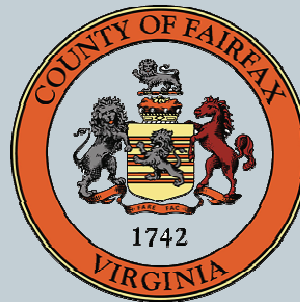


# Joint Meeting of the Board of Supervisors and School Board



## **FY 2018 Budget Forecast**



**OCTOBER 4, 2016**

# Forecast Overview



- Early stages of FY 2018 budget development
- Limited information available regarding major drivers of budget on revenue side (Real Estate, Meals Tax) and disbursement side (Market Rate Adjustment)
- Information included in following slides is based on the Multi-Year Budget included in the FY 2017 Adopted Budget Plan.
  - The forecast has been adjusted for actions taken as part of the *FY 2016 Carryover Review* and Board actions subsequent to the adoption of the FY 2017 budget
- It is likely that in order to balance FY 2018, certain disbursement increases will need to be adjusted or delayed

# Economic Outlook



**ECONOMIC CONDITIONS AND IMPACT ON  
COUNTY REVENUES**

# National Economy – Uneven Growth



## Positive:

- Employment continues to grow
- Consumer confidence is strong
- Low inflation
- Income growth
  - Real median household income up 5.2% in 2015

## However:

- Growth in GDP is slowing during 2016
- Uncertainty about interest rates and Fed policy
- Upcoming elections also create uncertainty
- More sequestration cuts might be on the horizon unless Congress acts

# State and Local Revenue Picture



- **State revenue shortfall in FY 2016**
  - Weak income tax withholding growth affected by “the addition of jobs in lower wage categories and increases in part-time employment”
  - Lower than projected sales tax growth
- **State’s revenue estimate reduced by \$1.2 billion over the biennium as part of the interim forecast**
  - Uncertainty of how governor will close the gap and impact on local revenues – currently state agencies are identifying reductions
  - State funding for salary increases for state-supported local employees and teachers is at risk
    - ✦ \$4.4 million for FY 2017 and \$7.6 million for FY 2018 for teacher salary increases
    - ✦ Over \$0.5 million for state-supported local employees
- **In Fairfax County, modest growth during FY 2016 in two revenue sources that are a good indicator of economic activity:**
  - Sales tax grew a weak 1.4%
  - BPOL tax – growth of only 0.7%

# Local Labor Market



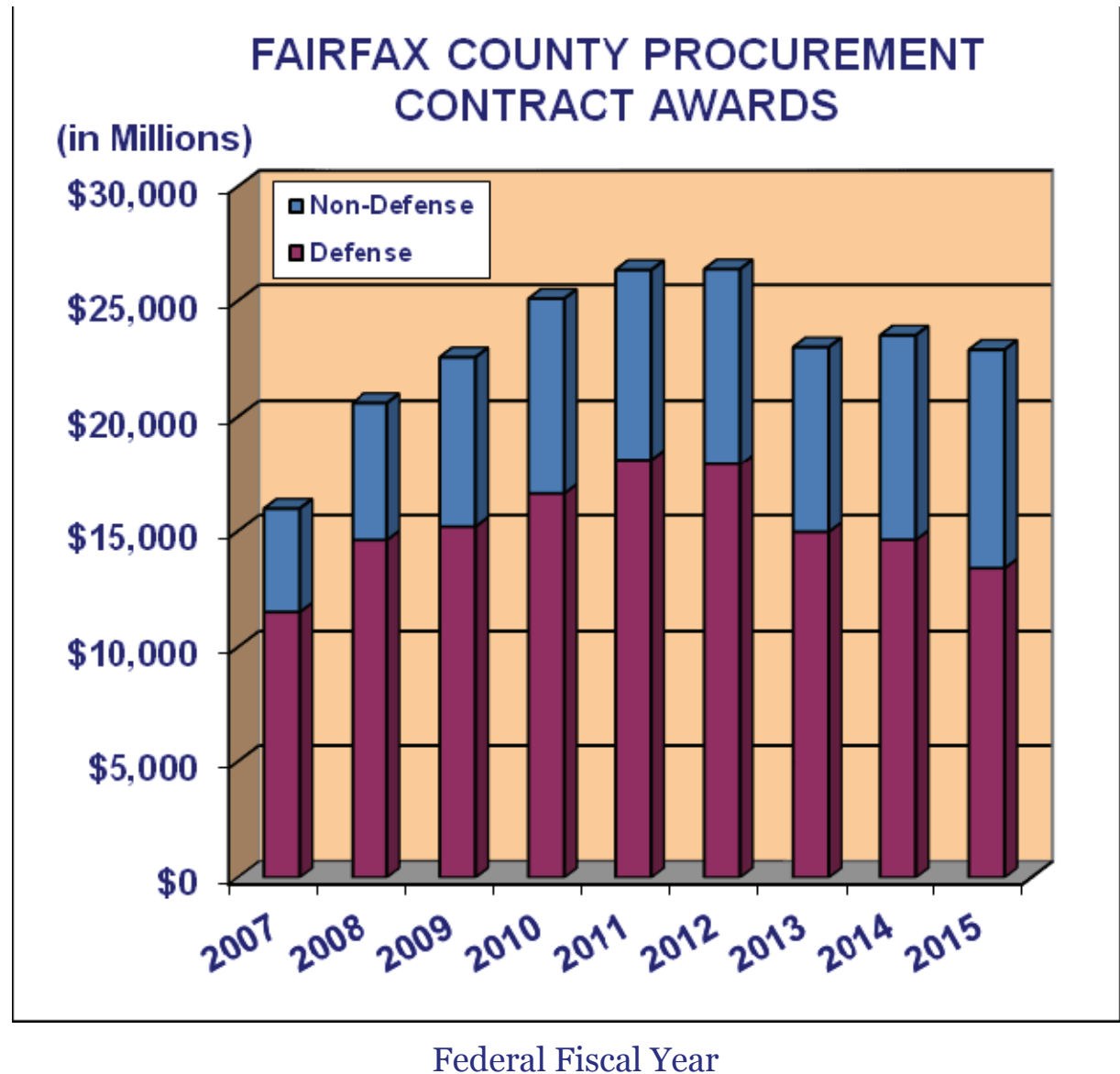
- Job Growth in Fairfax County:

