

# Joint Meeting of the Board of Supervisors and School Board

FY 2019 County and Schools Fiscal Forecast

November 28, 2017





# Joint Fiscal Forecast Format

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- **Developed collaboratively, incorporating respective priorities**
- **Presented together**
- **Unified methodology**
  - **Format and order of presentation**
  - **Revenue presentation**
  - **Expenditure presentation**
  - **Calculation of gap between projected revenue and expenditures**



# County's Economic Outlook



# National Economy – Growing slowly but steadily

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- **Positive:**

- Employment continues to grow
- Consumer confidence is strong
- Stock market is at record levels
- Income growth
  - Real median household income up 2.4% in 2016 after gaining 5.2% in 2015

- **However:**

- Uncertainty about U.S. fiscal policy and tax reform impact
- Federal government is funded through a continuing resolution that expires on December 8
- Sequestration cuts are scheduled to kick back in for the current fiscal year – would have a significant impact in Northern Virginia
- How long will the current economic expansion continue?



# State and Local Revenue Picture

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- State revenue in FY 2017 was higher than forecasted
  - However, sales tax growth was lower than projected
  - According to the state, sales tax growth in Virginia is among the worst in the nation – fell 25% between 2000 and 2016 in real terms
  - Economy has shifted from manufacturing to service-based and Virginia taxes fewer services than many other states
- According to the state, resources should be adequate to cover major budget drivers in FY 2019-FY 2020 biennium budget – but not much left for other items
- In Fairfax County, continued modest growth during FY 2017 in two revenue sources that are a good indicator of economic activity:
  - Sales tax was down 1.2% primarily due to a significant refund; adjusted growth was 1.5%
  - BPOL tax – growth of only 1.2%

# Local Labor Market



## ■ Job Growth in Fairfax County:

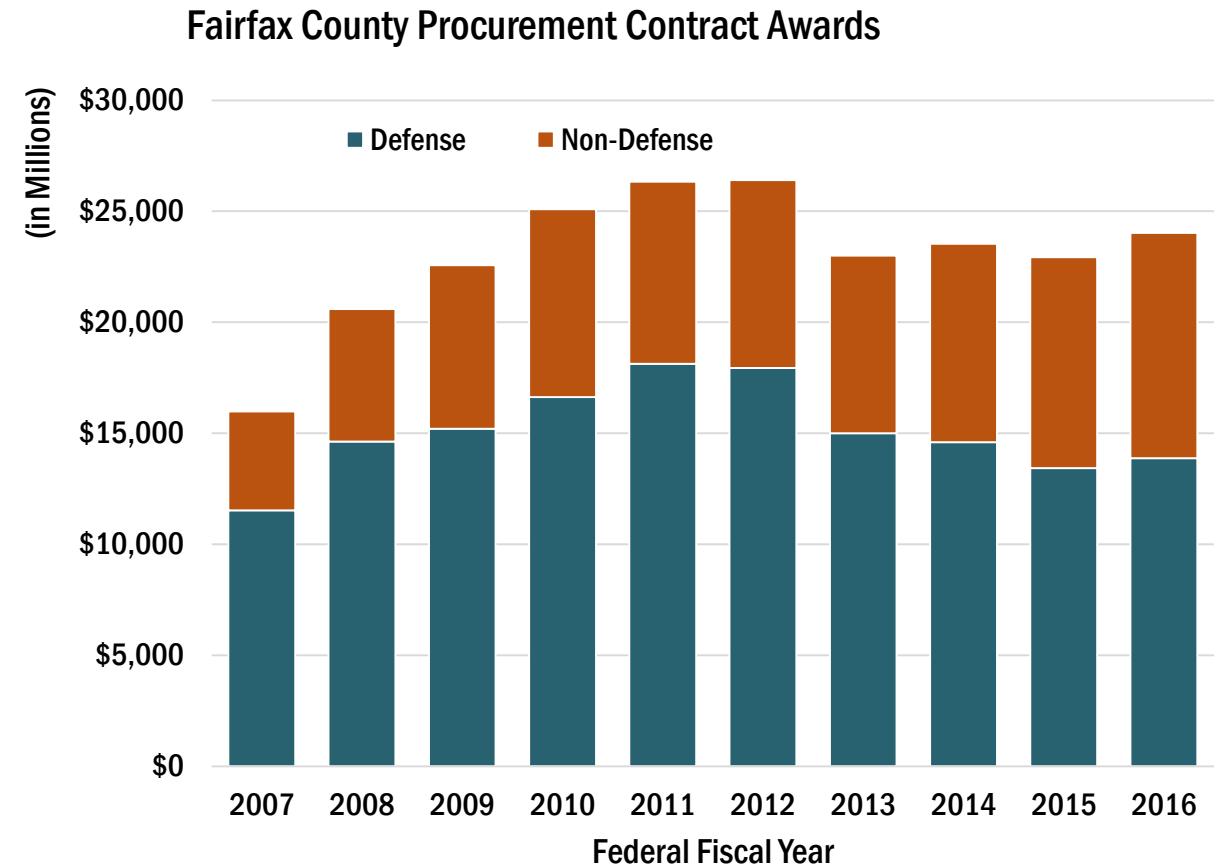
|      | Total Increase | % Change | Prof/Bus Services | % Change |
|------|----------------|----------|-------------------|----------|
| 2011 | 7,600          | 1.3%     | 2,600             | 1.2%     |
| 2012 | 9,400          | 1.6%     | 4,500             | 2.1%     |
| 2013 | (3,700)        | (0.6%)   | (3,800)           | (1.7%)   |
| 2014 | (7,300)        | (1.2%)   | (8,800)           | (4.0%)   |
| 2015 | 7,300          | 1.3%     | 300               | 0.1%     |
| 2016 | 8,400          | 1.4%     | 2,400             | 1.1%     |

