FAIRFAX COUNTY
VIRGINIA

Budget, Capital Improvement Program (CIP) and Debt Overview

Board of Supervisors Retreat

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January 7, 2020

Budget Overview

Budget Development Timeline

Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun

Future Fiscal Year Budget Development

- Jul–Sept: Agencies prepare and submit annual budget requests
- Oct–Nov: DMB (Dept. of Management and Budget) reviews requests
- Dec–Jan: County Executive reviews DMB recommendations
- Feb: County Executive submits Advertised Budget to Board
- Mar–Apr: Community Engagement on Advertised Budget
- Apr: Public Hearings on Advertised Budget
- May: Board approves Tax Rates and Adopted Budget Plan by May 15 after Budget Chair incorporates input from Community and Board

Current Fiscal Year Budget Adjustments

- Jul: DMB prepares and County Executive submits Carryover Review to Board
- Sept: Board approves Carryover Review
- Feb–Mar: DMB prepares and County Executive submits Third Quarter Review to Board
- Apr: Board approves Third Quarter Review

CY 2020 County Budget Dates

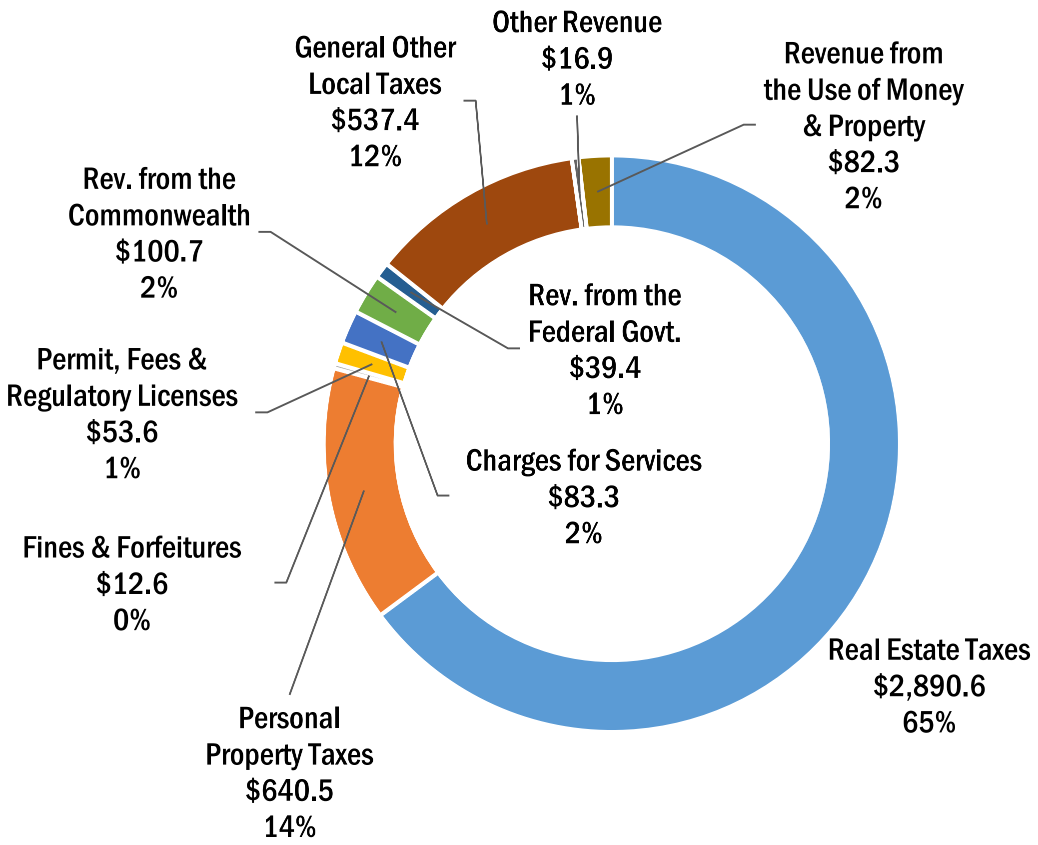
February 25	County Executive presents FY 2021 Advertised Budget and FY 2021-2025 Capital Improvement Program (CIP)
February 28	Joint County/Schools Budget Committee Meeting
March 10	Board advertises FY 2021 tax rates
March 17	Budget Committee Meeting
March 24	Board authorizes advertisement of *FY 2020 Third Quarter Review*
March 31	Budget Committee Meeting
April 14-16	Board holds public hearings on FY 2021 Budget, FY 2021-2025 CIP, and *FY 2020 Third Quarter Review*
April 24	Budget Committee Meeting (Pre-Mark-up)
April 28	Board marks up FY 2021 Budget, approves FY 2021-2025 CIP and *FY 2020 Third Quarter Review*
May 5	Board adopts FY 2021 Adopted Budget
July 1	FY 2021 Budget Year begins
July 28	Board authorizes advertisement of *FY 2020 Carryover Review*
September 22	Board approves *FY 2020 Carryover Review*

FY 2021 Consolidated Budget Timeline

	COUNTY DATES	SCHOOLS DATES	STATE DATES
Governor presents amendments to 2020-2022 budget			December 17, 2019
Superintendent releases FY 2021 Proposed Budget		January 9, 2020	
School Board holds public hearings on budget		January 27-29, 2020	
School Board adopts FY 2021 Advertised Budget		February 6, 2020	
State money committees to complete action on budget bill			February 16, 2020
County Executive presents FY 2021 Advertised Budget	February 25, 2020		
Last day to act on state budget bills and appoint budget conferees			February 26, 2020
Joint County/Schools Budget Committee Meeting	February 28, 2020	February 28, 2020	
General Assembly Session adjourns sine die			March 7, 2020
Board of Supervisors advertises FY 2021 tax rates	March 10, 2020		
Last Day for Governor’s action on legislation by midnight			April 6, 2020
Board of Supervisors holds public hearings on FY 2021 Budget	April 14-16, 2020		
Board of Supervisors marks up FY 2021 Budget	April 28, 2020		
Board of Supervisors adopts FY 2021 Adopted Budget	May 5, 2020		
School Board holds public hearings on budget		May 11-13, 2020	
School Board adopts FY 2021 Approved Budget		May 21, 2020	
FY 2021 Budget Year begins	July 1, 2020	July 1, 2020	July 1, 2020

