Joint Meeting of the Board of Supervisors and School Board

FY 2016 - FY 2017 Budget Forecast

NOVEMBER 25, 2014

Overview

- Continuing multi-year budget process
  - Monitoring FY 2015, building FY 2016 and projecting FY 2017
- Economic uncertainty is contributing to restrained revenue growth
  - Continuing impacts from Sequestration
  - Slow job growth
  - Weak commercial market
  - Lower than projected residential values
- Combined with increasing spending requirements, County is facing budget shortfalls in both FY 2016 and FY 2017
- Many unmet needs and investment requirements

Economic Outlook

ECONOMIC CONDITIONS AND IMPACT ON COUNTY REVENUES

Local Economy is Underperforming

- Ripple effects from sequestration cuts more long-lasting than initially expected

- Northern Virginia job market is improving but slowly
  - An increase of only 4,900 jobs as of September compared to a year ago

- Northern Virginia job growth is 0.4% vs. 2.4% prior to the recession
  - Nationwide job growth 2.0% currently vs. 1.8% prior to the recession

- The cornerstone sectors of the local economy – federal government and professional services – are losing jobs

The Labor Market Picture September 2014

- New jobs in Northern Virginia
  - 2011 & 2012: average of 25,250
  - 2013: + 11,900
  - As of September 2014: +4,900

- Sectors Losing Jobs Have Higher Wages
  - Professional and Business Services – loss of 8,200 in 2 years
  - Federal Government – loss of 4,700 in 2 years

- Sectors Gaining Jobs Have Lower Wages
  - Retail, Hospitality, Construction, Other Services

- 1 Professional Services job = 3.5 Retail jobs

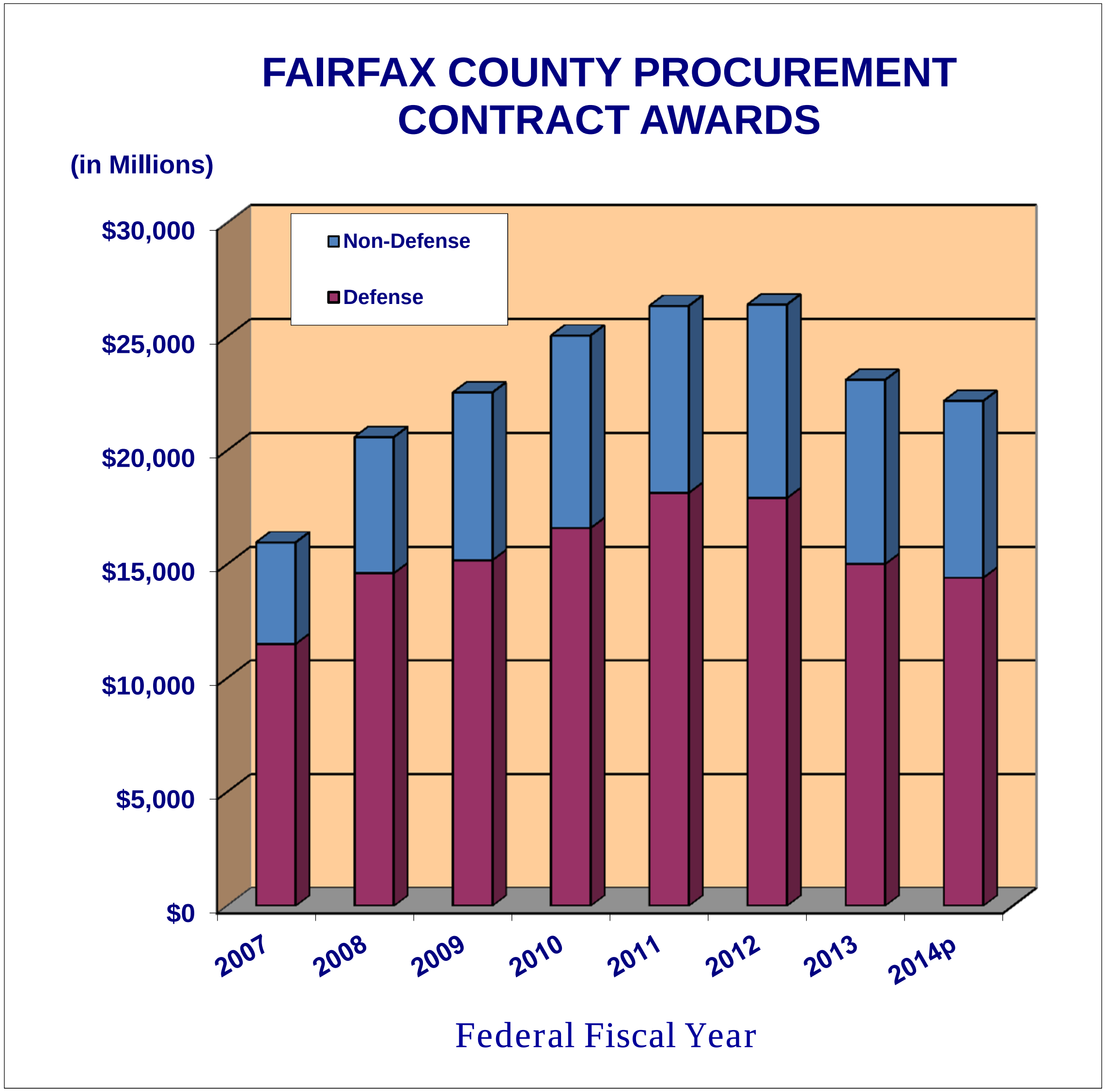
Slow Job Growth Impacts Fairfax County's Housing Market