## ■ Job growth in Fairfax County continued in 2016 for a second consecutive year

- While Professional and Business Services sector gained 2,400 jobs, the jobs lost as a result of the sequester are yet to be recovered

# Federal Procurement Spending in Fairfax County

- 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 2016, increased 4.8% after decreasing 2.6% in FY 2015; level is 9.0% below peak FY 2012
- Defense contract awards are 23.4% below peak level in FY 2011



Source: Federal Procurement Data System

# Northern Virginia Real Estate Market

- Average home sales price through October 2017 compared to the same period of 2016

| Jurisdiction   | Average Home Sales Price | % Change |
|----------------|--------------------------|----------|
| Arlington      | \$661,077                | 4.3%     |
| Alexandria     | \$552,020                | 4.4%     |
| Fairfax County | \$563,906                | 3.4%     |
| Prince William | \$375,762                | 3.4%     |
| Loudoun        | \$501,570                | 4.4%     |

Source: Metropolitan Regional Information Systems (MRIS)

- Office vacancy rates remain elevated in historical terms





# County Strategic Initiatives

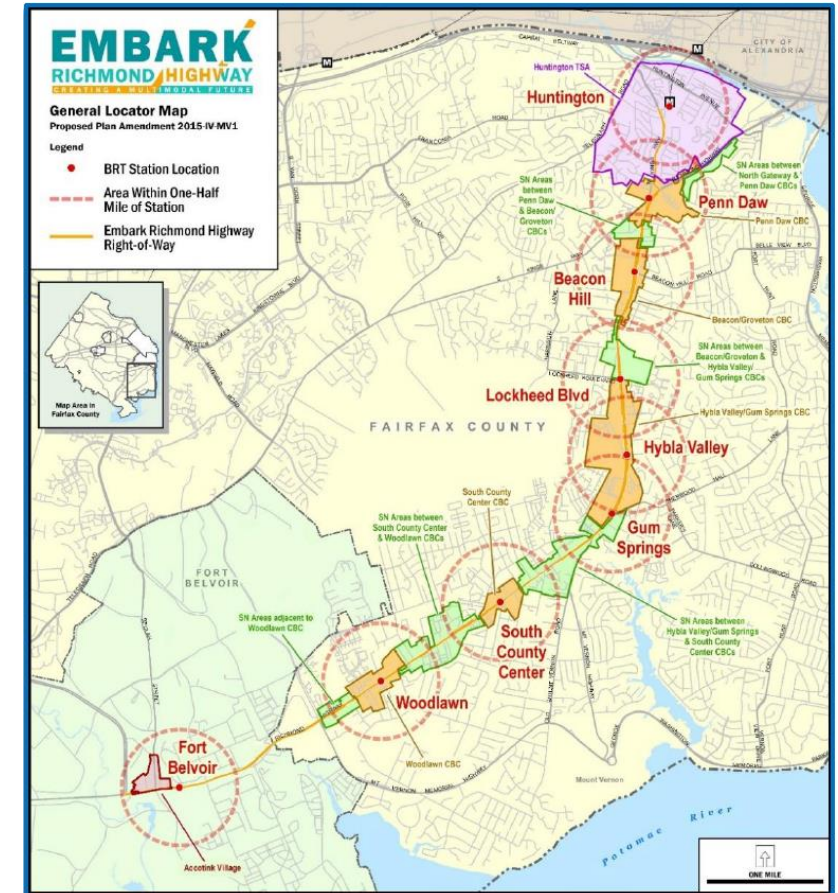
# Initiatives Underway

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- **Lines of Business, Phase 2**
  - Work groups focused on program efficiencies to better address service needs
  - Updates by the end of the year
- **Multi-year fiscally constrained plan for Board priorities under development including, but not limited to:**
  - Diversion First
  - Public Safety Staffing Plan
  - Human Services Resource Plan
- **IT Projects and process improvements, such as with the permitting process**
- **Economic Success Strategic Plan initiatives including, but not limited to:**
  - Embark Richmond Highway
  - zMOD

# Embark Richmond Highway

- Response to Route 1 Alternatives Analysis
- Comprehensive Plan amendment
  - Corridor-wide goals and objectives
  - Multimodal Improvements
    - Bus Rapid Transit and future Metrorail
    - 6-lane roadway with pedestrian, bicycle facilities
  - Land use within station areas
  - Urban design and other guidance
- Extensive outreach and communication
  - Advisory group and greater community





# **zMOD: Zoning Ordinance Modernization Project**

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- **Makes the County's Zoning Ordinance more agile, flexible and forward-thinking**
  - Zoning Ordinance established 40 years ago
  - Supports the County's strategic plan to grow and diversify the economy
- **zMOD goals**
  - Reformation and restructure the ordinance to make it more user-friendly
  - Prioritize key Zoning Ordinance amendments
  - Improve the County's overall process of how the Zoning Ordinance is updated
  - Integrate with, but not replace, Zoning Ordinance Amendment Work Program



# FCPS' Educational Outlook

# Strategic Plan Drives Priorities



## Student Success

We commit to reach, challenge, and prepare every student for success in school and life.

