for Operating and Capital
- FY 2019 Proposed Budget is a “bare bones” version with a lot of essential items currently unfunded that may get added back over the next few months
 - Assumes no new dedicated funding source or fare increases
 - Dedicated long-term regional funding discussions continue
 - Increased operating subsidy from the County is approximately 3%
 - County state aid at NVTC and General Fund will cover County operating requirement
 - County Capital contribution of \$96 million will be required in FY 2019
 - \$56 million gap after utilizing General Obligation bonds and state aid
 - County will have WMATA sell this balance (“Opt-In”) with future debt service payments due to WMATA
- WMATA Board will not adopt final FY 2019 budget until spring 2018
- County’s accumulated state aid balances continue to decline, and County will need to consider alternate revenue sources (e.g. General Fund) in addition to a new permanent regional funding solution



Many Funding Needs Not Included

- **The County's projected \$56 million budgetary shortfall does not include funding for other significant items, including:**
 - **Full Public Safety Staffing Plan**
 - **Other PFM Study Recommendations for Police related to the Ad-Hoc Commission recommendations**
 - **Fire & Rescue Review Results**
 - **Other Human Services/Safety Net Needs**
 - **Commonwealth Coordinated Care Plus**
 - **Nurse Family Partnership Program**
 - **Specialized Pay Study Impacts**



Looking Ahead: More Uncertainty

- **Uncertainty about U.S. fiscal policy and tax reform efforts**
- **Looming sequestration cuts**
- **State budget**
- **Restrained revenue growth for the foreseeable future**



Other Detailed Disbursements

Schools



Enrollment and Student Demographics

- Enrollment increase of 702 students
- Increase in students eligible for free and reduced-price meals of 4,000 students or 7.6%
 - Impacted by Virginia's participation in pilot to directly certify students eligible for Medicaid
- Increase in English for Speakers of Other Languages services
- Increase in special education students and services
- Total cost for enrollment and demographic changes for FY 2019 is \$15.8 million

FCPS Other Expenditures

- **All other disbursement adjustments total \$2.4 million**
 - **Tuition Reimbursement - \$1.0 million**
 - FCPS is offering a tuition-sharing Master's Cohort Program as well as tuition reimbursement for teachers near the top of the BA lanes on the new teacher scale whose salaries are frozen
 - **Contractual Increases - \$2.3 million**
 - **Support for FECEP - \$0.5 million**
 - Transfer to the Grants Fund to address rising salaries and benefits
 - **Transfer to the Construction Fund – Decrease (\$1.4 million)**
 - Savings based on projects in the CIP for FY 2019



Looking Ahead: Challenges Continue

- **FCPS will continue to face challenges in the future years**
 - **Employee compensation remains a divisionwide priority**
 - **Recurring revenue must keep pace with FCPS' increase in expenditures resulting from**
 - **Market competitive employee compensation**
 - **Student enrollment and demographic changes**
 - **Strategic Plan investments to include student programming**
 - **Critical capital and infrastructure requirements**



Many Funding Needs Not Included

- **Capital Improvement Program**

- Funding for capital improvement projects is currently limited by a \$155 million yearly cap on school bond sales
- 19,200 students in temporary instructional classrooms
- This is exacerbated by the hundreds of millions of dollars in facility renovation backlogs caused by the \$155 million yearly cap
- Membership growth will continue to cause delays in the schedule of many future renovation projects due to meeting capacity demands in advance of the renovation cycle



Many Funding Needs Not Included

- **Significant investments are required to replace instructional systems**
 - Library
 - Professional Development and Evaluation
 - Student College and Career Planning
 - Curriculum and Assessment
 - Learning Management
- **Operations and Infrastructure**
 - Preventive Maintenance
 - Buses, Equipment, Computers, and Scoreboard Replacement



Looking Ahead: Uncertainty

- **Uncertainty about the impact of federal education funding**
 - Title I – Supplemental support for FCPS’ highest poverty elementary schools
 - Title II – Support for improving instruction through Project Momentum and professional development for teachers
 - Title III – Support for English language learners
 - Medicaid – Support for students with medical needs
- **State budget**
 - Impact will not be fully known until spring



Moving Forward Collaboratively

- **New joint fiscal forecast presentation methodology**
- **Joint Budget Work Plan progress**
 - Budget planning
 - Shared Services
 - Capital Improvement Program
 - Legislative advocacy
- **Continued staff collaboration**
- **Partnership between school and county leadership**

FY 2019 Budget Timeline

County Dates		Schools Dates
	Superintendent releases FY 2019 Proposed Budget	January 11, 2018
	School Board holds public hearings on budget	January 29-31, 2018
	School Board adopts FY 2019 Advertised Budget	February 8, 2018
February 20, 2018	County Executive presents FY 2019 Advertised Budget	
March 6, 2018	Board of Supervisors advertises FY 2019 tax rates	
April 10-12, 2018	Board of Supervisors holds public hearings on FY 2019 Budget	
April 24, 2018	Board of Supervisors marks-up FY 2019 Budget	
May 1, 2018	Board of Supervisors adopts FY 2019 Adopted Budget	
	School Board holds public hearings on budget	May 15-16, 2018
	School Board adopts FY 2019 Approved Budget	May 24, 2018
July 1, 2018	FY 2019 Budget Year begins	July 1, 2018