



**A Joint Meeting of the
Board of Supervisors
and School Board**

FISCAL YEAR
2026
BUDGET
FORECAST



November 26, 2024





Preface

FY26 BUDGET FORECAST



- Forecast includes early estimates of available revenues based on current information
 - Projections based on existing tax rates
- Focus is on the largest disbursement requirements, including collective bargaining agreements, continued investments in employee salaries and benefits, and debt service requirements
- Forecast does not include many important priorities, such as additional investments in affordable housing or increases in WMATA contributions
- County and Schools continue reviewing budget submissions and building their proposed budgets
 - FCPS Superintendent's Budget release on January 23, 2025
 - County Executive's Advertised Budget release on February 18, 2025



Global Impacts on Local Economy

FY26 BUDGET FORECAST



Recession fears for the U.S. economy have subsided in the past several quarters as the resilient recovery is continuing

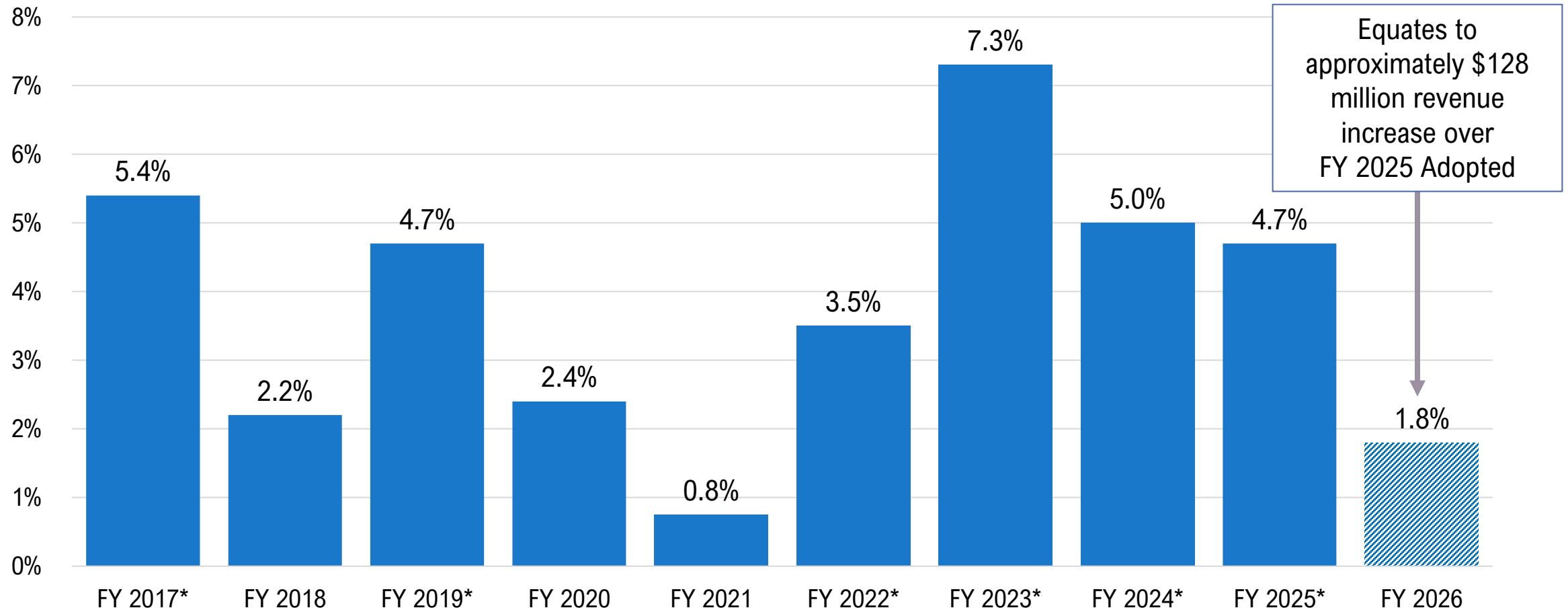
- Factors impacting the local economy:
 - Inflation continues to cool and as a result the Federal Reserve lowered its target Fed Funds rate in September and again in November
 - Mortgage rates are still elevated which has constricted both supply and demand in the market
 - Office vacancies continue to rise, negatively impacting property assessed values
 - Real consumer spending is slowing as consumers deplete savings accumulated during the pandemic
 - Employment growth is also slowing
- Revenue projections assume moderate economic growth for FY 2026
 - New administration potential impact on local economy including federal procurement spending and the federal workforce creates uncertainty