## Caring Culture

We commit to foster a responsive, caring, and inclusive culture where all feel valued, supported, and hopeful.

## Premier Workforce

We commit to invest in our employees, encourage innovation, and celebrate success.

## Resource Stewardship

We commit to champion the needs of our school communities and be responsible stewards of the public's investment.





## Successes

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- **Ninety-six percent – 187 of 194 Fairfax County public schools have earned full accreditation from the Virginia Department of Education for 2017-18**
- **Seniors in the class of 2017 exceeded state and national averages on the SAT**
- **Students earned more than 18,500 VDOE-approved industry certifications and licenses in 2015-2016**
- **The number of teacher vacancies at the beginning of the school year decreased from approximately 170 last year to 99 this year**



## Opportunities

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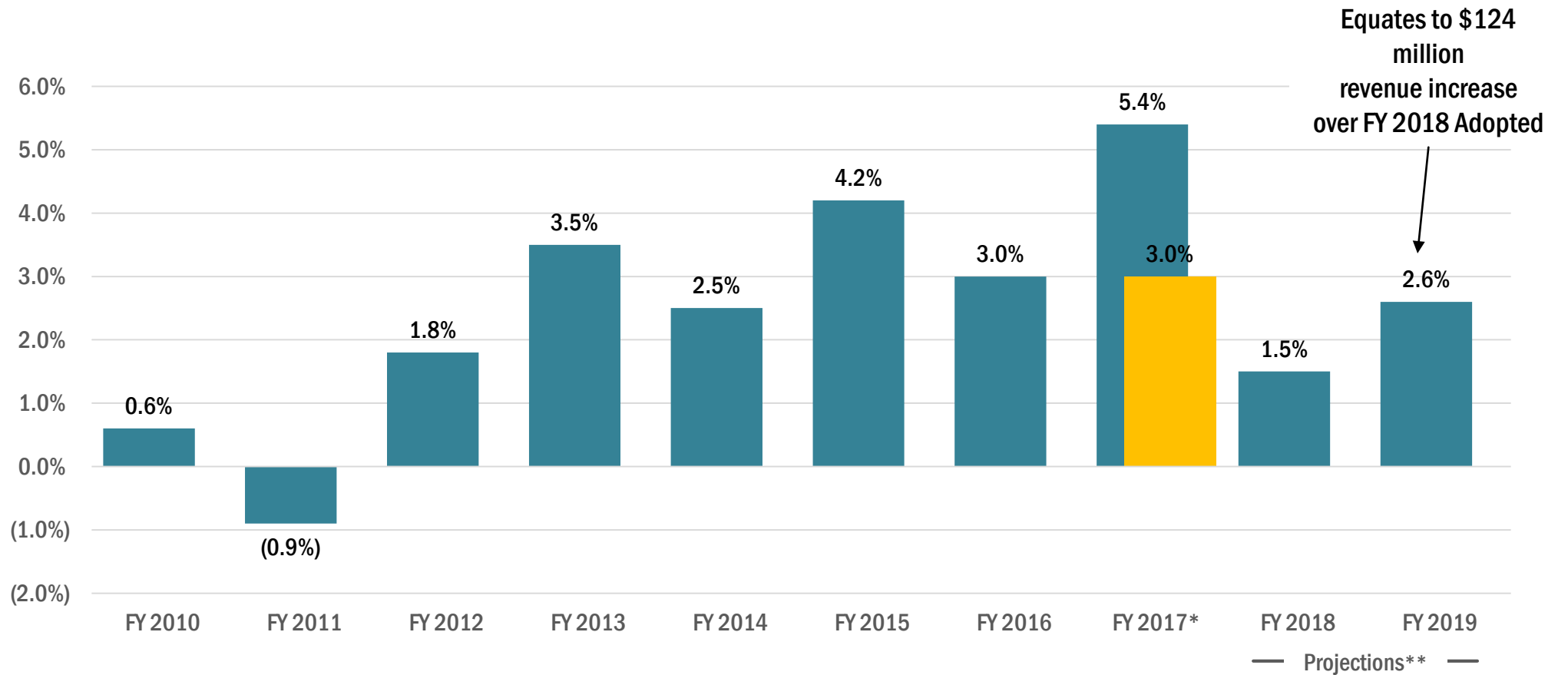
- Ensuring all students achieve Portrait of a Graduate Outcomes
- Closing achievement gaps
- Starting the school year with a qualified teacher in every classroom
- Ensuring teacher pay reaches the market average