- October was the 8th consecutive month with year-over-year declines in home sales
  - Year-to-date, the number of home sales has fallen from 12,719 to 11,340, an 10.8% decrease
- Supply of homes on the market is increasing – puts downward pressure on prices
  - Average monthly listings through October - 3,045, up 46% over last year
  - 3.7 month supply of homes for sale, up from 2.5 month supply
- Homes taking longer to sell – average of 55 days in October compared to 35 days last year
- Home prices rising very modestly
  - Average sales price of homes sold in the County is up 1.0% for the first 10 months of 2014 compared to the same period of 2013

Commercial Real Estate Conditions in Fairfax County

- The stalled labor market impacts non-residential property values
  - Office vacancy rates are high due to local economy shedding jobs in professional services and government sectors, as well as changes in workplace culture (telecommuting, less space per worker, etc.)
    - Office vacancy rates – highest since 1991
      - 15.2% direct, 16.5% with sublets
    - Countywide office asking rental rates are flat year-over-year
    - Decreased federal procurement dollars coming to County
  - Metrorail's new Silver Line spurring new construction
    - Concerns with absorption
  - Non-residential property values flat in last 2 years, expected to fall in FY 2016

- Federal procurement spending in Fairfax County grew 16.2% per year from FY 2007-2010
- Moderate 5.2% growth in FY 2011
- Flat in FY 2012
- Decreased 12.5% in FY 2013
- Expected to be down 3%-4% in FY 2014



Source: Federal Procurement Data System

Real Estate Projections
Multi-Year Versus November Estimates

	FY 2015 Actual	FY 2016 Multi-Year Estimate in FY 2015 Adopted Budget	FY 2016 Estimate as of November 2014	FY 2017 Estimate as of November 2014
Residential	6.5%	5.5%	3.0%	3.0%
Nonresidential	(0.1)%	0.0%	(1.0)%	(0.5)%
New Construction	0.93	0.75%	0.95%	0.85%
Total Real Estate	**5.8%**	**4.9%**	**3.0%**	**3.0%**

Lingering Effects of the Great Recession

Real Estate Assessed Values (in millions)

Fiscal Year	Residential	Non-residential	Total
2008	176,498 (peak)	52,001	228,499
2009	171,891	57,779 (peak)	229,670
2016 Forecast	170,730	54,785	225,515

The FY 2016 forecast indicates that:

- Residential values will still be 3.3% below their 2008 peak values
  - A revenue loss of $63 million at the current tax rate

- Non-residential values will still be 5.2% below their 2009 peak values
  - A revenue loss of $33 million at the current tax rate