Annual Change in General Fund Revenue FY 2017 - FY 2026



FY26 BUDGET FORECAST



* Revenue change includes impact of real estate tax rate adjustments
Growth rates exclude the impact of one-time federal stimulus in FY 2020, FY 2021, and FY 2022

— Projections as of —
November 2024



FY 2026 Real Estate Projections



FY26 BUDGET FORECAST

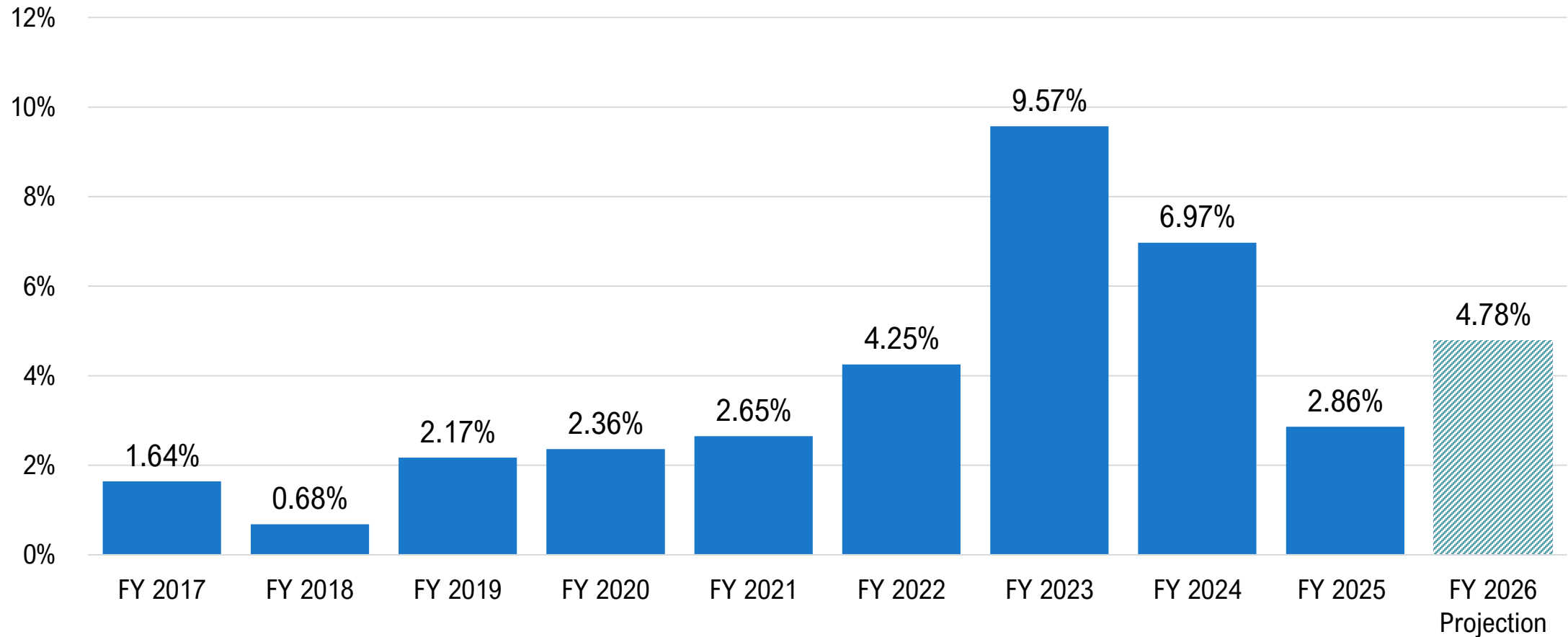
- Compared to FY 2025, higher growth in the real estate tax base is projected for FY 2026
- While the number of active listings for sale has increased in recent months, a steady demand has kept the residential real estate market robust during calendar year 2024
- Non-residential values are projected to decline for a second year in a row driven mainly by losses in office property values

Changes in Assessments	FY 2023 Actual	FY 2024 Actual	FY 2025 Actual	FY 2026 Estimate as of Nov. 2024
Residential	9.57%	6.97%	2.86%	4.78%
Nonresidential	2.27%	1.65%	(1.24%)	(1.27%)
New Construction	0.85%	0.91%	0.82%	0.51%
Total Real Estate base	8.57%	6.59%	2.73%	3.91%



