



County Budget Forecast FY 2014 and FY 2015

**Joint Meeting of the Fairfax County
Board of Supervisors and the
Fairfax County School Board**

November 27, 2012

Setting the Stage

Setting the Stage for the Next Several Years

- Recognize that budget challenges are continuing
- Monitor and be flexible in addressing unknowns that may be coming
- Prioritize and think about budget over multi-year period
- Plan for necessary investments
- Position ourselves to take advantage of opportunities
- Protect our strengths

Challenges



- We continue to be in the midst of a multi-year, cyclical economic downturn
- **Our ongoing challenge is to develop a budget with an appropriate level of services that are affordable, sustainable and acceptable to the community.**
- A combination of flat revenue growth and increasing requirements for services means that the County faces projected budget shortfalls in both FY 2014 and FY 2015.
 - The demand for County services has also been impacted with more residents requiring assistance while options for helping them are becoming more limited.
- One primary means of addressing this budget gap is through service reductions. We are seeking to identify which potential reductions are acceptable and unacceptable to the community, and then determining if there are other means, such as revenue/fee increases, to balance the budget.

Unknowns

- Slow economic recovery and its impact on the County's budget and our residents
- Congressional showdown over the federal budget deficit (sequestration)
- Funding implications of State budget issues

Multi-Year Process

- Start talking about the budget over multi-years (FY 2014 – FY 2015) to maximize the effectiveness of the budget as a policy document indicating policy decisions and priorities
- Engage the community about the budget challenges and options
- Ensure that County agencies think about implications of those issues that impact their ability to provide services and what the funding impact will be

Investments

- Essential to ensure that we continue to make investments even with fiscal challenges
- Transportation requirements are a key to keeping the economy of the County moving forward
- Infrastructure maintenance is necessary to continue protecting our previous investments
- Ensuring high quality workforce is essential to meet the requirements of the community
 - Funded pay increases in FY 2012 and FY 2013
- Prudent management of reserves is a partial safeguard in light of unknowns
 - Revenue Stabilization Reserve
 - Managed Reserve
 - Litigation Reserve
 - Transportation Reserve
 - Reserve for Federal/State Cuts and potential Federal Sequestration Cuts
 - FY 2014 Budget Development Reserve

Opportunities

- Development and redevelopment in certain areas of the County will boost the local economy and tax base. Some examples include:
 - Silver line Phase I opening
 - Silver line Phase II to Reston and Dulles
 - Tysons Redevelopment
 - Mosaic
 - BRAC
 - Springfield Mall Redevelopment
 - Laurel Hill Adaptive Reuse

Our Strengths

- Protect those things that make our community what it is and why people move here and want to live here:
 - Educational system
 - Safe community
 - Safety net of services
 - Array of recreational/cultural activities
 - Skilled and dedicated employees
- Despite cuts we have minimized the impact on the most important programs we offer

We've Turned Over Every Rock

- Since FY 2009, General Fund Disbursements have increased 5.5%, or only about 1.4% annually
 - Total Disbursements decreased in both FY 2010 and FY 2011
- From FY 2010 through FY 2013, agency budgets were cut over \$150 million through targeted reductions
- Compensation increases were eliminated in both FY 2010 and FY 2011
- Personnel Services budgets have been reduced across-the-board:
 - General Fund agencies are expected to manage Personnel budgets assuming a turnover rate of over 8%, more than double the budgeted turnover rate of 3.4% in FY 2007

Actions Being Taken Now

- County agencies have been directed to identify reductions totaling 5% in each FY 2014 and FY 2015
- County staff is continuing to explore best practices to reduce costs and improve efficiencies and effectiveness in our programs and services. Some reviews include:
 - Vacant land
 - Existing contract services
 - Employee Benefits
 - Reserves and Indirect Costs
- Revenue estimates are being refined
- The public and employees are encouraged to share their ideas and suggestions for cost-savings and priorities to focus on during the development of the FY 2014 - FY 2015 budget

Budget Outreach

- Opportunities for online comments
- County Executive request for input from community and business organizations
- County Executive request for input from employee groups and employees
- Community Engagement Sessions

Economy

The Economic Picture: National and Local

National Economy



- Slow national economic recovery
- Unemployment rate of 7.9% as of October 2012
- Recovery in stock market
- Slight uptick in the national housing market
- Inflation remains in check, up 2.0% for the year.