# County General Fund Revenues

# Annual Change in General Fund Revenue FY 2010 – FY 2019



\* Without the 4 cent Real Estate tax increase, revenue would be up 3.0%

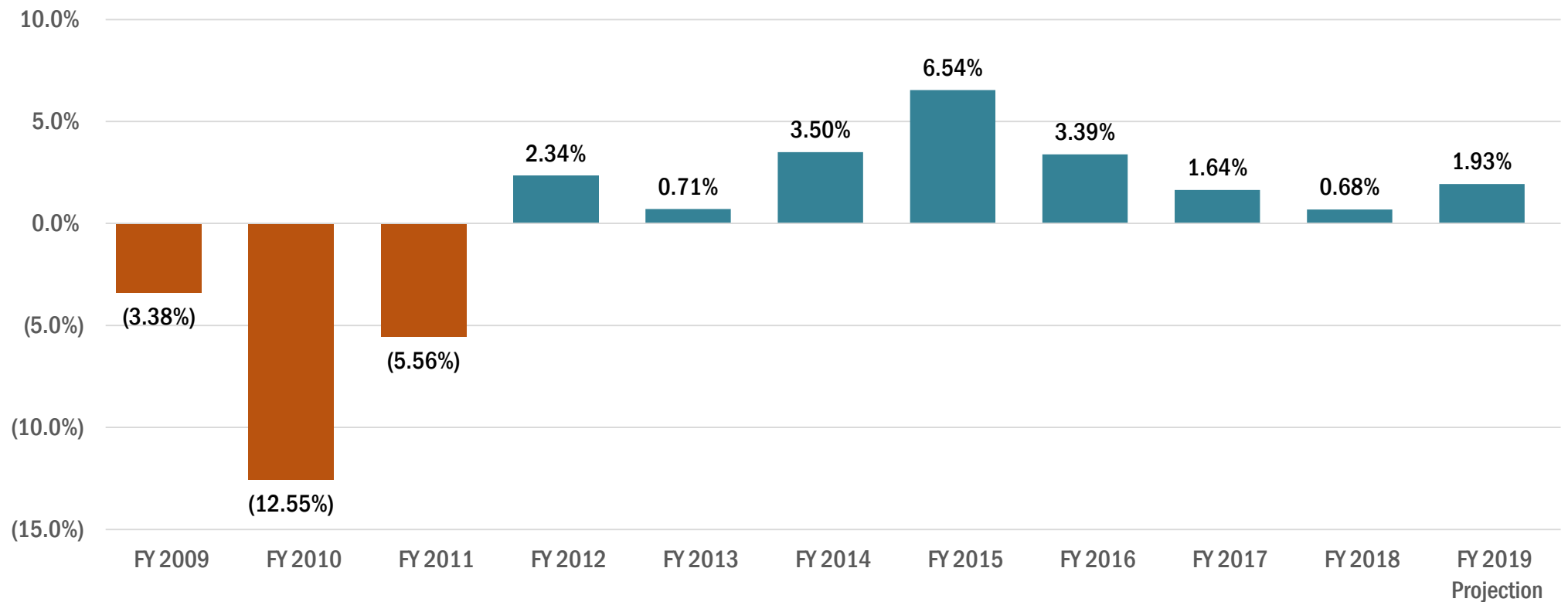
\*\*Projections as of November 2017

# Real Estate Projections - Multi-Year Versus November Estimates

- Compared to the forecast included in the multi-year budget, the November Real Estate revenue estimate is up **\$34 million**

| Changes in Assessments        | FY 2016 Actual | FY 2017 Actual | FY 2018 Actual | FY 2019 Multi-Year Estimate in FY 2018 Adopted Budget | FY 2019 Estimate as of Nov. 2017 |
|-------------------------------|----------------|----------------|----------------|---|----------------------------------|
| Residential                   | 3.39%          | 1.64%          | 0.68%          | 1.00%   | 1.93%                            |
| Nonresidential                | (0.60%)        | 2.87%          | 1.85%          | 1.00%   | 3.20%                            |
| New Construction              | 1.06%          | 1.04%          | 0.92%          | 0.90%   | 0.91%                            |
| <b>Total Real Estate base</b> | <b>3.46%</b>   | <b>2.98%</b>   | <b>1.89%</b>   | <b>1.90%</b>  | <b>3.17%</b>                     |