Annual Changes in Residential Equalization

FY26 BUDGET FORECAST





Fairfax County's Housing Market

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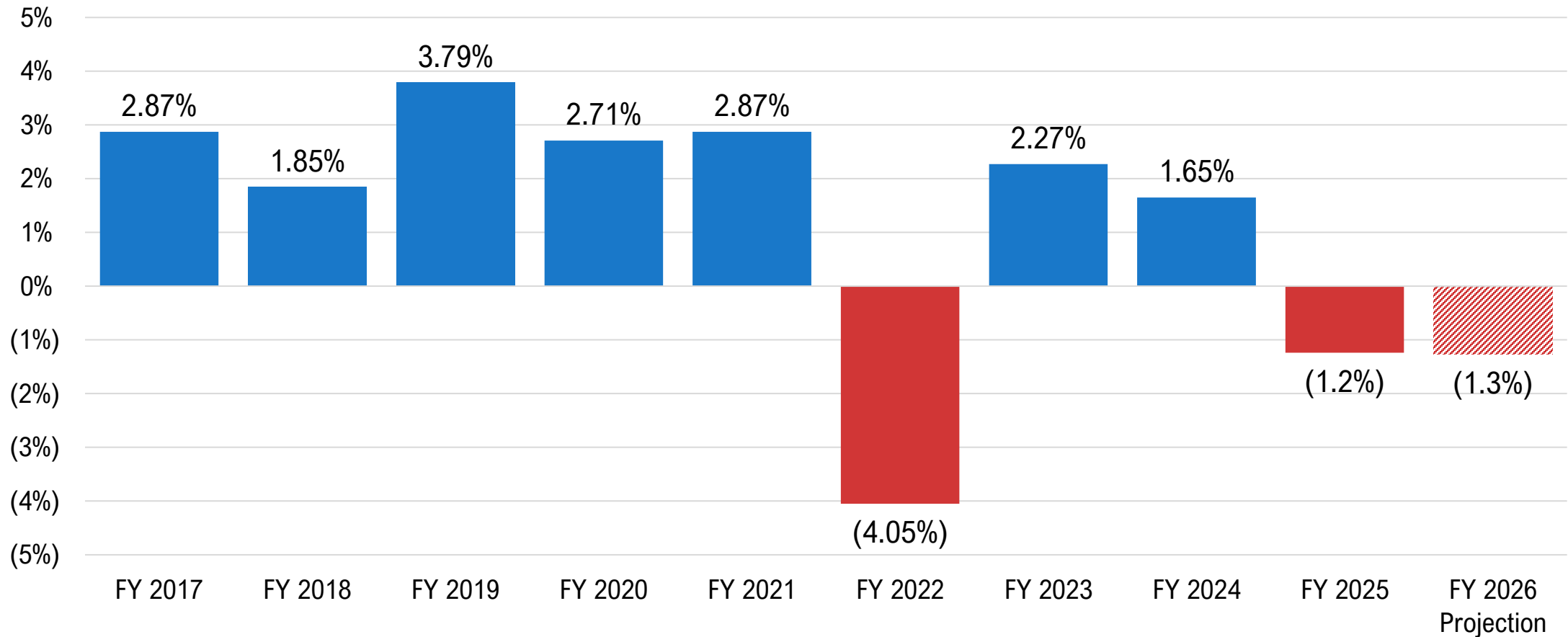
Residential values are projected to increase 4.78% in FY 2026

- Based on data from BrightMLS, the average sales price of all homes is up 9.1% through October 2024
- Through October, the number of home sales in the County is up 2.4% compared to a year ago
- The average number of active listings for sale is up 12.2%
- October average days on the market was 18 compared to 17 in October 2023



Annual Changes in Nonresidential Equalization

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Nonresidential Real Estate

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Non-residential values are projected to decrease 1.3% in FY 2026

- Office Elevator properties are expected to decline in value between 8.5-9.5%
 - Vacancy rates are up 0.7% year-over-year
 - Spending on incentives to acquire new tenants has increased
 - Expenses have increased as a result of inflation; cap rates have also increased
- Multi-family property values are expected to increase 2-3%
- Retail property values are projected to increase 1-2%
- Hotels are projected to increase 5-6%



FY 2026 Projections for Other County Revenue Categories

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Tax Revenues

- Personal Property Tax – preliminary analysis indicates car values are down compared to January 2024
- BPOL – expected to increase 3% in FY 2025 and 2.5% in FY 2026
- Sales Tax – growth of 2% in FY 2026 after a projected increase of 1.3% in FY 2025
- Transient Occupancy Tax – increase of 2.0% in FY 2026 after a projected increase of 2.4% in FY 2025