Local Economy



- Northern Virginia has more than regained jobs lost during the recession
- County's unemployment rate is 4.0% (September 2012)
- Housing market improving slightly
- Retail sales rising modestly

The Great Recession

- In February 2010, the Associated Press described the recession that began in December 2007 as “the longest and deepest since the Great Depression of the 1930s”
- The ‘Great Recession’ significantly impacted the County’s residential real estate market as it did elsewhere in the country
- The County is still responding to the slow recovery from this recession



"Fiscal Cliff" and Sequestration



Source: *National Journal*, July 2, 2012, *Field Guide to the Lame Duck*, Nancy Cook

Sequestration: Potential Risks

Top Federal dollars in the County's Budget*

SCHOOLS

- FCPS Operating Fund – \$76.7 million
- FCPS Grants – \$35.6 million
- FCPS Food and Nutrition – \$26.6 million

COUNTY

- Federal Grants – \$58.4 million
- General Fund – \$38.4 million
- Community Dev. Block Grant – \$8.4 million
- Community Services Board – \$7.8 million
- Housing Assistance Program – \$6.7 million
- Aging grants and programs - \$2.3 million

* FY 2011 Actual

Presence of the Federal Government in Fairfax County

- Federal procurement contract awards in FY 2010* – \$24.3 billion
 - Defense – \$16.2 billion
 - Non-defense – \$8.1 billion
- Personal earnings from federal employment in FY 2010* – \$6.5 billion, or 9.9% of all personal earnings in the County
 - Civilian – \$5.6 billion
 - Military – \$0.9 billion
- Federal government civilian employment – 23,361, or 4.0% of all jobs in the County**