	Total Increase	% Change	Prof/Bus Services	% Change
2011	7,600	1.3%	2,595	1.2%
2012	9,400	1.6%	4,491	2.1%
2013	-3,700	-0.6%	-3,792	-1.7%
2014	-7,300	-1.2%	-8,782	-4.0%
2015	7,300	1.3%	256	0.1%

- While job growth resumed in Fairfax County in 2015 after two consecutive years of job losses, sectors gaining jobs have lower wages
  - Professional and Business Services sector has not recovered the jobs lost as a result of the sequester



- 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 2015, decreased 2.6% after increasing 2.2% in FY 2014; level is 13.1% below FY 2011
- Defense contract awards are 26.0% below peak level in FY 2011



# Northern Virginia Real Estate Market



- Average home sales price through August 2016 compared to the same period of 2015

Jurisdiction	Average Home Sales Price	% Change
Arlington	\$643,267	0.8%
Alexandria	\$532,395	-2.1%
Fairfax County	\$547,998	0.0%
Prince William	\$363,002	2.7%
Loudoun	\$481,694	1.0%

Source: Metropolitan Regional Information Systems (MRIS)

- Office vacancy rates remain elevated in historical terms



# General Fund Revenue



- Staff is in the process of refining revenue projections for both FY 2017 and FY 2018 and will have an update for the November 22 meeting
- Real Estate tax revenue makes up nearly 65% of total General Fund revenue
- Every 1% increase in the County's real estate tax base equates to a revenue increase of approximately \$26 million
- Unknowns:
  - Sales tax growth
  - BPOL tax growth
  - Meals tax
  - State revenue
  - Sequestration

# Disbursement Requirements



**PROJECTIONS FOR FY 2018**

# Schools Support



- FY 2017 County support for Schools totals \$2.12 billion, or 52.7% of General Fund Disbursements
  - \$1.91 billion for School Operating
    - ✦ Increased \$88 million, or 4.84% over FY 2016
  - \$189.9 million for School Debt
  - \$13.1 million for School Construction
  - Does not include \$84.8 million in additional County support
- Each 1% increase to the School Operating transfer in FY 2018 is \$19.14 million
  - Including reserve requirements, each 1% requires a total of \$21.16 million
- Projecting \$2.00 million increase for School Debt Service in FY 2018
  - Based on size of bond sales for School facilities (\$155 million)
- Contribution to School Construction anticipated to remain at \$13.1 million