General Fund Revenue Sources

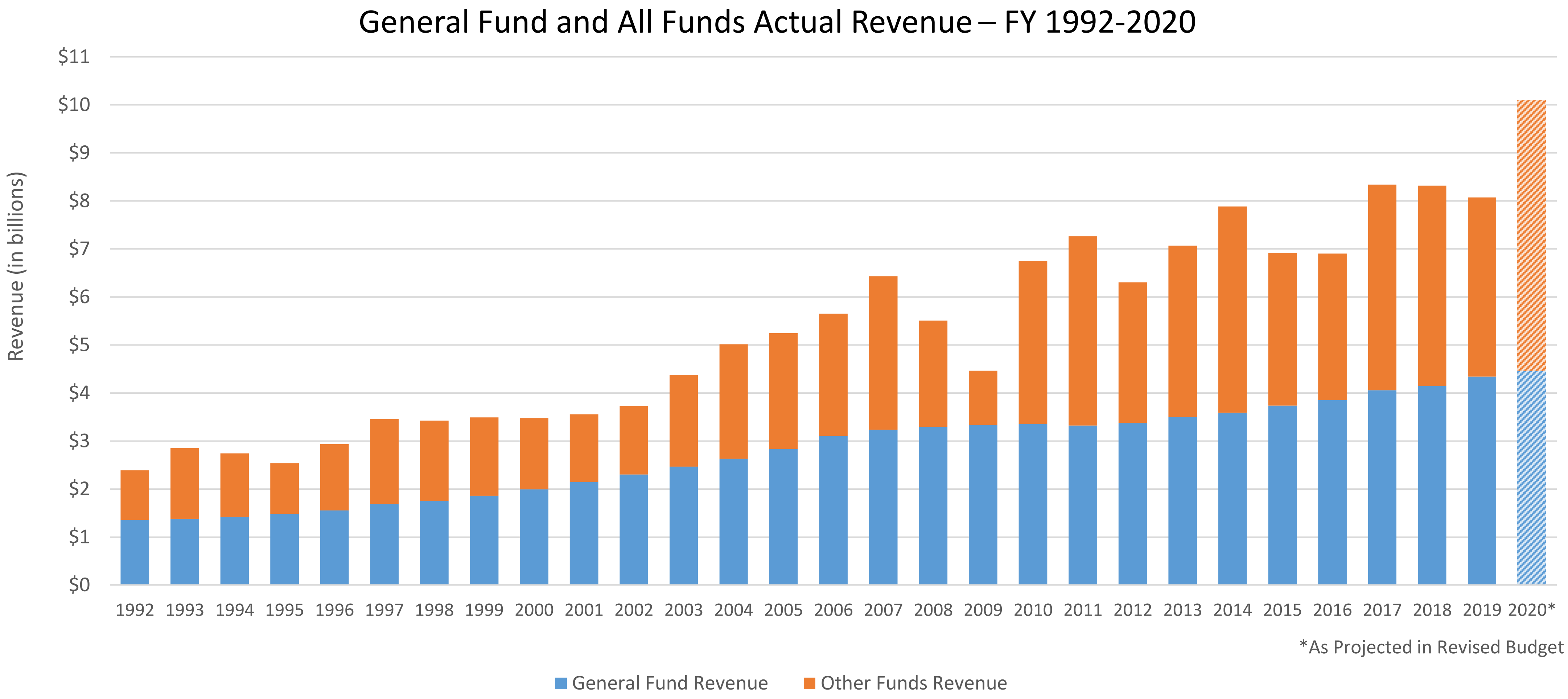
FY 2020 Adopted Budget (in millions)



$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 2020 budgeted General Fund revenues total $4.46 billion
- Real Estate Taxes make up 65% 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 $8.87 billion as of the Adopted Budget