* latest available data

** Virginia Employment Commission QCEW 1Q 2012

Sequestration

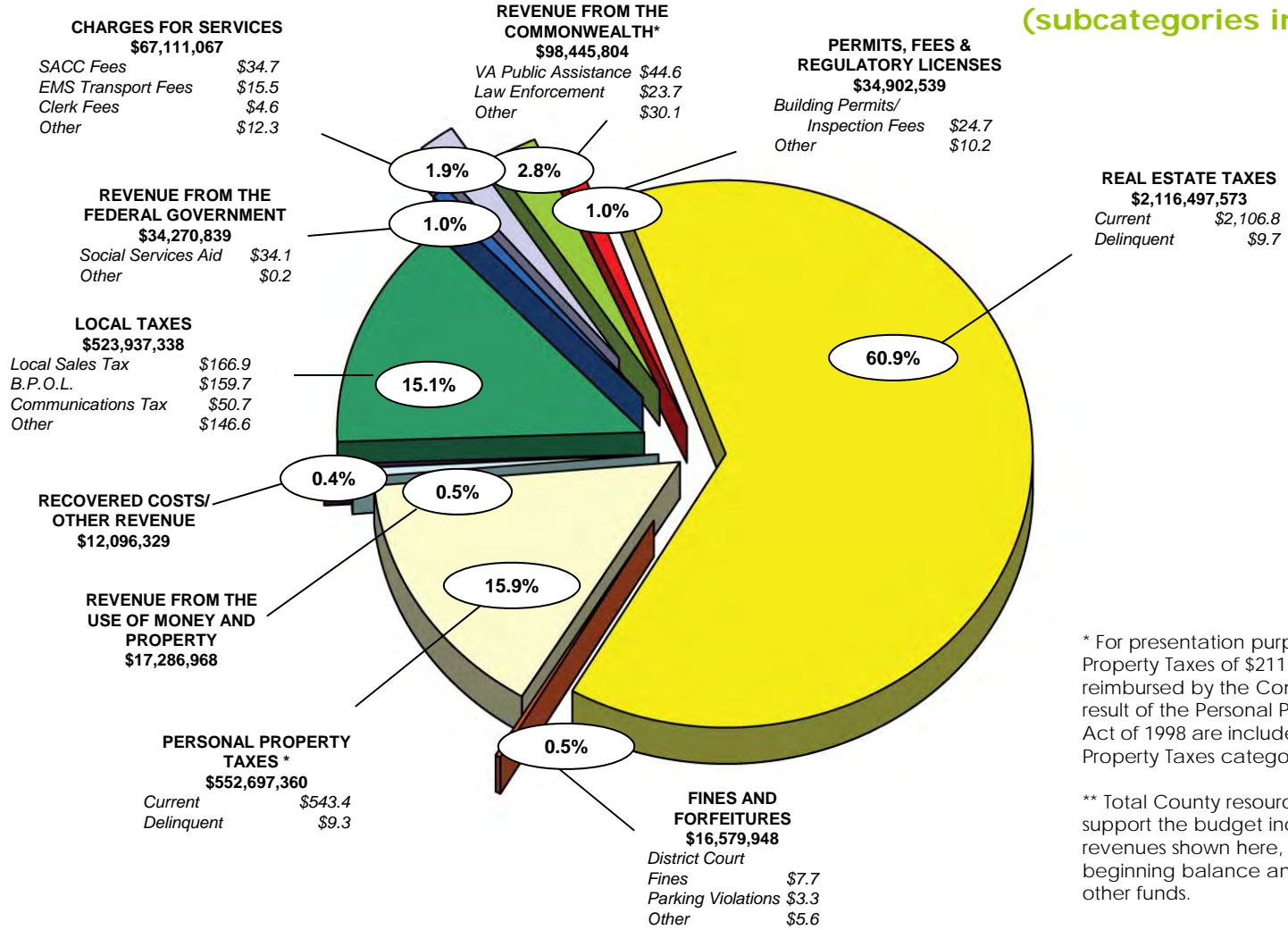
Impact on County's Revenues

- Effects on property related taxes such as Real Estate and Personal Property taxes would likely be delayed until FY 2015 or later
- Effects on consumption related taxes such as Sales Tax and Transient Occupancy Tax could be felt as early as the second half of FY 2013
- Effects on business related taxes such as Business License (BPOL) and Business Personal Property taxes would likely be delayed until FY 2014
- Fewer federal dollars going to the state's budget could lead to further reductions in state's support to local governments with effects felt as early as the second half of FY 2013

Revenue

General Fund Revenues: "Where It Comes From" – FY 2013 Adopted Budget

(subcategories in millions)