# County Employee Pay



- FY 2018 Forecast includes increases of \$41.77 million for employee pay, including:
  - Market Rate Adjustment - \$18.0 million
    - ✦ 1.50% included as placeholder
      - *Actual data not available until late October*
    - ✦ Applies to all employees
    - ✦ Based on formula of 40% CPI, 50% ECI, 10% Federal Wage adjustment
  - General County Performance/ Longevities - \$12.0 million
    - ✦ 2.00% average
    - ✦ Non-Uniformed merit employees only
  - Uniformed Merits/Longevities - \$8.5 million
    - ✦ 2.25% average
    - ✦ Uniformed merit employees only
  - Includes the full-year impact of the elimination of the Public Safety Step 8 Hold (approved in FY 2017) of \$0.57 million and the Living Wage increase (approved at Carryover) of \$0.19 million
  - Market Studies – placeholder of \$2.5 million
  - *Does not include costs associated with recommendations from the Public Safety Study discussed earlier today with the Board of Supervisors*

# County Employee Benefits



- FY 2018 Forecast includes increases of \$11.05 million for employee benefits, including:
  - Retirement - \$4.05 million
    - ✦ Funds retirement systems per the County's Funding Policy
    - ✦ Includes recurring impact of 2nd year of 3-year phase-in of Social Security Disability Offset elimination
      - In FY 2017, reduced offset from 15% to 10%. In FY 2018, plan to reduce offset to 5%, with total elimination in FY 2019.
      - Does not include one-time impact of approximately \$1.5 million, which is assumed to be funded at a quarterly review
      - *Final valuation results not yet available, but will be included for November 22 Budget Committee meeting*
  - Health Insurance - \$7.00 million
    - ✦ Assumes 7% increases in health insurance premiums for January 2018

# Public Safety



- FY 2018 Forecast includes increases of \$21.74 million and 81 positions for Public Safety, including:
  - Ad-Hoc Police Commission/Diversion First - \$7.50 million
    - ✦ Second phase to continue implementation of recommendations
    - ✦ \$7.5 million funded in FY 2017 of total projected estimate of \$35 million
  - New South County Police Station - \$3.10 million
    - ✦ Second year of staffing - 15 positions in FY 2018 (30 total to-date)
  - Public Safety Staffing Plan - \$7.90 million
    - ✦ 58 positions identified
  - SAFER Grants - \$2.06 million
    - ✦ Support 18 positions awarded in 2015
  - FRD Large Apparatus & Ambulance Replacement - \$1.00 million
  - *Does not include costs associated with recommendations from the Public Safety Study discussed earlier today with the Board of Supervisors*

# Human Services



- FY 2018 Forecast includes increases of \$19.68 million and 67 positions for Human Services, including:
  - CSB Program Support - \$6.95 million
    - ✦ ID Graduates
    - ✦ ID Support Coordinators
      - 12 positions, in addition to 10 included in *FY 2016 Carryover Review*
    - ✦ Sheltered Employment
  - Family Services Programs - \$6.48 million
    - ✦ Funding to address several issues such as Behavioral Health, School Readiness, and other recommendations of the SCYPT (Successful Children and Youth Policy Team)
    - ✦ School-Age Child Care – 2 new rooms
  - Health Department Programs - \$1.85 million
    - ✦ Medically Fragile Students in Schools
    - ✦ School Health (3 positions)
  - Contract Rate Increases - \$3.50 million

# Debt Service and Capital Requirements



- **FY 2018 Forecast includes increases of \$11.00 million for County Debt Service requirements**
  - Includes annual General Obligation Bond Sales
    - ✦ Maintains Schools at \$155 million and County at approximately \$120 million
    - ✦ 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*
  - \$136.75 million funded in FY 2017
- **FY 2018 Forecast includes increases of \$5.00 million for County capital requirements**
  - \$19.54 million funded in FY 2017 (General Fund)



# Summary



- In April, staff identified projected FY 2018 shortfall of \$75.78 million
  - Assumed revenue growth of 2.39%
  - Assumed 3% increase in School Operating Transfer
  - Too early to provide updated projection based on significant unknowns
- Each 1% increase to the School Operating transfer in FY 2018, before reserves, is \$19.14 million
- Each 1% in General Fund revenue equates to approximately \$40 million
- An updated FY 2018 Forecast will be presented on November 22 when additional revenue information is available