Revenue from the Commonwealth

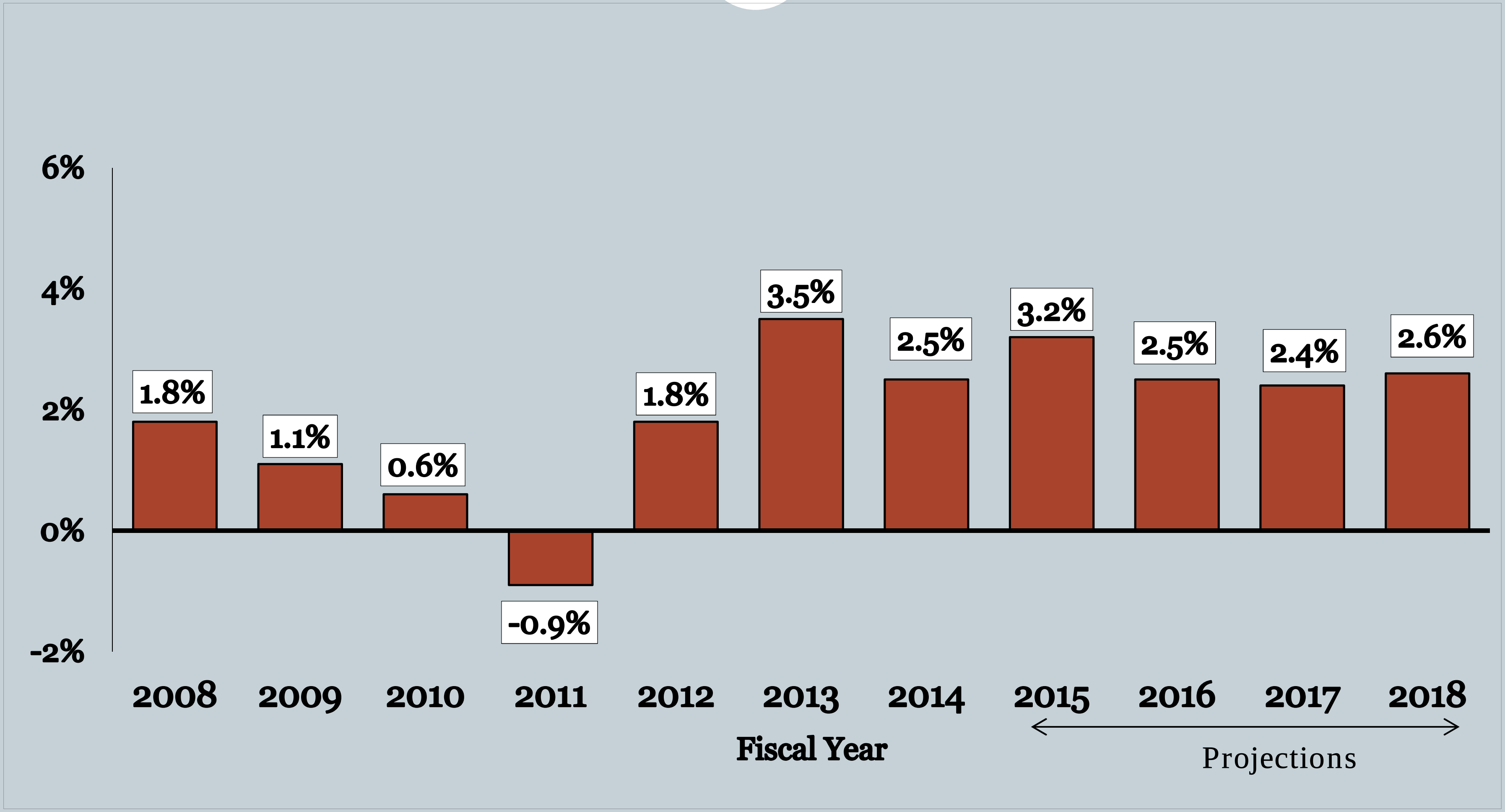
- State revenue deficit is cause for concern
- A $2.4 billion budget short-fall for the FY 2015 – FY 2016 Biennium
- Actions to-date:
  - Assumes Rainy Day Fund withdrawals of $705 million over the biennium
  - Reduces locality funding by $30 million in both FY 2015 and FY 2016
    - Allows localities to choose which revenue stream to cut
    - County's share of the cut has been set at $2.3 million in FY 2015
  - Slashes Higher Ed funding
  - Other savings generated by using one-time balances, increasing turnover/vacancy savings, efficiencies, reduction of 565 jobs
- Remaining Budget Gap to be addressed in Governor's Budget
  - FY 2015 -- $50 million
  - FY 2016 -- $272 million

Annual Growth in Major Revenue Categories

(Dollars in millions)	FY 2013	FY 2014	FY 2015*	FY 2016*	FY 2017*
Real Estate - Current	$2,114.4	$2,208.0			
Percent Change	3.7%	4.4%	6.2%	3.0%	3.0%
Personal Property - Current	$555.3	$556.5			
Percent Change	7.9%	0.2%	0.8%	1.0%	1.0%
Sales Tax	$166.9	$165.5			
Percent Change	2.5%	(0.9)%	2.0%	2.5%	2.5%
BPOL - Current	$156.2	$152.0			
Percent Change	4.3%	(2.7)%	0.0%	1.5%	2.0%
Total General Fund	**3.5%**	**2.5%**	**3.2%**	**2.5%**	**2.4%**