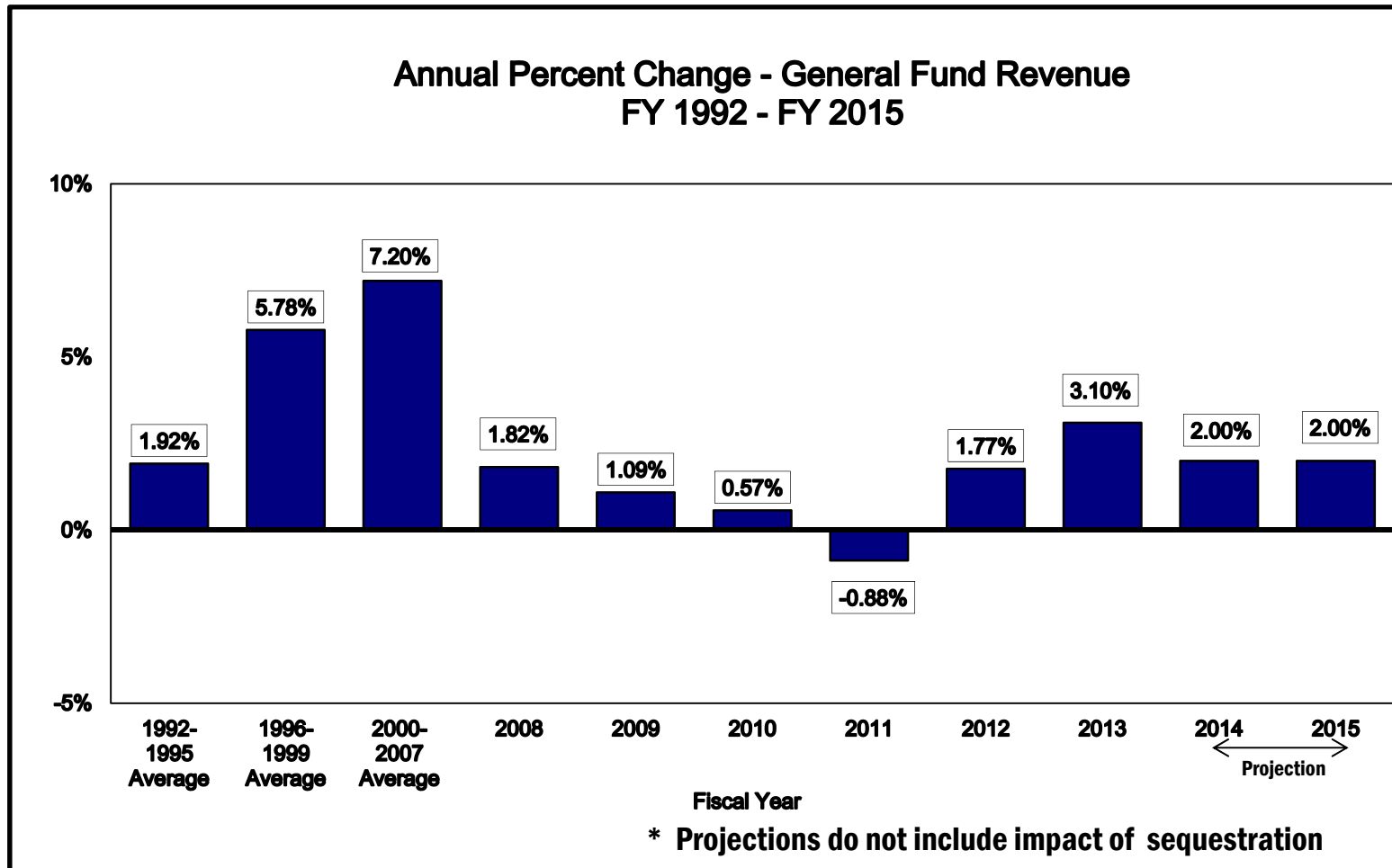


* For presentation purposes, Personal Property Taxes of \$211,313,944 that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property Taxes category.

** 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 2013 GENERAL FUND RECEIPTS = \$3,473,825,765**

General Fund Revenue



Real Estate Tax Base

	1995	1996	1997	1998	1999	2000	2001
Equalization	(1.29)%	0.36%	0.57%	0.80%	1.77%	2.96%	5.13%
- Residential	0.01	0.49	(0.23)	(0.50)	0.04	0.77	5.13
- Nonresidential	(5.28)	(0.09)	3.27	5.05	7.12	9.24	5.15
Growth	1.97	2.16	2.13	1.93	2.19	3.37	3.81
TOTAL	0.68%	2.52%	2.70%	2.73%	3.96%	6.33%	8.94%
	2002	2003	2004	2005	2006	2007	2008
Equalization	9.70%	11.72%	9.94%	9.54%	20.80%	19.76%	2.47%
- Residential	11.26	16.27	14.55	11.29	23.09	20.57	(0.33)
- Nonresidential	5.92	0.52	(2.94)	3.74	12.74	16.64	13.57
Growth	3.94	3.42	2.54	2.50	2.69	2.94	1.68
TOTAL	13.64%	15.14%	12.48%	12.04%	23.49%	22.70%	4.15%
	2009	2010	2011	2012	2013	2014 Projection	2015 Projection
Equalization	(1.02)%	(10.52)%	(8.98)%	2.67%	2.53%	2.04%	2.10%
- Residential	(3.38)	(12.55)	(5.56)	2.34	0.71	2.50	2.50
- Nonresidential	7.00	(4.51)	(18.29)	3.73	8.21	0.74	0.80
Growth	1.53	0.57	(0.22)	0.60	0.74	0.41	0.45
TOTAL	0.51%	(9.95)%	(9.20)%	3.27%	3.27%	2.45%	2.55%