Non-Tax Revenues

- Investment Interest revenue – projected to decline in FY 2026
 - Lower annual yield of 3.65% in FY 2026, down from 4.15% in FY 2025
 - The Federal Reserve cut interest rates by 25 basis points in November to a range of 4.5%-4.75%
 - While significant uncertainty exists, the Fed is expected to continue cutting the rate in calendar year 2025
- A number of General Fund user fees will be adjusted again in FY 2026 based on the Board approved 2-year phase-in of revenue enhancements to align with surrounding jurisdictions and account for cost increases



Schools Revenue Projections



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REVENUE CATEGORY	CHANGE FROM FY 2025 APPROVED
• Beginning Balance Assumes funding will be set-aside at the same level	\$0.0 million
• County Transfer Assumes county transfer is level	\$0.0 million
• State Revenue Assumes projected increase of 1.9 percent	\$23.7 million
• Federal Revenue Assumes federal funding is level	\$0.0 million
• Fairfax City and Other Revenue Based on projections in each area	\$6.7 million
TOTAL	\$30.4 million



Projected Available Resources

FY26 BUDGET FORECAST



- County revenue growth projected at 1.8% generates \$127.9 million
- In addition, Schools projects an increase in revenue of \$30.4 million



FY 2026 Summary

FY26 BUDGET FORECAST



COUNTY	Funding in \$ millions	SCHOOLS
--	Projected Schools Revenue	\$30.4
(\$111.7)	Employee Pay and Benefits	(\$212.7)
(\$8.6)	Debt Service Requirements	(\$6.7)
(\$51.3)	Other Adjustments	(\$93.0)
\$33.0	Reductions	--
(\$138.6)	TOTAL	(\$282.0)

With County revenues estimated to increase \$127.9 million, there is a **combined net projected budgetary shortfall of \$292.7 million**



County Salary and Benefits

FY26 BUDGET FORECAST



EXPENDITURE CATEGORY	CHANGE FROM FY 2025 ADOPTED
• Police Bargaining Unit (SSPBA)	\$18.7 million
• Fire and Emergency Services Bargaining Unit (IAFF)	\$16.6 million
• Impacts of Collective Bargaining Agreements on Non-Represented Employees	\$1.7 million
• Cost-of-Living Adjustment (2.0%) for Non-Represented Employees	\$25.0 million
• Performance/Longevity Increases for General County	\$17.8 million
• Merit/Longevity Increases for Non-Represented Uniformed Public Safety	\$2.0 million
• Market Study Placeholder	\$8.0 million
• Employee Benefits	\$21.9 million
TOTAL	\$111.7 million



Debt Service and Other County Adjustments

FY26 BUDGET FORECAST



EXPENDITURE CATEGORY	CHANGE FROM FY 2025 ADOPTED
<ul style="list-style-type: none">• Debt Service Requirements Includes County bond sales of \$170 million	\$8.6 million
<ul style="list-style-type: none">• Contract Rate Adjustments and Fuel Includes human service agencies, body-worn cameras and other service providers	\$18.2 million
<ul style="list-style-type: none">• New Facilities and Lease Escalation Includes operating costs for Kingstowne complex and Fair Ridge Shelter as well as lease escalations for existing facilities	\$12.7 million
<ul style="list-style-type: none">• Information Technology Includes infrastructure funding, increased licensing costs, and operational costs related to IT projects	\$8.9 million
<ul style="list-style-type: none">• Other Requirements Includes recurring Carryover adjustments and other requirements	\$11.5 million
TOTAL	\$59.9 million



County Agency Reductions

FY26 BUDGET FORECAST



- County agencies submitted reduction options totaling 10 percent of their budgets
- Reductions are currently being reviewed to determine most feasible options
 - Efficiencies and cost savings were the primary focus of the FY 2025 process; FY 2026 reduction options are expected to include program and service impacts
- Preliminary estimate of \$33 million in reductions to be realized



Schools Collective Bargaining

FY26 BUDGET FORECAST



- Fairfax Education Unions (FEU) was certified in July as the bargaining unit for licensed instructional staff and operational employees (bargaining for FY 2026)
- Certification of a bargaining unit for administrators and supervisors (FCFPSA) occurred October 24, 2024 (bargaining for FY 2027)
- The process for approving collective bargaining agreements is aligned with the budget timeline