Revenue Trends



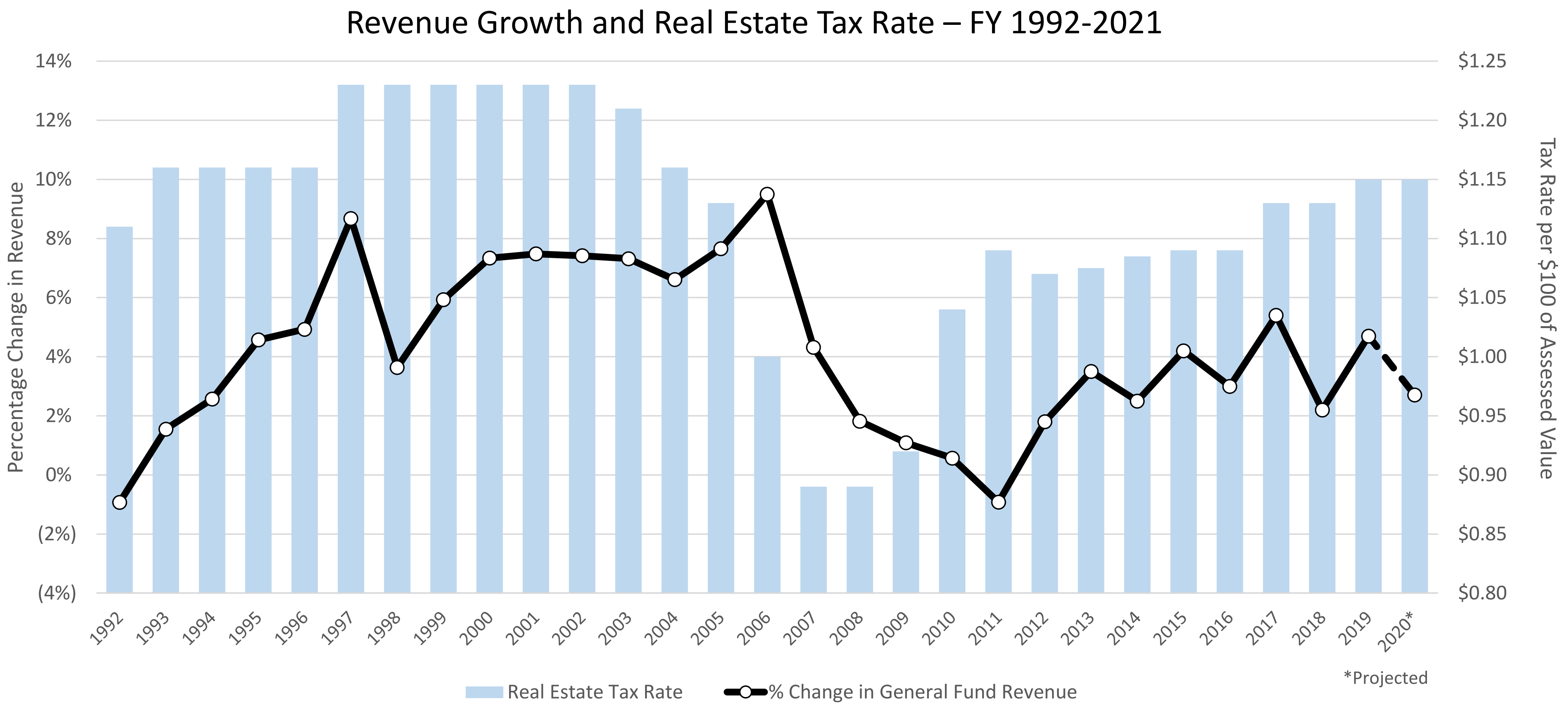
Real Estate Assessments

- Annual Real Estate Assessment changes are driven by a combination of *Equalization* changes and *Growth*
  - Equalization changes are market driven value increases or declines
  - Growth is generated by structural changes such as new construction, remodeling, and rezonings
  - In FY 2020, of the 3.6% increase in assessed value, Equalization contributed 2.45% while Growth contributed 1.15%
- Real estate assessments are required to represent fair market value, which is generally determined differently for residential and commercial properties
  - For most residential properties, fair market value is best determined from comparable sales data
  - For most commercial properties, fair market value is best determined by capitalizing the ability of the property to earn income through rents, accounting for operating expenses and allowing for vacancy and collection losses
  - In FY 2020, Commercial/Industrial properties made up 19.66% of the Real Estate Tax base