Projected Value of "One Penny" in FY 2014 = \$20.4 million

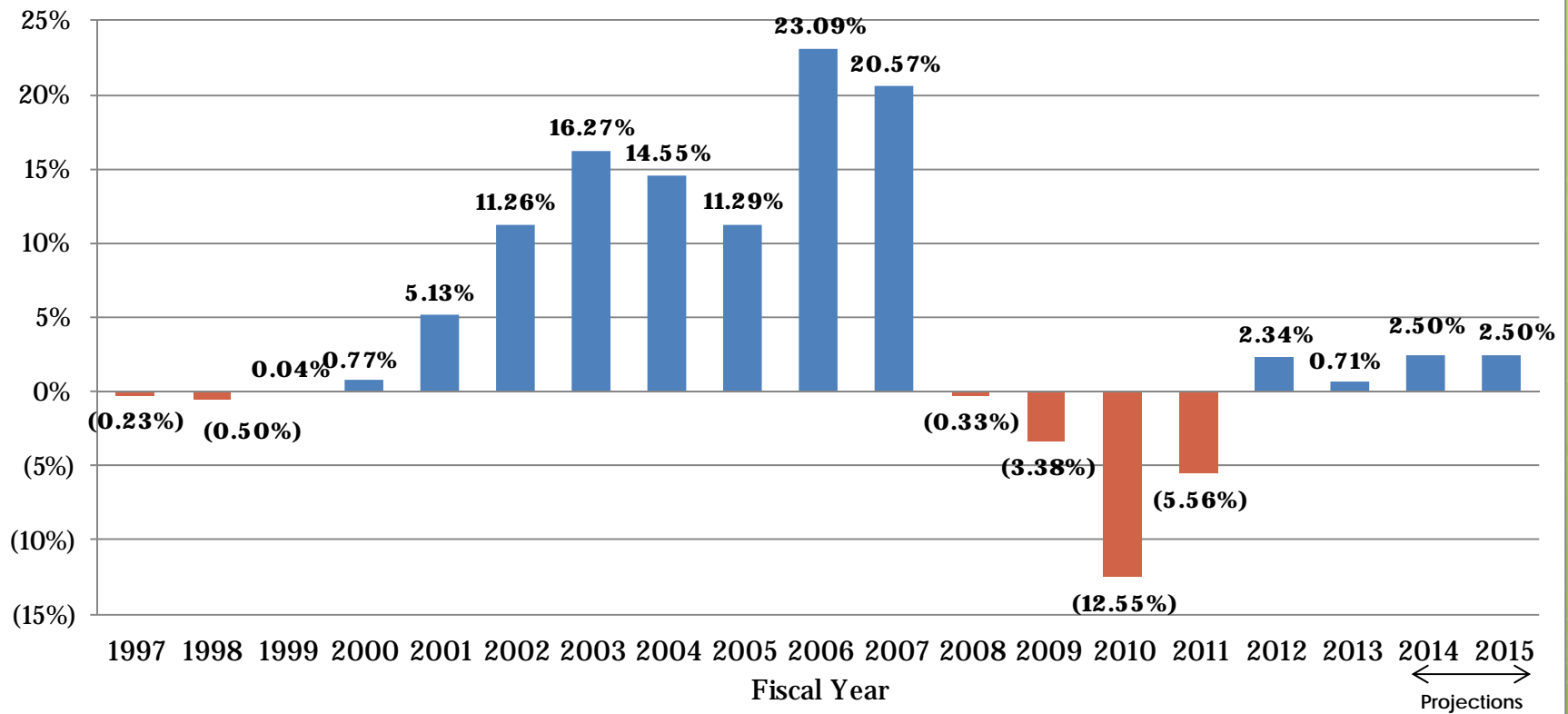
Fairfax County's Housing Market

Residential Values are Projected to increase 2.5% in FY 2014 and FY 2015



- Home prices rising moderately – up 3.3% through September
- The number of homes sold has increased 8.7% in 2012 from 9,514 to 10,343 through September 2012
- Average number of days to sell a home is back to normal (45 days as of September 2012)
- Foreclosures have fallen to a new record low in each of the last 11 months
 - 442 homes, owned by the lender in September 2012, down 41% from September 2011 and down over 80% since the peak of 2,257 in September 2008

Annual Changes in Residential Equalization



Impact on Typical Fairfax County Household

Fiscal Year	Mean Assessed Value of Residential Property	Real Estate Tax Rate per \$100	Tax per Household
FY 2007	\$544,541	\$0.89	\$4,846.41
FY 2008	\$542,409	\$0.89	\$4,827.44
FY 2009	\$525,132	\$0.92	\$4,831.21
FY 2010	\$457,898	\$1.04	\$4,762.14
FY 2011	\$433,409	\$1.09	\$4,724.16
FY 2012	\$445,533	\$1.07	\$4,767.20
FY 2013	\$448,696	\$1.075	\$4,823.48
FY 2014	\$459,913	\$1.075	\$4,944.07



\$120.59 more than FY 2013

Projected value of “One Penny” on FY 2014 Real Estate Revenue = \$20.4 million
Each penny change = \$45.99 on the tax bill