# Annual Changes in Residential Equalization



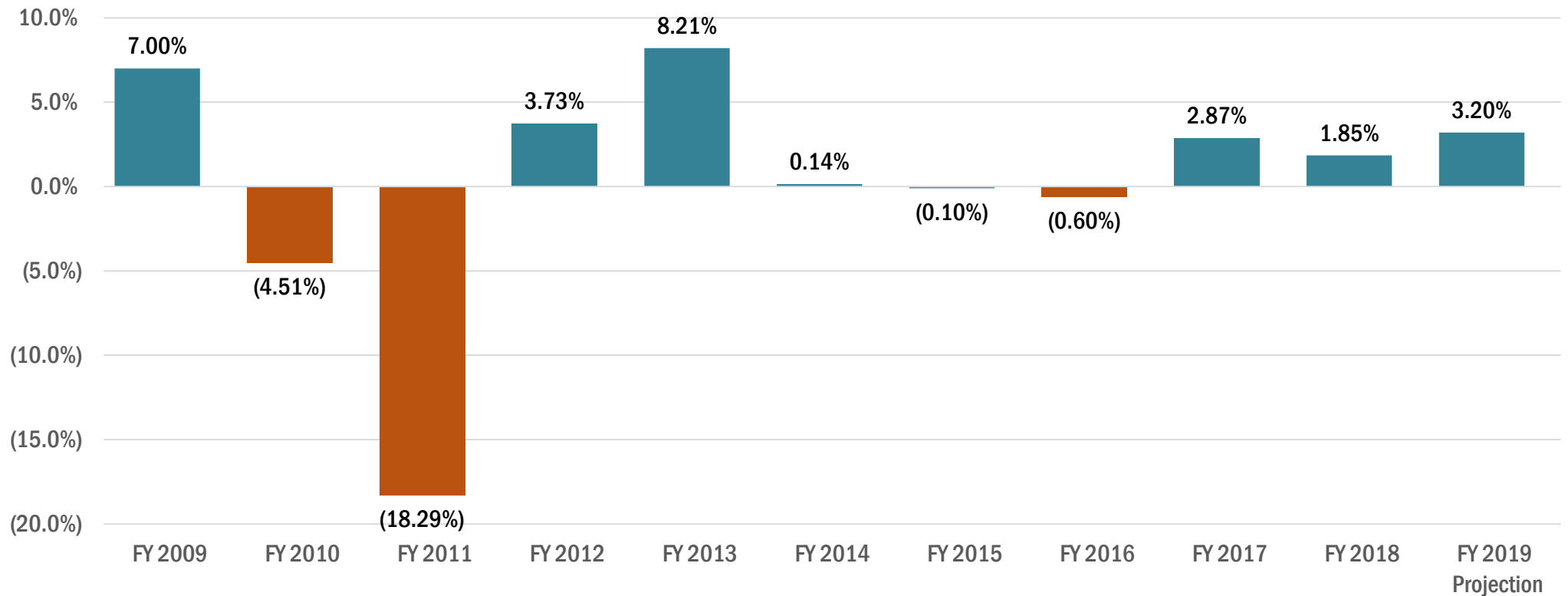


# Fairfax County's Housing Market

**Residential Values are projected  
to increase 1.9% in FY 2019**

- Home prices in Fairfax County are up 3.4% through October
- Year-to-date through October, the number of home sales has increased 2.8%
- Average number of days to sell a home is 45 days in October 2017 compared to 53 days last October
- Supply of homes for sale on the market is down 12.0% in October

# Annual Changes in Nonresidential Equalization



# Nonresidential Real Estate

**Nonresidential Values are projected  
to increase 3.20% in FY 2019**

- Office vacancy rates remain at historically elevated levels, but are on a downward trend
  - As of mid-year 2017:
    - Direct office vacancy rate is 15.4% - the lowest since 2014
    - Overall vacancy rate (with sublets) is 16.2% - the lowest since 2012
  - At the current pace of space absorption, 2017 leasing activity could surpass the 10-year annual average
    - Tysons, Dulles, and Reston submarkets lead in leasing activity
  - Fairfax County was the 17th most active office construction market in the nation at mid-year 2017 with 9 buildings totaling 3.1 million s.f. under construction
  - Fairfax County is on pace to have the highest volume of office building sales in the past 10 years



# Schools Revenue



# Revenue Other Than County

Change from FY 2018  
Approved in millions

|  |            |
|--|------------|
| ■ Beginning Balance Decrease                               | (\$9.4)    |
| ■ State Revenue  | 22.6       |
| ■ 5.1% growth and includes rebenchmarking and VRS decrease |            |
| ■ Sales Tax  | 3.9        |
| ■ Federal Aid  | 1.6        |
| ■ Federal Budget impacts are still unknown                 |            |
| ■ Fairfax City and Other Revenue                           | <u>1.6</u> |
| ■ Total Increase in Revenue Prior to County Transfer       | \$20.3     |



# FY 2019 Forecast Summary



# Projected Available Resources

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- **County revenue growth projected at 2.6% generates \$123.90 million**
  - **To maintain equal growth for both the Schools and County (2.95%), the revenue is allocated as follows for disbursement requirements:**
    - **Schools: \$64.02 million**
    - **County: \$57.03 million**
    - **Reserves: \$2.85 million**
- **In addition, Schools projects increase in revenue of \$20.30 million**
- **Combined revenue growth will not cover disbursement needs for either the Schools or the County**

# Forecast Summary

| COUNTY            | Funding in \$millions                                   | SCHOOLS           |
|-------------------|---|-------------------|
| \$57.03           | Available County Revenue (\$121 million after reserves) | \$64.02           |
| --                | Net Schools Revenue                                     | \$20.30           |
| <b>\$57.03</b>    | <b>TOTAL AVAILABLE</b>                                  | <b>\$84.32</b>    |
| (\$50.50)         | Employee Pay  | (\$92.60)         |
| (\$7.50)          | Employee Benefits                                       | (\$7.00)          |
| (\$13.56)         | Debt/Capital Requirements                               | (\$5.35)          |
| (\$3.09)          | County: Prior Commitments                               | --                |
| (\$8.93)          | County: Public Safety                                   | --                |
| (\$4.85)          | County: Human Services                                  | --                |
| (\$8.92)          | County: Cost of Operations                              | --                |
| (\$10.12)         | County: Transportation                                  | --                |
| --                | Schools: Enrollment & Other                             | (\$18.20)         |
| (\$5.47)          | Net Additional Reserves                                 | (\$4.11)          |
| <b>(\$112.94)</b> | <b>NET USES</b>   | <b>(\$127.26)</b> |
| <b>(\$55.91)</b>  | <b>Net Balance</b>                                      | <b>(\$42.94)</b>  |