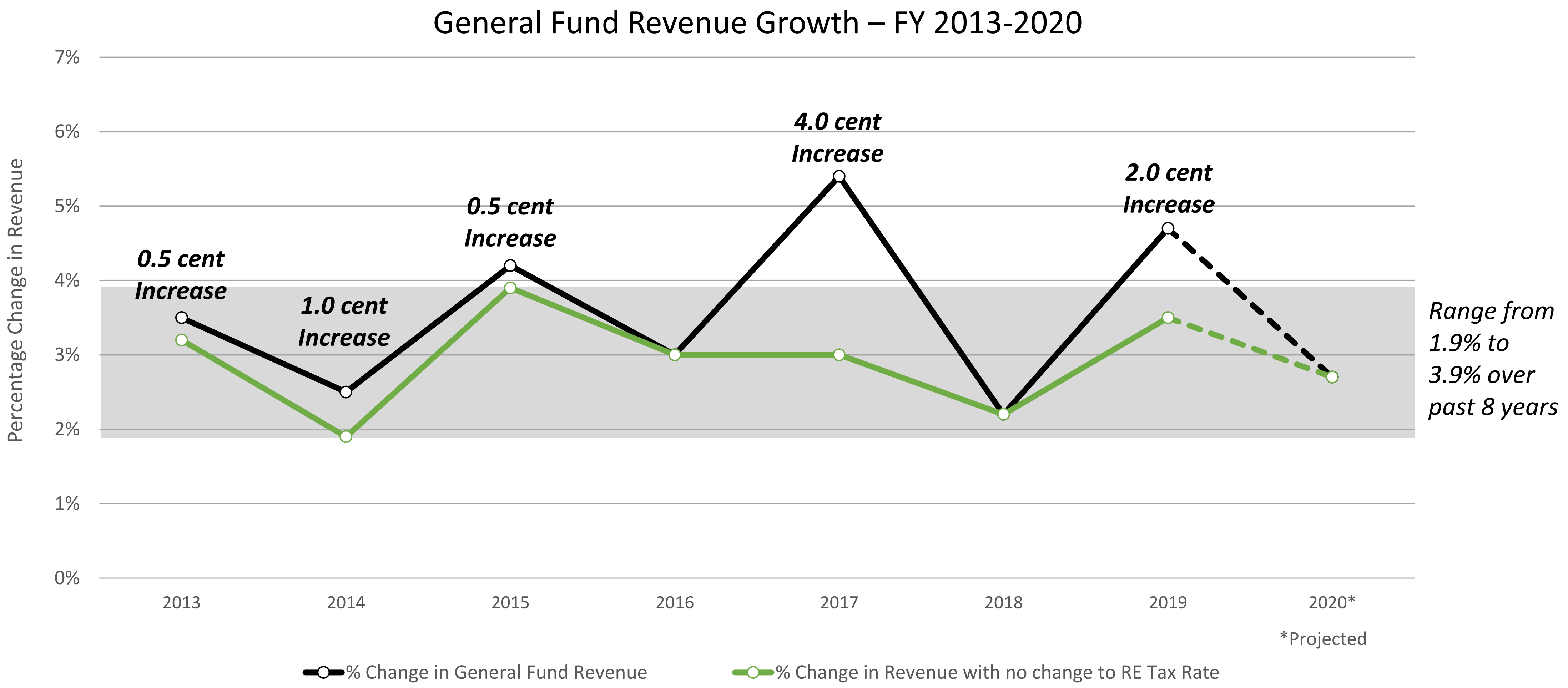
Real Estate Property Taxes

- Real estate property tax revenues are computed by applying the tax rate set by the Board of Supervisors ($1.15 in FY 2020) to every $100 of assessed value of taxable real estate
  - In FY 2020, the Main Assessment Book Value was $255.2 billion
- For FY 2020, one penny on the tax rate equaled approximately $25.5 million
  - In FY 2020, the mean assessed value of all residential properties in the County was $562,601
  - With a tax rate of $1.15 per $100, the average residential tax bill was $6,469.91
  - Based on the mean assessed value, a penny change to the tax rate would have changed the average residential tax bill by $56.26