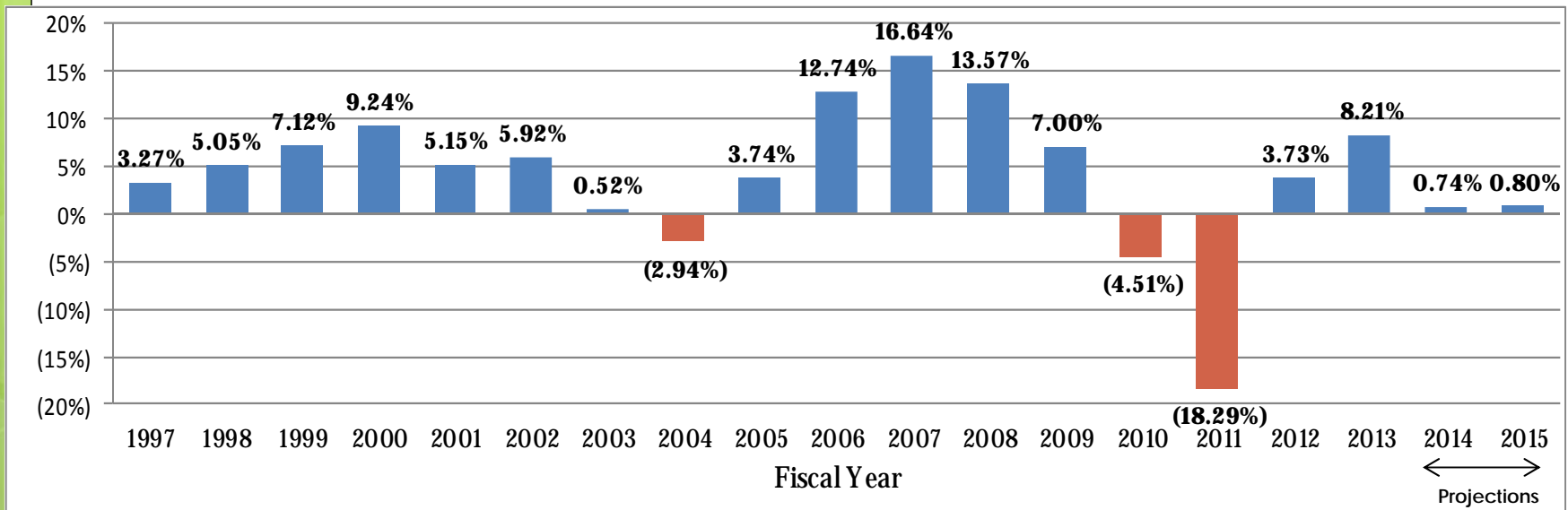
Nonresidential Real Estate Stable

**Nonresidential Values are Projected
to increase just 0.7% in FY 2014 and 0.8% in FY 2015**

- Office property values are rising modestly
- Vacancy rates as of mid-year 2012: 14.1%, 16.2% with sublets
- Economic uncertainty over government reductions impacts demand for office space
- 113.7 million square feet of office space in the County
 - 1.8 million square feet (10 new office buildings) under construction as of mid-year 2012
 - 9 of 10 of these buildings are speculative
- Multi-family rental property values are increasing robustly
- Rents are rising and apartment vacancies are down



Annual Changes in Nonresidential Equalization



Annual Growth in Major Revenue Categories

(Dollars in millions)	FY 2010	FY 2011	FY 2012	FY 2013*	FY 2014*	FY 2015*
Real Estate	\$2,105.6	\$2,008.8	\$2,039.0	\$2,112.4	\$2,164.1	\$2,219.3
Percent Change	3.4%	(4.6)%	1.5%	3.3%	2.5%	2.6%
Personal Property	\$496.0	\$501.6	\$514.5	\$547.8	\$545.3	\$556.2
Percent Change	(4.0)%	1.2%	2.6%	6.5%	(0.5)%	2.0%
Sales Tax	\$149.5	\$154.8	\$162.8	\$169.7	\$176.5	\$183.5
Percent Change	(2.8)%	3.5%	5.2%	4.2%	4.0%	4.0%
BPOL	\$138.5	\$145.1	\$149.7	\$155.0	\$158.1	\$161.2
Percent Change	(1.0)%	4.7%	3.2%	3.5%	2.0%	2.0%
Recordation & Deeds	\$24.9	\$26.4	\$31.0	\$25.6	\$25.6	\$25.9
Percent Change	(0.7)%	6.1%	17.4%	(17.4)%	0.0%	1.0%
Investment Interest Yield	\$16.8	\$14.9	\$14.4	\$11.8	\$11.8	\$11.8
	0.8%	0.8%	0.7%	0.6%	0.6%	0.6%
Total General Fund	0.6%	(0.9)%	2.7%	3.1%	2.0%	2.0%