# Detailed Disbursements

## County and Schools Employee Compensation



# Employee Pay

## County

- **FY 2019 Forecast includes increases of \$50.50 million, including:**
  - **Market Rate Adjustment - \$27.60 million**
    - 2.25% based on formula of 40% CPI, 50% ECI, 10% Federal Wage adjustment
    - All employees
  - **General County Performance/ Longevities - \$12.90 million for 8,900 employees**
    - 2.00% average
    - Non-Uniformed merit employees only
  - **Uniformed Merits/Longevities - \$10.00 million for 3,600 employees**
    - 2.25% average
    - Uniformed merit employees only



# Employee Benefits

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## County

- **FY 2019 Forecast includes increases of \$7.50 million, including:**
  - **Retirement - \$8.10 million**
    - Funds retirement systems per the County's Funding Policy
  - **Health Insurance - \$2.30 million**
    - Assumes 5.5% increases in health insurance premiums for January 2019
  - **Other Benefits/Experience – (\$2.90 million)**



# Employee Pay

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## Schools

- **FY 2019 Forecast includes increases of \$92.6 million, including:**
  - **Step Increases - \$44.9 million**
    - 2.3% average for all employees
  - **Teacher Salary Scale Implementation - \$53.1 million**
    - Closes the gap with the projected future market by an average of 50%
  - **FY 2018 Step for Teachers on BA Lanes - \$1.3 million**
  - **Nonteacher Salary Scale Implementation - \$17.9 million**
    - 2.25% average
  - **Base Savings Decrease – (\$24.6 million)**





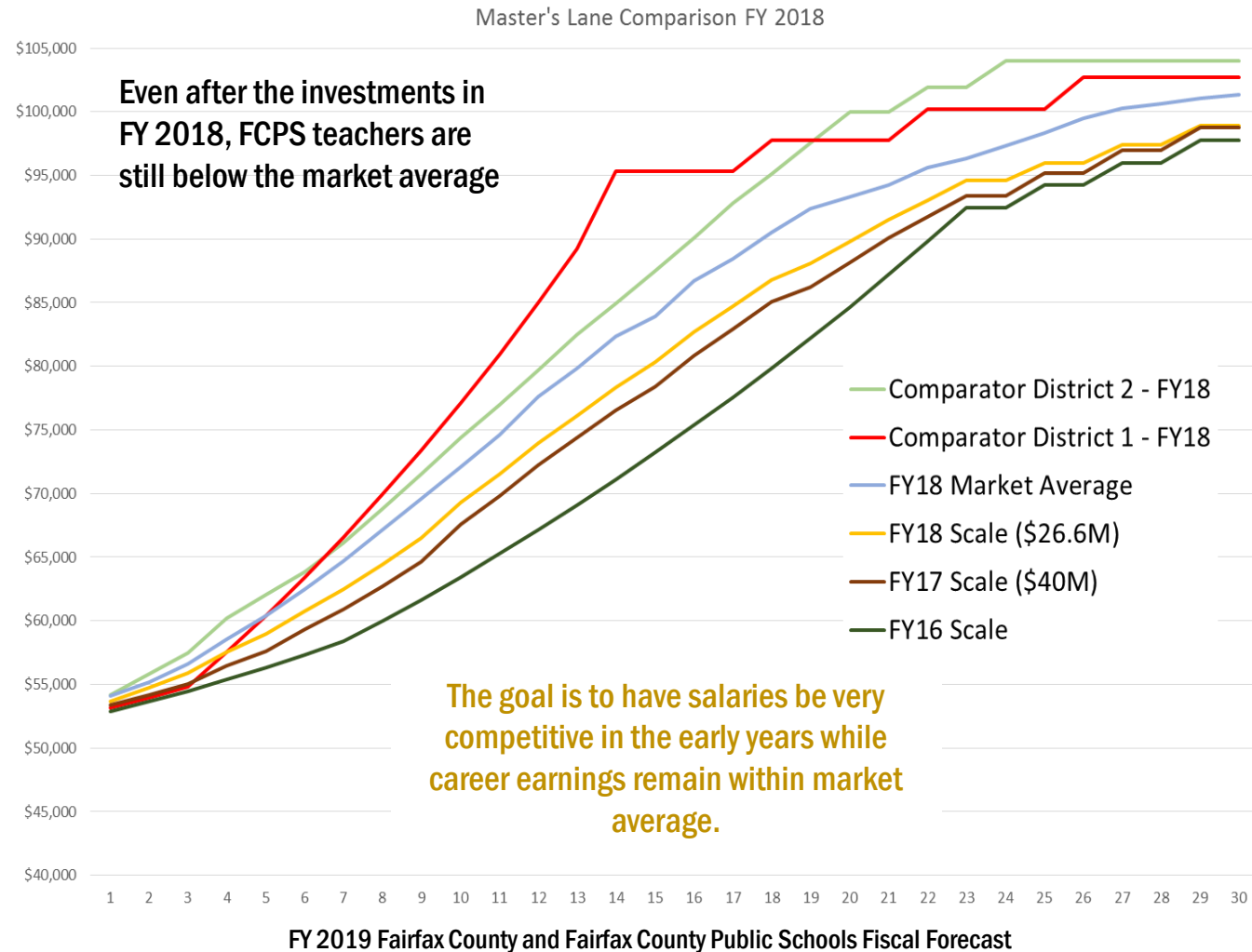
# Employee Benefits

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## Schools

- **FY 2019 Forecast includes increases of \$7.0 million, including:**
  - **Retirement - FCERS – \$3.4 million**
    - Per the County's Funding Policy
  - **Retirement – VRS Decrease (\$9.8 million)**
    - Based on rate adopted by VRS Trustees
  - **Health Insurance – \$13.4 million**
    - Assumes 5.5% increase in health insurance premiums