General Fund Revenue Trends

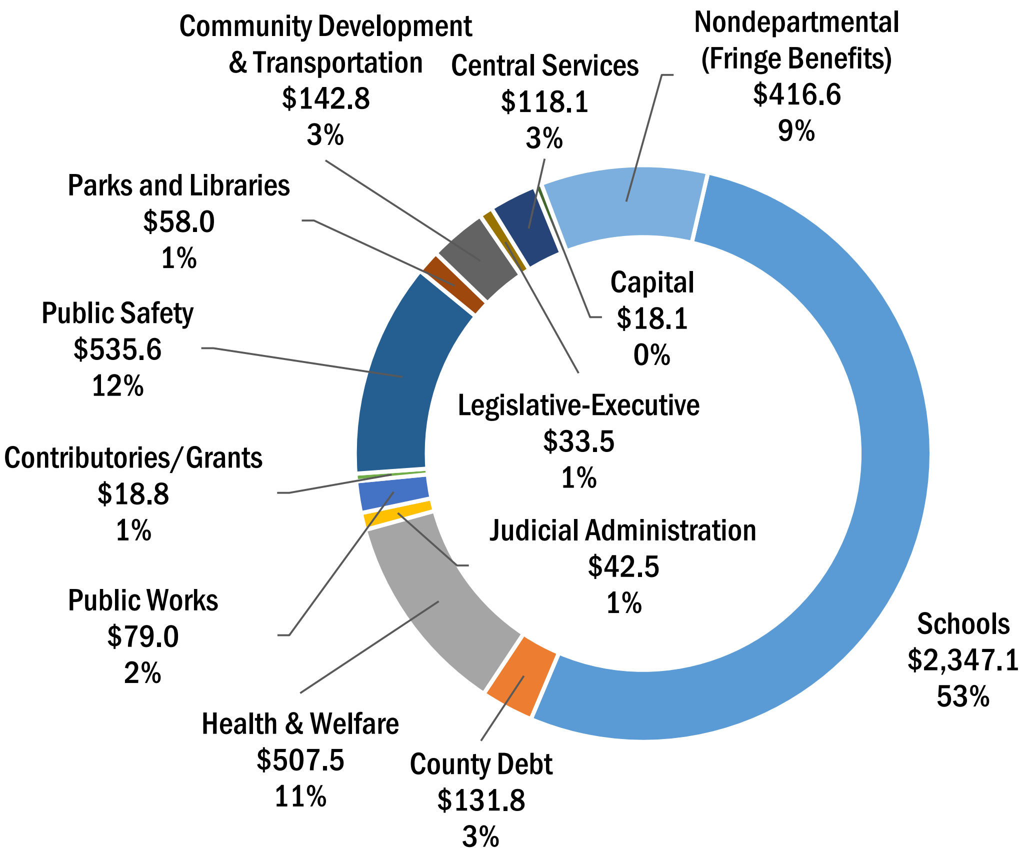


Impact of Real Estate Tax Rate Adjustments



General Fund Disbursements

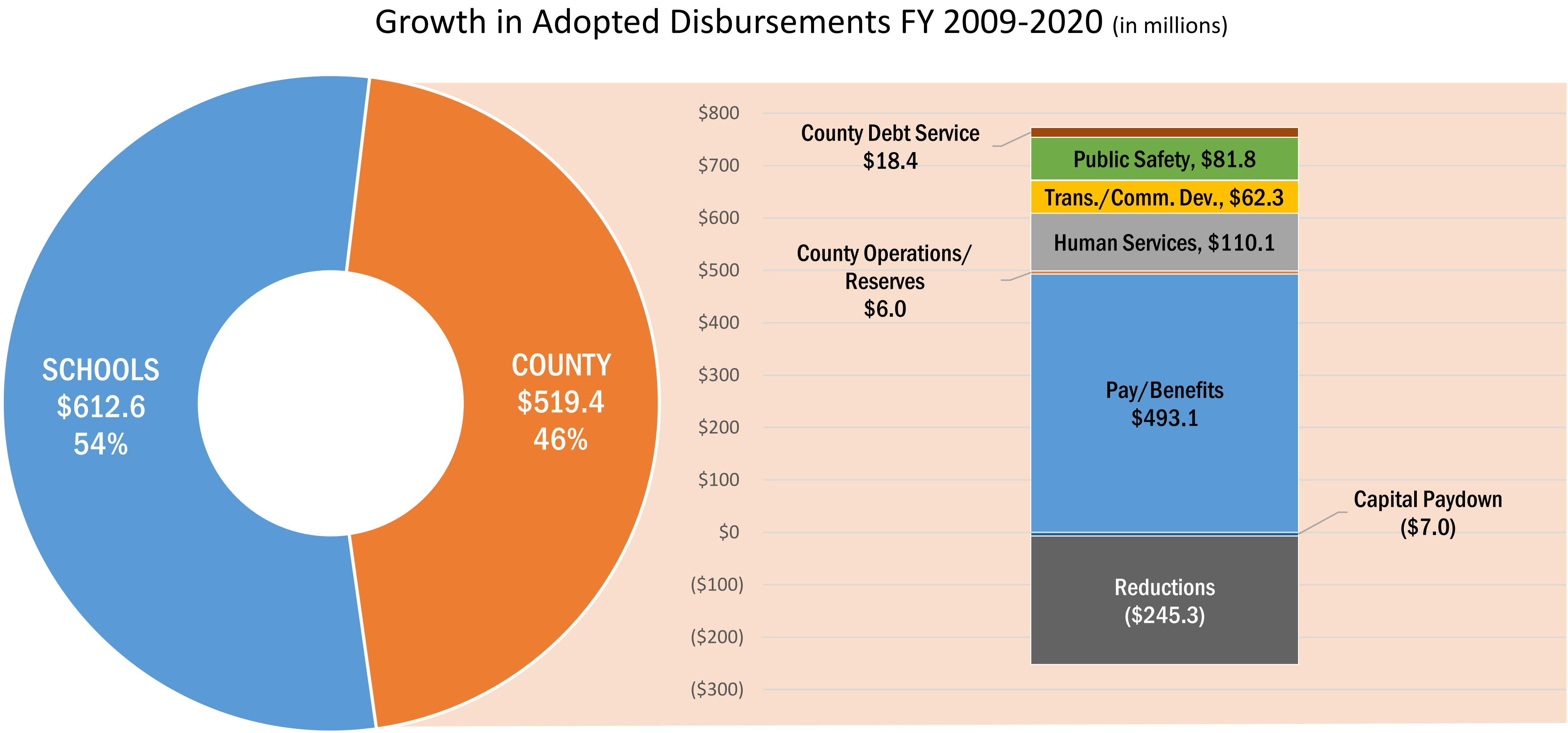
FY 2020 Adopted Budget (in millions)



Categorizations have been revised from the “Where it Goes” pie chart included in the FY 2020 Adopted Budget Plan.

- FY 2020 budgeted General Fund disbursements total $4.45 billion
- Schools, Public Safety and Health & Welfare disbursements make up over 76% of all General Fund spending
- Since 1992:
  - School transfers have increased from 49.7% to 52.8%
  - Nondepartmental (primarily Fringe Benefit) expenses have increased from 6.2% to 9.1%
  - County Debt Service expenses have decreased from 5.1% to 3.0%
- Expenditures in all funds totals $8.41 billion as of the Adopted Budget

County Spending over past 12 years



Alignment with the Strategic Plan

- For the FY 2021 budget:
  - Spending adjustments will be categorized in the Advertised presentation by the proposed Strategic Plan priority outcome areas
- For the FY 2022 budget:
  - Funding recommendations for the Advertised will be focused on those adjustments which will allow the County to make progress on the Strategic Plan priorities as adopted by the Board of Supervisors and as outlined in the FY 2022 budget guidance
  - Budget documents will be updated with a focus on the priority outcome areas and the guiding principles

Shaping the Future Together
Fairfax County Strategic Plan

Ten Principles of Sound Financial Management

Overview

- Statement of Board’s commitment to the County’s financial policies
  - Adopted in 1975, last amended in 2018
- Essential for maintaining the Triple A credit rating
- Principles are updated when applicable depending on the changing nature of market conditions and other factors (e.g. regulations, Bond Rating Agencies)

Recent Amendments

- Reaffirmed and amended in 2015 with revised reserve targets
  - Managed Reserve increased from 2% to 4%
  - Revenue Stabilization Fund increased from 3% to 5%
  - Creation of Economic Opportunity Reserve equal to 1% of General Fund Disbursements
  - *As part of budget development, 10% of increased General Fund disbursements are set aside in reserve*
- Amended in 2018 with revised General Obligation bond sale limits
  - Increase from $275 million to $300 million per year;
    - Schools from $155 million to $180 million; County $120 million (average)
  - Increase from $1.375 billion to $1.5 billion over five years

Debt Management

- Establishes limits to borrowing and debt ratios
  - Annual debt service expenditures not to exceed 10% of total disbursements
  - Net outstanding debt not to exceed 3% of total assessed value
- All other debt related to but **not** directly supported by the General Fund shall be closely controlled/monitored to the extent possible
  - Revenue Bonds of agencies supported by the General Fund (Park Authority Bonds)
  - Debt of component units of government (Sewer Revenue Bonds)
  - Special tax districts (Reston and McLean Community Center Districts)
  - Other debt-financed projects (Dulles Rail Tax Districts, Route 28, Mosaic)
  - Source of Debt Service payment is **NOT** the County's General Fund
  - Above examples do **NOT** all necessarily carry Triple-A Bond Ratings