*Projections. FY 2013 represents revised estimates as of the fall 2012

Personal Property (FY 2013= \$547.8 million)

- FY 2013 expected to rise 6.5%, the largest increase since FY 2002
 - Value of FY 2013 vehicles was set in January 2012
 - Supply of Vehicle was down
 - Used vehicle depreciation was lower than normal
 - Prices of new vehicles rose
 - New model purchases were strong, rising 8.7% in CY 2011
- Value of FY 2014 vehicles will be set in January 2013
 - Preliminary indications are that vehicles have experienced higher than historical depreciation
 - A drop of 0.5% is projected in FY 2014
- 2.0% growth forecast for FY 2015

Sales Tax

(FY 2013=\$169.7 million)

- Sales Tax rose 5.2% in FY 2012, the highest rate since FY 2005
- Forecast of 4.2% growth for FY 2013
 - Rose 4.7% during the 1st 3 months
 - Fell 3.5% in November
 - Fiscal year-to-date growth just 2.6%
- 4.0% forecast for FY 2014 and FY 2015

BPOL

(FY 2013=\$155.0 million)

- BPOL revenue rose 3.2% in FY 2012, and a similar rate of growth is expected in FY 2013
- FY 2014 and FY 2015 are projected to increase just 2.0%
 - Federal spending cuts are expected to reduce national debt
 - If sequestration occurs, the impact could be worse

Investment Interest (FY 2013=\$11.8 million)

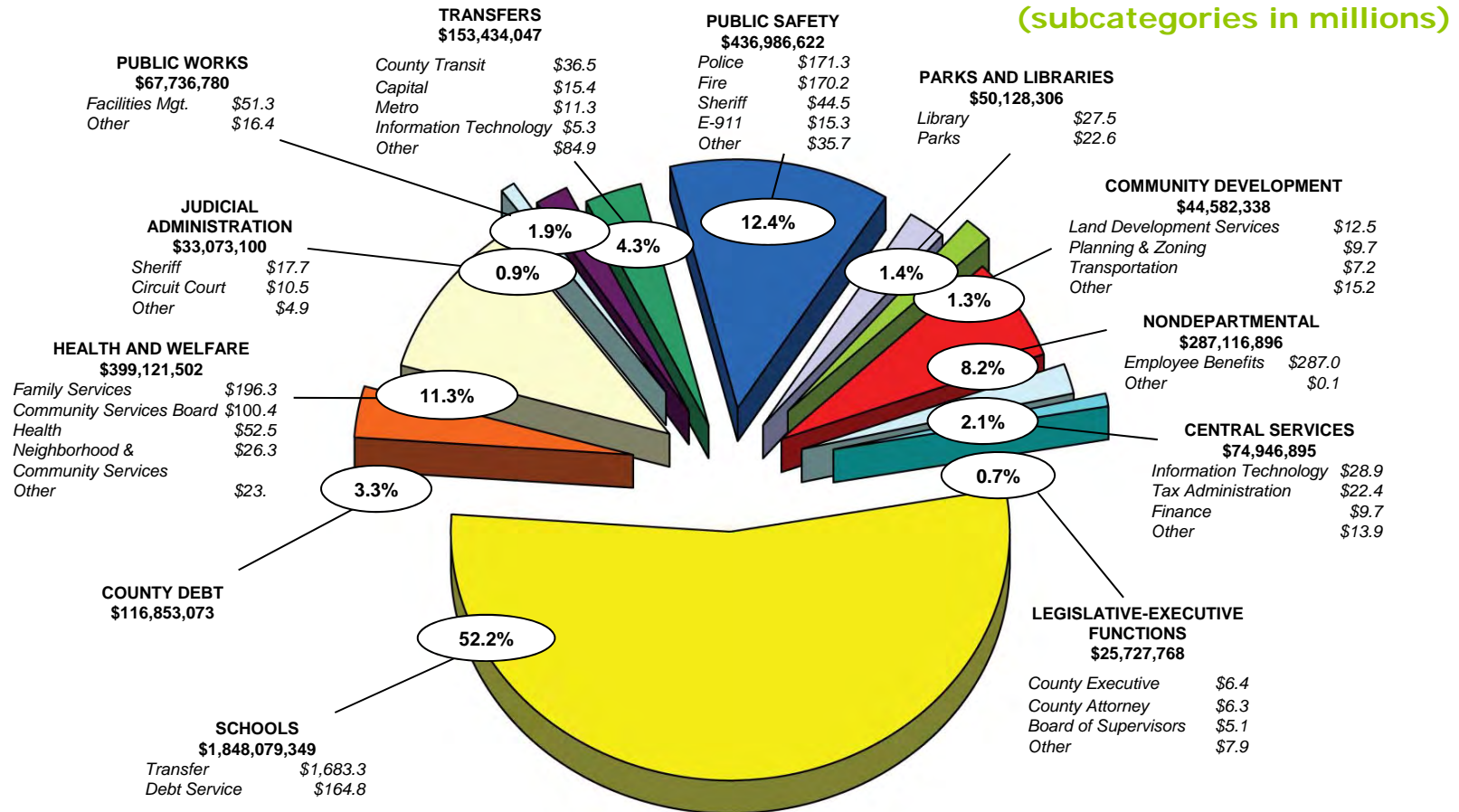
- Interest rates are expected to remain exceptionally low through CY 2013
- Projected yield on County investments 0.6% in FY 2013, FY 2014 and FY 2015