# Current Teacher Pay Comparison



# Employee Pay is a Joint Priority

## Average Projected Employee Increases in FY 2019

|                         | General County | Uniformed Public Safety | Teachers | Non-Teachers |
|-------------------------|----------------|-------------------------|----------|--------------|
| County                  |                |                         |          |              |
| Market Rate Adjustment  | 2.25%          | 2.25%                   | --       | --           |
| Steps/Longevities       | --             | 2.25%                   | --       | --           |
| Performance/Longevities | 2.00%          | --                      | --       | --           |
| Schools                 |                |                         |          |              |
| Step                    | --             | --                      | 2.37%    | 2.00%*       |
| Scale Implementation    | --             | --                      | 3.86%    | 2.25%        |
| Average Increase        | 4.25%          | 4.50%                   | 6.23%    | 4.25%        |

\*Estimated - new scales still in development



# Other Detailed Disbursements

## County General Fund

# Debt Service and Capital Requirements

## County

- FY 2019 Forecast includes increases of \$5.06 million for County Debt Service requirements
  - Maintains County at approximately \$120 million in annual GO Bond Sales
  - 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*
- Forecast also includes \$8.50 million to bring the County's General Fund contribution for Capital Paydown to \$15 million

## Schools

- FY 2019 Forecast includes increases of \$5.35 million for School Debt Service requirements
  - Maintains Schools at \$155 million in annual GO Bond Sales
- As the CIP discussion unfolds relative to capital support for schools, it should be noted that for every \$25 million increase in bond sales debt requirements are increased approximately \$2.5 million



# Prior Commitments

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- **FY 2019 Forecast includes \$3.09 million for the recurring impact of adjustments approved as part of the *FY 2017 Carryover Review***
  - **Public Assistance Caseloads**
  - **Fairfax First Initiative**
  - **Parks Resident Curator and Equipment Reserve**
- **These adjustments are partially offset by additional associated revenues, already included in projected revenues, for a net impact of \$0.25 million**



# Public Safety

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- **FY 2019 Forecast includes increases of \$8.93 million and 31 positions, including:**
  - **New South County Police Station – 17 positions and \$3.40 million**
  - **Diversion First – 14 positions and \$2.00 million**
  - **Full-Year impact of Police Relief Sergeants added in FY 2018 - \$1.60 million**
  - **FRD Large Apparatus & Ambulance Replacement - \$1.00 million**
  - **Gang Prevention - \$0.50 million**
  - **SAFER Grant - \$0.43 million**

# Human Services

- FY 2019 Forecast includes increases of \$6.04 million and 31 positions, including:
  - Contract Rate Increases - \$3.00 million
  - ID Support Coordination in the Community Services Board (CSB) – 12 positions
  - Employment and Day Services
  - Medically Assisted Treatment for Opioid Epidemic in CSB – 9 positions
  - Adult & Aging Caseloads – 8 positions and \$0.85 million (offset by revenue)
  - Consolidated Community Funding Pool - \$0.56 million
  - School Readiness/Early Childcare Slots - \$0.54 million
  - School-Age Child Care (SACC) - \$0.43 million (partially offset by revenue)
  - Adult & Aging Congregate Meals - \$0.38 million
  - Medically Fragile Students in Schools - \$0.28 million
- With offsetting revenues, the net General Fund impact for Human Services priorities is \$4.85 million





# Cost of Operations

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- **FY 2019 Forecast includes increases of \$8.92 million, including:**
  - **Information Technology Projects - \$7.00 million**
  - **Maintenance/Utilities at New Facilities - \$0.75 million**
  - **Fuel - \$0.75 million**
  - **Contractual Contributory increases - \$0.25 million**
  - **Lease-Related Costs - \$0.17 million**



# Transportation

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- **FY 2019 Forecast includes increases of \$10.12 million, including:**
  - **Metro - \$8.40 million**
    - In addition to increased use of State Aid, the General Fund contribution for operating expenses is increased by \$1.4 million.
    - Increased capital requirements are met through the use of WMATA financing, with the first associated debt service payments of \$7.0 million paid by the General Fund in FY 2019.
  - **Connector - \$1.72 million**