Capital Improvement Program (CIP) Overview

CIP Process

- The CIP is the County's planning document for creating, maintaining and funding present and future infrastructure requirements
- The CIP is a key element in planning and controlling future debt service requirements
- In general, the first year of the CIP reflects annual project funding levels. Future year estimates are included but do not receive expenditure authority until they are approved by the Board of Supervisors
- The CIP is advertised concurrently with the Budget
- The Planning Commission conducts a workshop, public hearing and committee meetings, then forwards CIP recommendations to the Board of Supervisors
- The Board can change the CIP and/or the proposed capital budget at any time during their budget deliberation process or by introducing additional CIP motions
- The Board approves the CIP at Budget Mark-up

CIP Project Approvals

- 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*
  - Details the long-range facility plan, outlining specific projects and schedules
  - Includes County/FCPS bond referenda in alternate years
  - Ensures that future plans are affordable and adhere to the *Ten Principles*
  - Gives staff authorization to develop a Bond Resolution prior to the up-coming fall referendum
  - The Board reviews and approves a citizen informational pamphlet on the proposed bond referendum projects
  - After voter approval of the referendum, funding for each bond project is fully appropriated
- Rates for self-supporting funds are developed (Stormwater, Wastewater, Solid Waste, Housing) as part of the Annual Budget and support projects in the CIP

CIP Project Approvals (continued)

- Economic Development Authority financed projects
  - Some capital projects are supported by EDA bonds
  - Provides opportunities for the County to leverage public and private sector funds to advance major capital investments in infrastructure
  - These projects are proposed annually in the CIP, discussed in budget committee meetings and in individual Board member briefings. A formal plan of finance is then formally approved by the Board of Supervisors via an Action item.
- The Capital Sinking Fund is approved as part of the Carryover Review by committing 20 percent of Carryover balances not needed for critical requirements. The Sinking Fund supports prioritized critical infrastructure replacement and upgrades projects throughout the County and is reflected in the CIP annually.
- All CIP project funding and schedules are adjusted annually based on the most current information; however, changes in appropriation levels are approved by the Board at quarterly reviews or as part of the annual budget process.

Debt Overview

Options to Finance Capital Projects

- Paydown/Pay-As-You-Go (PAYGO)
  - Cash provided to fund select projects
  - No debt incurred on a project
- Issuing Bonds
  - A form of borrowing commonly used by municipal and state governments and large corporations
  - A series of low face value promissory notes, usually of 1 to 30-year duration, at a fixed interest rate
  - Interest on municipal and state bonds may be tax-exempt from federal and state taxes
  - Spreads the cost over multiple generations

Role of 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

Role of 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

Overview of General Obligation Bonds

- Resolutions approved by School Board and Board of Supervisors (Spring)
- Contingent upon voter approval at Referendum (November)
  - Voter approval averaged 73% since 1999
- 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) on cash basis only
  - Sell for County and Schools
  - Bond sale of $339.4 million scheduled for January 28th to include new money for projects and refinancing prior issued debt

Bond Referenda Chart

Date	Category	Description	Amount
Fall 2019	Schools	Capacity Enhancement, Renovation, Infrastructure Management	$360 million (Approved 11/5/2019)
Fall 2020	County	Libraries, Parks, Human Services, WMATA (Metro)	$397 million
Fall 2021	Schools	Capacity Enhancement, Renovation, Infrastructure Management	$360 million
Fall 2022	County	Public Safety	$80 million
Fall 2023	Schools	Capacity Enhancement, Renovation, Infrastructure Management	$360 million
Fall 2024	County	Parks, Human Services, WMATA (Metro)	$293 million
Fall 2025	Schools	Capacity Enhancement, Renovation, Infrastructure Management	$360 million

Source: FY 2020 – FY 2024 Adopted Capital Improvement Program

County’s Triple-A Bond Rating and Importance

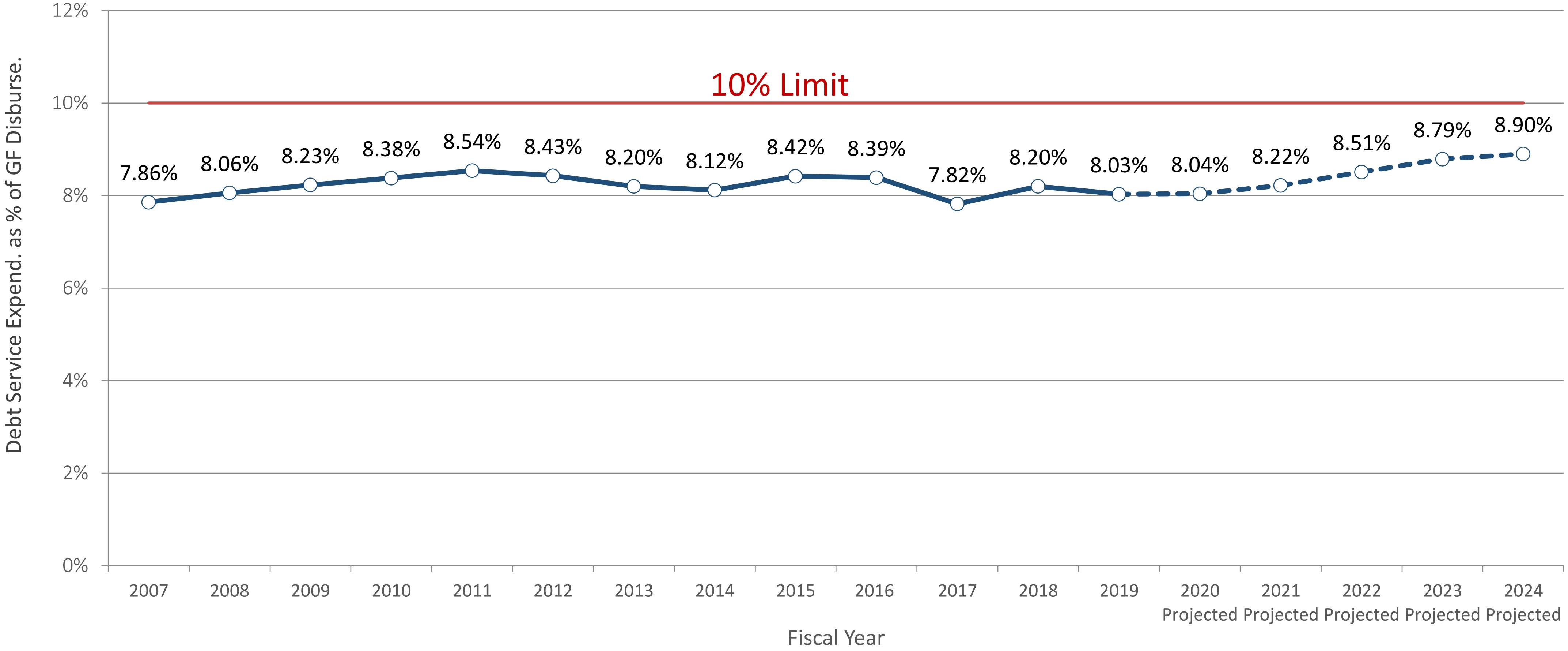
- Ratings History
  - Aaa from Moody’s Investor Services since 1975
  - AAA from Standard & Poor’s Corporation (S&P) since 1978
  - AAA from Fitch Ratings since 1997
- Elite Category that consists of the following as of December 2019
  - 13 out of 50 States
  - 48 out of 3,069 Counties
  - 34 out of 35,000+ Cities and Towns
- Benchmark Rate Comparison – Bond Buyer Index (BBI)
  - Estimate of past and projected trends in municipal bond rates
  - 30-year differential between County bonds and BBI averaged 0.79%
- County monitors refinancing opportunities of outstanding debt
- County savings from Triple A rating estimated at $879.34 million (through December 2019)