Potential Refunds From Tax Appeals

- Potential revenue loss in FY 2014 from litigation / refunds of \$24.7 million
- Will have an impact on future receipts
- \$5 million reserve created at Carryover

Disbursements

General Fund Expenditures: "Where It Goes" – FY 2013 Adopted Budget



FY 2013 GENERAL FUND DISBURSEMENTS = \$3,537,786,676 *

* In addition to FY 2013 revenues, available balances and transfers in are also utilized to support disbursement requirements.

Projected Disbursement Requirements

- Disbursements are projected to increase 5.3% for FY 2014 and 4.6% for FY 2015 based on:
 - Increases in the Transfer for School Operating of 5% annually
 - Funding of Compensation increases (including Market Rate Adjustments, Pay for Performance awards and Merit Increments) in both years
 - Increases in Benefits requirements, including health insurance and retirement
 - Debt Service requirements
 - Continued support of the Community Services Board
 - Transportation requirements for Silver Line Phase I
 - Opening of new facilities, including the Wolftrap Fire Station and Providence Community Center
 - Contract rate increases

Projected Disbursement Increases (in millions)

	FY 2014	FY 2015
Schools - 5% increase	\$84.2	\$88.4
Compensation – full program	\$46.8	\$49.3
Debt Service/Capital	\$17.6	\$11.1
Human Services	\$11.6	\$5.4
Benefits	\$10.8	\$9.4
Metro/CONNECTOR	\$6.5	\$6.5
New Facilities	\$5.2	\$0.4
County Operations	\$3.9	\$2.5
Managed Reserve Impact	\$3.7	\$3.5
TOTAL	\$190.3	\$176.5

One-Time Balances Used in FY 2013

Reserve	Amount (in millions)
FY 2012 Revenues Identified Fall 2011	\$29.5
Reserve for FY 2013	\$28.7
FY 2012 Third Quarter Reserve	\$2.5
Total approximately	\$61 million

FY 2014- FY 2015 Projected Budget Shortfalls (in millions)

	FY 2014	FY 2015
Increased Revenue	\$82.2	\$71.2
Required Disbursements	(\$190.3)	(\$176.5)
One-Time Balances used in FY 2013	(\$61.0)	\$0.0
Shortfall from Prior Year		(\$169.1)
Projected Shortfall	(\$169.1)	(\$274.3)

Options for Consideration

- Identify priorities for funding for FY 2014
 - Layout the needs for FY 2015 which will help inform decision to be made for FY 2014

- Review options for balancing County budget
 - Cutting agency budgets based on options submitted by agencies as part of reduction exercise

 - No compensation increases for County staff
 - Restructure compensation program to ensure competitiveness but make more affordable for future years

 - County Executive will present recommendations in December at Personnel Committee

 - Hold School transfer flat

 - Monitor Sequestration