# Metro Funding

- WMATA General Manager will release detailed FY 2019 Budget in December for Operating and Capital
- FY 2019 Proposed Budget is a “bare bones” version with a lot of essential items currently unfunded that may get added back over the next few months
  - Assumes no new dedicated funding source or fare increases
    - Dedicated long-term regional funding discussions continue
  - Increased operating subsidy from the County is approximately 3%
    - County state aid at NVTC and General Fund will cover County operating requirement
  - County Capital contribution of \$96 million will be required in FY 2019
    - \$56 million gap after utilizing General Obligation bonds and state aid
    - County will have WMATA sell this balance (“Opt-In”) with future debt service payments due to WMATA
- WMATA Board will not adopt final FY 2019 budget until spring 2018
- County’s accumulated state aid balances continue to decline, and County will need to consider alternate revenue sources (e.g. General Fund) in addition to a new permanent regional funding solution



# Many Funding Needs Not Included

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- **The County's projected \$56 million budgetary shortfall does not include funding for other significant items, including:**
  - **Full Public Safety Staffing Plan**
  - **Other PFM Study Recommendations for Police related to the Ad-Hoc Commission recommendations**
  - **Fire & Rescue Review Results**
  - **Other Human Services/Safety Net Needs**
    - **Commonwealth Coordinated Care Plus**
    - **Nurse Family Partnership Program**
  - **Specialized Pay Study Impacts**



## Looking Ahead: More Uncertainty

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- **Uncertainty about U.S. fiscal policy and tax reform efforts**
- **Looming sequestration cuts**
- **State budget**
- **Restrained revenue growth for the foreseeable future**



# Other Detailed Disbursements

## Schools



# Enrollment and Student Demographics

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- Enrollment increase of 702 students
- Increase in students eligible for free and reduced-price meals of 4,000 students or 7.6%
  - Impacted by Virginia's participation in pilot to directly certify students eligible for Medicaid
- Increase in English for Speakers of Other Languages services
- Increase in special education students and services
- Total cost for enrollment and demographic changes for FY 2019 is \$15.8 million



# FCPS Other Expenditures

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- **All other disbursement adjustments total \$2.4 million**
  - **Tuition Reimbursement - \$1.0 million**
    - FCPS is offering a tuition-sharing Master's Cohort Program as well as tuition reimbursement for teachers near the top of the BA lanes on the new teacher scale whose salaries are frozen
  - **Contractual Increases - \$2.3 million**
  - **Support for FECEP - \$0.5 million**
    - Transfer to the Grants Fund to address rising salaries and benefits
  - **Transfer to the Construction Fund – Decrease (\$1.4 million)**
    - Savings based on projects in the CIP for FY 2019





# Looking Ahead: Challenges Continue

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- **FCPS will continue to face challenges in the future years**
  - **Employee compensation remains a divisionwide priority**
  - **Recurring revenue must keep pace with FCPS' increase in expenditures resulting from**
    - **Market competitive employee compensation**
    - **Student enrollment and demographic changes**
    - **Strategic Plan investments to include student programming**
    - **Critical capital and infrastructure requirements**



# Many Funding Needs Not Included

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## ■ Capital Improvement Program

- Funding for capital improvement projects is currently limited by a \$155 million yearly cap on school bond sales
- 19,200 students in temporary instructional classrooms
- This is exacerbated by the hundreds of millions of dollars in facility renovation backlogs caused by the \$155 million yearly cap
- Membership growth will continue to cause delays in the schedule of many future renovation projects due to meeting capacity demands in advance of the renovation cycle



# Many Funding Needs Not Included

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- **Significant investments are required to replace instructional systems**
  - Library
  - Professional Development and Evaluation
  - Student College and Career Planning
  - Curriculum and Assessment
  - Learning Management
- **Operations and Infrastructure**
  - Preventive Maintenance
  - Buses, Equipment, Computers, and Scoreboard Replacement



# Looking Ahead: Uncertainty

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- **Uncertainty about the impact of federal education funding**
  - **Title I – Supplemental support for FCPS’ highest poverty elementary schools**
  - **Title II – Support for improving instruction through Project Momentum and professional development for teachers**
  - **Title III – Support for English language learners**
  - **Medicaid – Support for students with medical needs**
- **State budget**
  - **Impact will not be fully known until spring**



# Moving Forward Collaboratively

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- New joint fiscal forecast presentation methodology
- Joint Budget Work Plan progress
  - Budget planning
  - Shared Services
  - Capital Improvement Program
  - Legislative advocacy
- Continued staff collaboration
- Partnership between school and county leadership

# FY 2019 Budget Timeline

| County Dates      |  | Schools Dates       |
|-------------------|--|---------------------|
|                   | Superintendent releases FY 2019 Proposed Budget              | January 11, 2018    |
|                   | School Board holds public hearings on budget                 | January 29-31, 2018 |
|                   | School Board adopts FY 2019 Advertised Budget                | February 8, 2018    |
| February 20, 2018 | County Executive presents FY 2019 Advertised Budget          |                     |
| March 6, 2018     | Board of Supervisors advertises FY 2019 tax rates            |                     |
| April 10-12, 2018 | Board of Supervisors holds public hearings on FY 2019 Budget |                     |
| April 24, 2018    | Board of Supervisors marks-up FY 2019 Budget                 |                     |
| May 1, 2018       | Board of Supervisors adopts FY 2019 Adopted Budget           |                     |
|                   | School Board holds public hearings on budget                 | May 15-16, 2018     |
|                   | School Board adopts FY 2019 Approved Budget                  | May 24, 2018        |
| July 1, 2018      | FY 2019 Budget Year begins                                   | July 1, 2018        |