Schools Expenditure Projections



FY26 BUDGET FORECAST

EXPENDITURE CATEGORY	CHANGE FROM FY 2025 APPROVED
<ul style="list-style-type: none"> • Collective Bargaining (salaries and benefits) - 7% compensation increase, transportation and food service enhancements, health care 	\$240.0 million
<ul style="list-style-type: none"> • Required Adjustments - Student needs and enrollment changes (primarily special education service increases), retirement rate changes, contractual rate increases, insurance 	\$46.2 million
<ul style="list-style-type: none"> • Ongoing Needs - Substitute incentive, test fees, online campus, cybersecurity, middle school late buses, legal fees, planning time, major maintenance, summer school, safety and security, inclusive practices, multilingual instructional initiatives 	\$48.0 million
<ul style="list-style-type: none"> • Multiyear Investments - HR infrastructure technology, certified athletic trainers, fine arts, inclusive preschool 	\$4.0 million
<ul style="list-style-type: none"> • Base Savings - Savings from turnover 	(\$32.6 million)
TOTAL	\$305.7 million



State Funding for Schools

FY26 BUDGET FORECAST



- FY 2026 is the second year of the biennium where additional state funding tends to be lower than the first year of the biennium
- Governor's amendments to the current biennial budget are expected to be released mid-December
- JLARC recommendations previously estimated \$568.7 million for Fairfax
- On September 16 and October 31, the Joint Subcommittee to Study Elementary & Secondary Education Funding held meetings
 - Initial recommendations - prioritize near-term JLARC, explore special education supports, and address data and infrastructure needs
- Joint Subcommittee next meeting December 9
 - Continue refining initial recommendations, review updated data regarding near-term JLARC, further prioritize potential 2025 Session actions, and discuss initial steps for 2025 and consideration of JLARC's long-term recommendations

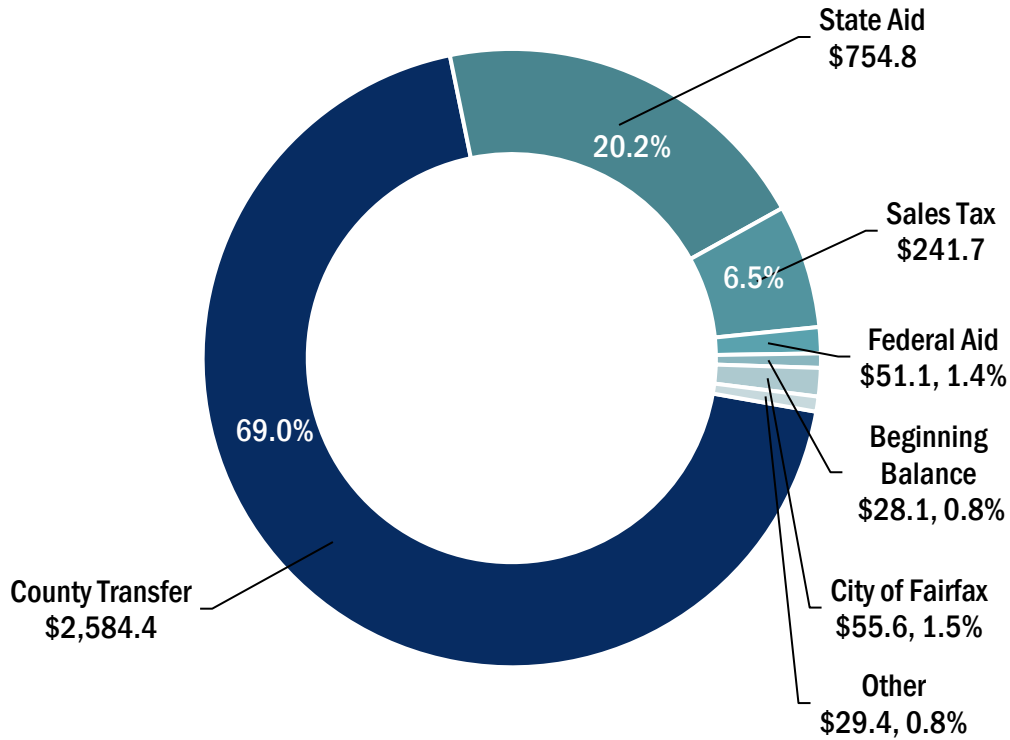


Potential Impact of JLARC Recommendations

FY26 BUDGET FORECAST



School Operating Fund FY 2025 Revenue Sources



Potential FY 2025 Revenue Sources with JLARC Recommendations

Additional state funding of \$568.7 million is equivalent to \$3,100 per pupil or local funding of over \$1,300 on the average real estate tax bill