*Projections as of November 2014

Annual Change in General Fund Revenue FY 2008 – FY 2018



*Projections as of November 2014

Looking Back

SPENDING GROWTH HAS BEEN OFFSET BY SIGNIFICANT BUDGET REDUCTIONS SINCE FY 2008

Looking Back: Growth since FY 2008

- From FY 2008 to FY 2015, General Fund disbursements increased by 1.6% annually
  - Of the increases, 53% went to the Schools Operating and Debt Service funds, while the remaining 47% supported County requirements
  - County disbursements fell for 3 straight years (FY 2009-2011)
  - Significant reductions offset spending requirements, with almost 70% of County increases supporting Employee Pay and Benefits
    - No base pay increases were given in 3 of the 7 years for most employees
  - Investments in areas such as capital and reserves funding were deferred

Looking Back: Reductions

- Reductions since FY 2008 – including revenue adjustments and accelerated reductions taken at quarterly reviews – total over $269 million
- In addition, 653 positions have been eliminated
- Have turned over every rock looking for cost saving opportunities
- Most agencies operate with a vacancy rate of over 8%
- Additional reductions will be difficult without a significant impact on programs

Disbursement Forecast

PROJECTIONS FOR FY 2016-17

FY 2016-17 Disbursement Forecast

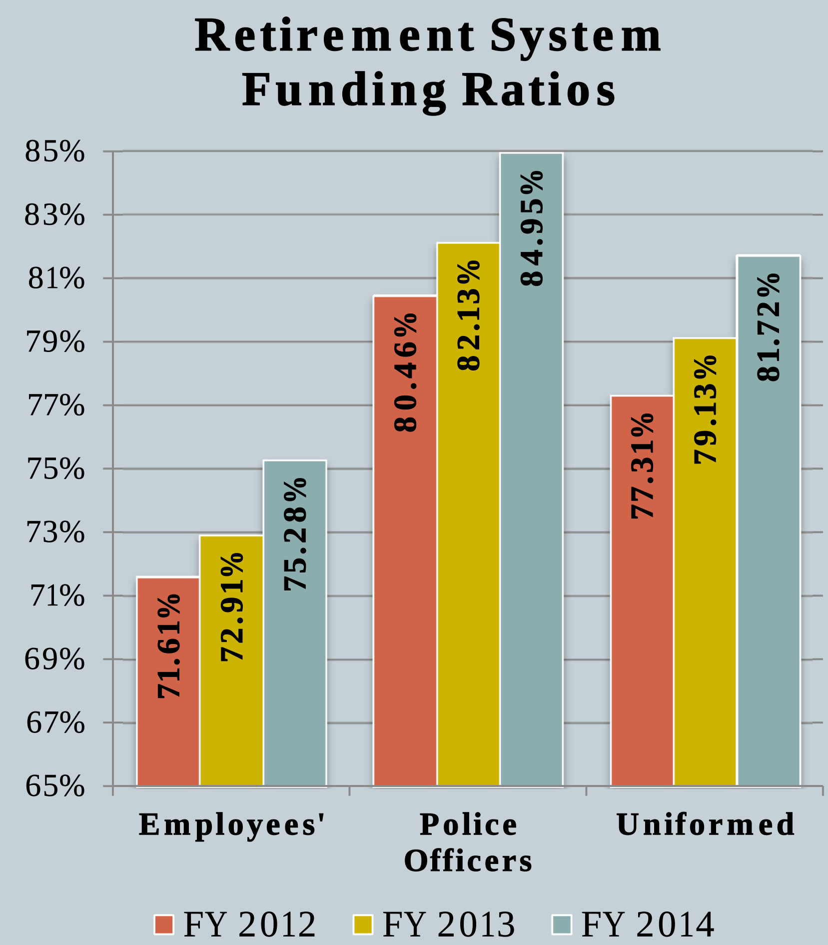
- Disbursements are projected to increase 4.93% for FY 2016 and 4.25% for FY 2017 primarily based on:
  - Schools
    - 3% Increase in Operating ($53.1 mil in FY 2016, $54.6 mil in FY 2017)
    - Capital Support ($13.1, $0)
    - Debt Service requirements ($5.0, $5.0)
    - Support for Full-Day Mondays ($3.0, $0.0)
  - County
    - Employee Pay increases and Benefits ($64.8, $62.4)
    - Public Safety Staffing Plan ($8.8, $11.7)
    - Human Services initiatives ($12.2, $8.3)
- Current revenue projections do not support this level of increased disbursements