County Debt Financial Modeling

- Analysis of debt capacity and policy limits per the *Ten Principles of Sound Financial Management*
- Adhere to annual General Obligation Bond Sale limit
- Review opportunities of EDA bonds
- Forecast debt capacity against out-year disbursement & revenue growth
- Adjust bond sales/CIP as necessary annually to remain below the 10% limit of general fund disbursements
- Debt Context: Capacity and Affordability

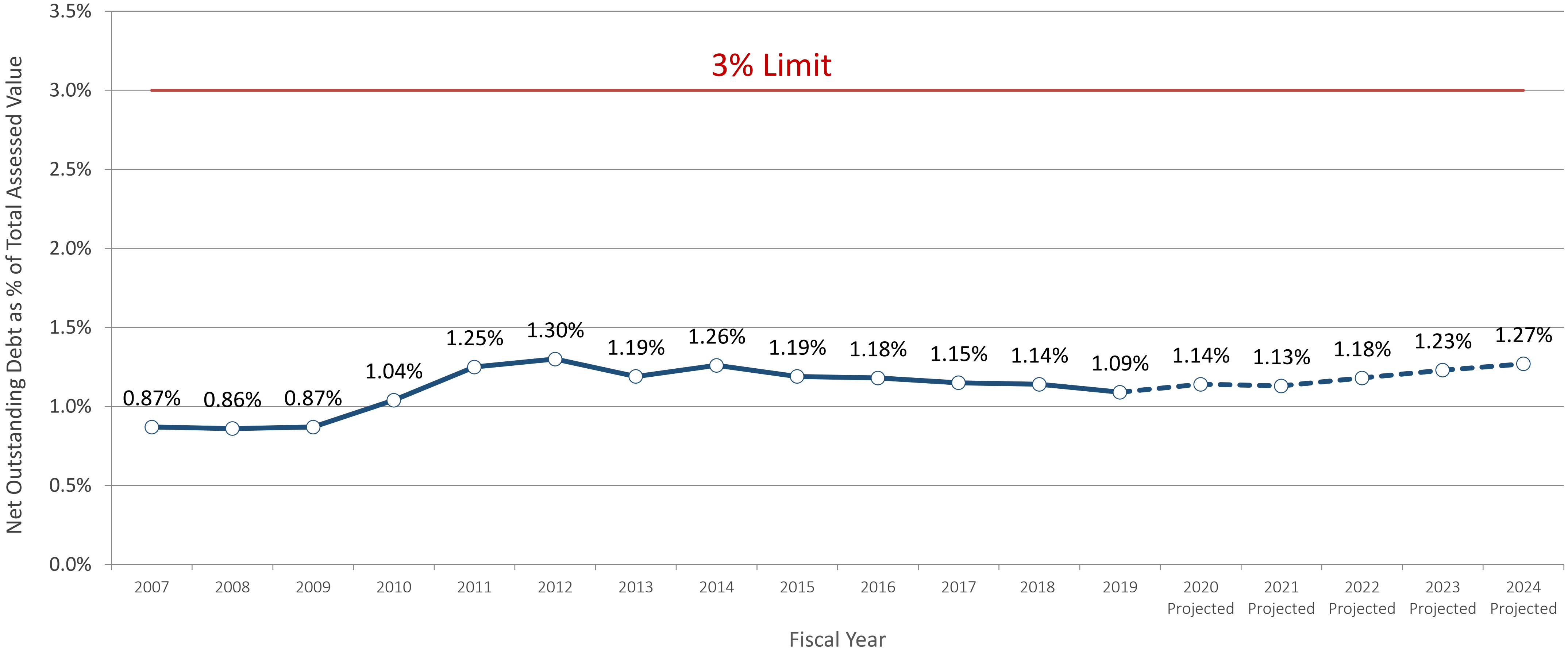
Capacity:

Annual Debt Service Expenditures to Total General Fund Disbursements



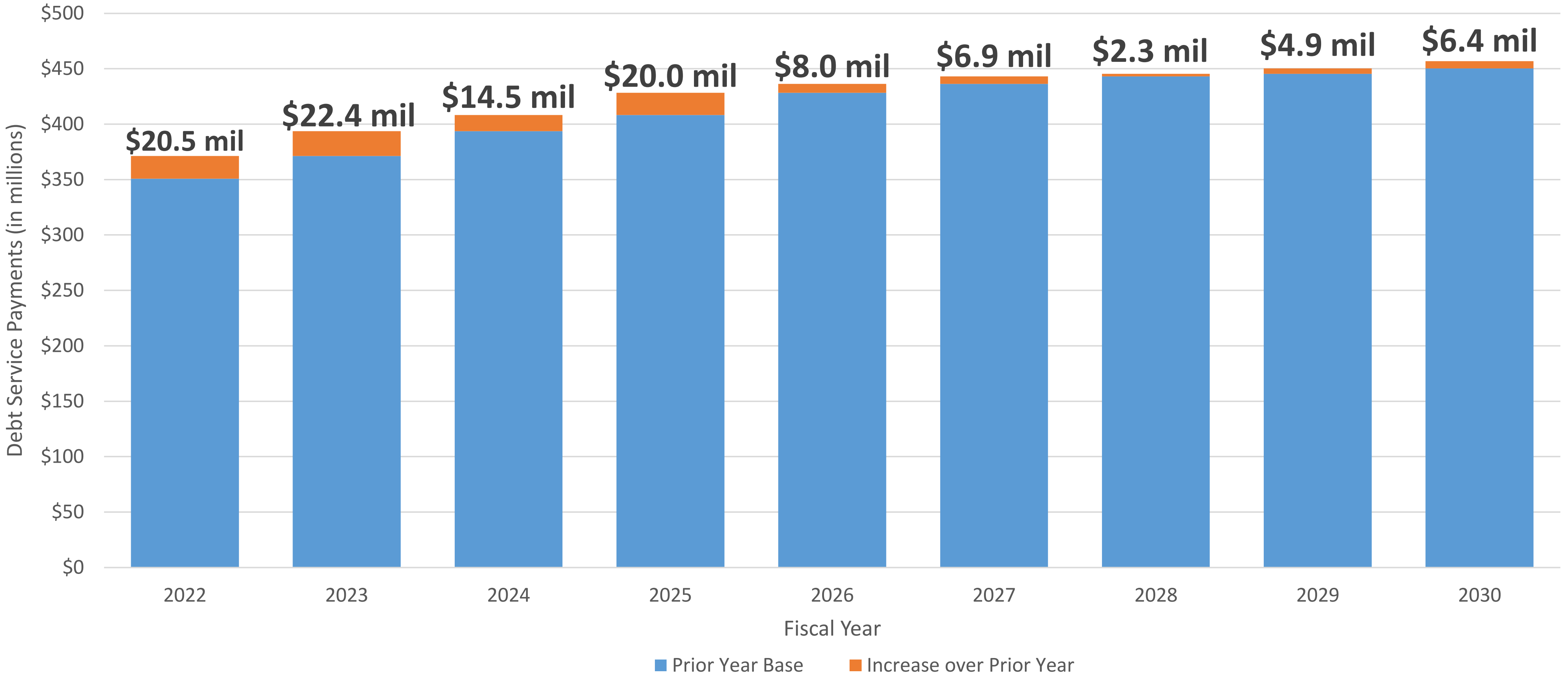
Source: CAFR from FY 2007 to FY 2019; FY 2020 – FY 2024 per Adopted Capital Improvement Program; Assumes 2% annual revenue growth.

Capacity:
Net Outstanding Debt To Total Assessed Value



Source: CAFR from FY 2007 to FY 2019; FY 2020 – FY 2024 per Adopted Capital Improvement Program; Assumes 2% annual revenue growth.

Affordability:
Projected Increased Debt Service Payments



Affordability:

$25 million General Obligation Bond Sale Impact

- The following chart assumes a $25 million General Obligation Bond Sale (**Highlighted**) beginning in FY 2021 and annually thereafter
- Debt service payments (*italicized*) begin fiscal year following each bond sale
- Initial year of debt service is $2.25 million and cumulative fiscal impact of $22 million through FY 2025.

Fiscal Year					Total
2021	**$25,000,000**				
2022	*2,250,000*	**$25,000,000**			*$2,250,000*
2023	*2,200,000*	*2,250,000*	**$25,000,000**		*$4,450,000*
2024	*2,150,000*	*2,200,000*	*2,250,000*	**$25,000,000**	*$6,600,000*
2025	*2,100,000*	*2,150,000*	*2,200,000*	*2,250,000*	*$8,700,000*
Debt Service	***$8,700,000***	***$6,600,000***	***$4,450,000***	***$2,250,000***	***$22,000,000***

Rating Agency Feedback – County Debt

“The county remains well below its debt guidelines to limit the amount of tax-supported debt to 3% of total full value, and total debt service payments at 8.5% are comfortably under the county's maximum of 10% of General Fund disbursements. Although the county has a sizable capital improvement plan, we believe that the county's active debt management and continued modest growth in assessed values will ensure the debt burden remains manageable.”

- Moody’s (January 2019)

“In our opinion, net direct debt is likely to modestly rise given the county's current debt plans. Fairfax has a five- and 10-year capital improvement policy, with bond issuances scheduled annually. Nevertheless, given the county's large market value and above-average amortization, we expect net debt will remain manageable and relatively close to current levels. We understand that the county expects slight upticks in its debt-to-general revenues ratio as well as its debt-to-AV ratio but that these measures will remain well within policy limits.”

- S&P (January 2019)

Discussion