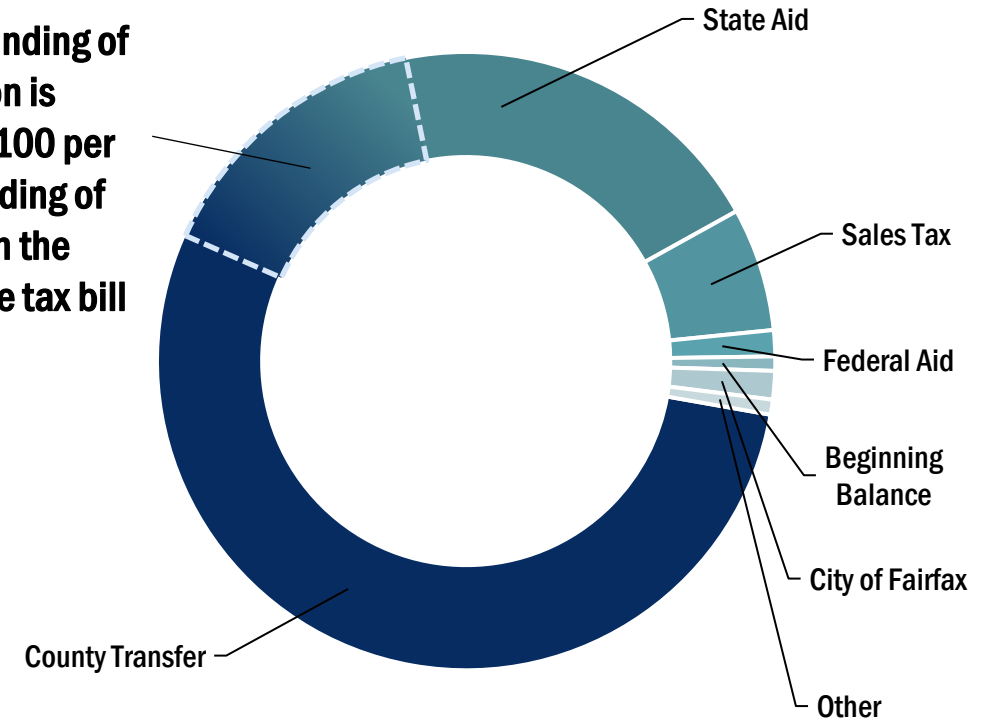


Chart is for illustrative purposes only



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How Last Year's Budget Was Balanced



FY26 BUDGET FORECAST

The FY 2025 Fiscal Forecast noted a combined projected budgetary shortfall of \$284.5 million, which was addressed through both revenue and expenditure adjustments:

- 3-Cent Increase in Real Estate Tax Rate \$97.0m
Increase from \$1.095 to \$1.125 per \$100 of Assessed Value
- Improved Real Estate Projection \$39.3m
Improvement from 1.68% to 2.73% increase in overall Real Estate Tax Base
- Personal Property Tax Assessment Ratio \$31.7m
Returned to 100% Assessment Ratio
- Additional Investment Income \$11.1m
Based on anticipated delays in Federal Reserve action on interest rates
- Schools Compensation Changes \$70.0m
Reduced FY 2025 compensation increase from 6% to 4%
- County Compensation Changes \$32.0m
2% Cost of Living Adjustment funded in place of a 4.10% Market Rate Adjustment
- All Other Adjustments combined \$3.4m



Budget Timeline

FY26 BUDGET FORECAST



	COUNTY	FCPS	STATE
Governor introduces state budget			December 18
Superintendent releases FY 2026 Proposed Budget		January 23	
School Board holds public hearings on budget (February 5 if needed)		February 4	
County Executive presents FY 2026 Advertised Budget	February 18		
School Board adopts FY 2026 Advertised Budget		February 20	
Joint County/Schools Budget Committee Meeting to discuss FY 2026 budget and tax rate	February 25	February 25	
Board of Supervisors advertises FY 2026 tax rates	March 4		
Board of Supervisors holds public hearings on FY 2026 Budget	April 22-24		
Board of Supervisors marks up FY 2026 Budget	May 6		
Board of Supervisors adopts FY 2026 Adopted Budget	May 13		
School Board holds public hearings on budget		May 13	
School Board adopts FY 2026 Approved Budget		May 22	
FY 2026 Budget Year begins	July 1	July 1	July 1

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Thank You



For more information go to
www.fcps.edu/budget
www.fairfaxcounty.gov/budget