Forecast: Employee Pay

- Forecast includes increases of $46.0 million in FY 2016 and $41.1 million in FY 2017
  - Market Rate Adjustment
    - Based on formula
      - 40% Consumer Price Index, 50% Employment Cost Index, 10% Federal Wage Adjustment
    - 1.68% in FY 2016 and assumed 1.50% in FY 2017
  - Funding of new General County Pay Plan
    - Average employee increase of 2.50% in FY 2016 and 2.00% in FY 2017 (excluding MRA)
  - Merits/Longevities for Uniformed Public Safety
    - Average employee increase of 2.25% each year based on eligibility (excluding MRA)
  - Market Studies

Forecast: Employee Benefits

- Forecast includes increases of $18.9 million in FY 2016 and $21.3 million in FY 2017
  - 10% Health Insurance Premium Increases
    - May be able to be reduced with plan design changes
  - Continued investments in the County's Retirement Systems
    - Must increase contributions per GASB
    - Developing 5-Year Strategy to Increase Funding Levels



Forecast: Public Safety

- Forecast includes increases of $11.0 million and 80 positions in FY 2016 and $14.8 million and 71 positions in FY 2017
  - Funding and Positions associated with the 5-Year Public Safety Staffing Plan
    - Increased requirements driven by population increases, urbanization, technological changes, and mandates
  - Apparatus and Volunteer Apparatus Replacement, SCBA Replacement
  - Expiration of two-year grant funding for SAFER (Staffing for Adequate Fire and Emergency Response) positions
    - 19 positions approved in September 2013 and 12 positions approved in March 2014

Forecast: Human Services

- Forecast includes increases of $12.2 million and 38 positions in FY 2016 and $8.3 million and 24 positions in FY 2017
  - June 2015 and 2016 Special Education Graduates
  - Behavioral Health and School Readiness
    - Continuation of initiatives started in FY 2015
  - Positions to address increasing Public Assistance Caseloads
  - School Health Positions
  - New SACC Room at Terraset Elementary
  - Increase for Consolidated Community Funding Pool
    - FY 2017 is first year of new two-year cycle
  - Contract Rate Increases

Projected Disbursement/Reserve Increases

(Over Prior Year - in millions)

	FY 2016	FY 2017
Schools Support	**$74.15**	**$59.65**
Schools Operating Transfer (3% Increase)	$53.05	$54.65
Capital Needs	$13.10	$0.00
Schools Debt Service	$5.00	$5.00
Full-Day Mondays	$3.00	$0.00
County Requirements	**$107.15**	**$104.55**
Employee Pay Increases	$45.96	$41.10
Employee Benefits	$18.87	$21.30
Public Safety	$11.02	$14.76
Human Services	$12.25	$8.27
County Operations	$6.79	$11.43
County Debt Service	$5.00	$5.00
Community Development	$4.82	$0.24
Capital Paydown	$2.44	$2.45
Revenue Stabilization/Managed Reserve	**$3.95**	**$4.69**
TOTAL	**$185.25**	**$168.89**

FY 2016-17 Projected Budget Shortfalls

	FY 2016	FY 2017
Increased Revenue	$84.36	$89.56
Required Disbursements/Reserves	($185.25)	($168.89)
Projected Shortfall	**($100.89)**	**($79.33)**

- The County projects a shortfall of **$100.89 million** in FY 2016
  - In the FY 2015 Adopted Budget, the FY 2016 shortfall was estimated at $37.65 million
    - Projected shortfall has increased, primarily due to updated revenue estimates and adjustments for employee pay
- The FY 2017 shortfall is projected at **$79.33 million**
- Schools funding requests are above those assumed by the County in this forecast

Summary

- Anticipate slow revenue growth for the foreseeable future
- Reductions will be necessary to balance budgets
  - Agencies are identifying programmatic reductions totaling 3% of their annual General Fund allocation
  - Teams of employees in each agency are identifying cost savings or efficiencies and individual employees have been submitting ideas online
  - Budget staff are reviewing centrally managed accounts for possible savings opportunities
- Will monitor State budget and effects of Sequestration
- Must continue to use multi-year approach to inform our decisions
- Additions to the budget must be sustainable
- Economic development is critical
- Investments must be made