



Joint Meeting of the Board of Supervisors and School Board

November 26, 2019





Preface

- Continued collaborative framework
- This forecast is based on current revenue projections and expected expenditure requirements
- The Superintendent’s Proposed Budget and County Executive’s Advertised Budget will be based on updated revenue forecasts, with expenditures based on agency requests and updated information

County Strategic Plan



County Strategic Plan

Nine Priority Outcome Areas

- Lifelong Education and Learning
- Mobility and Transportation
- Safety and Security
- Housing and Neighborhood Livability
- Economic Opportunity
- Health and Environment
- Cultural and Recreational Opportunities
- Empowerment and Support for Residents Facing Vulnerability
- Effective and Efficient Government

Guiding Principles

- Affordability
- Equity
- Access
- Sustainability
- Innovation
- Collaboration and Engagement
- Placemaking

The draft Strategic Plan will be presented to the Board of Supervisors on February 25, 2020, with the FY 2021 Advertised Budget Plan.





FCPS' Educational Outlook



STRATEGIC FOCUS

SCHOOL YEARS 2018-20

Over the next two years, FCPS will focus school and department efforts in eight areas to make progress on our strategic goals of Student Success, Caring Culture, Premier Workforce, and Resource Stewardship. Together the eight focus areas will support our students' development of Portrait of a Graduate attributes.



FCPS Success

Class of 2019 Scholarships

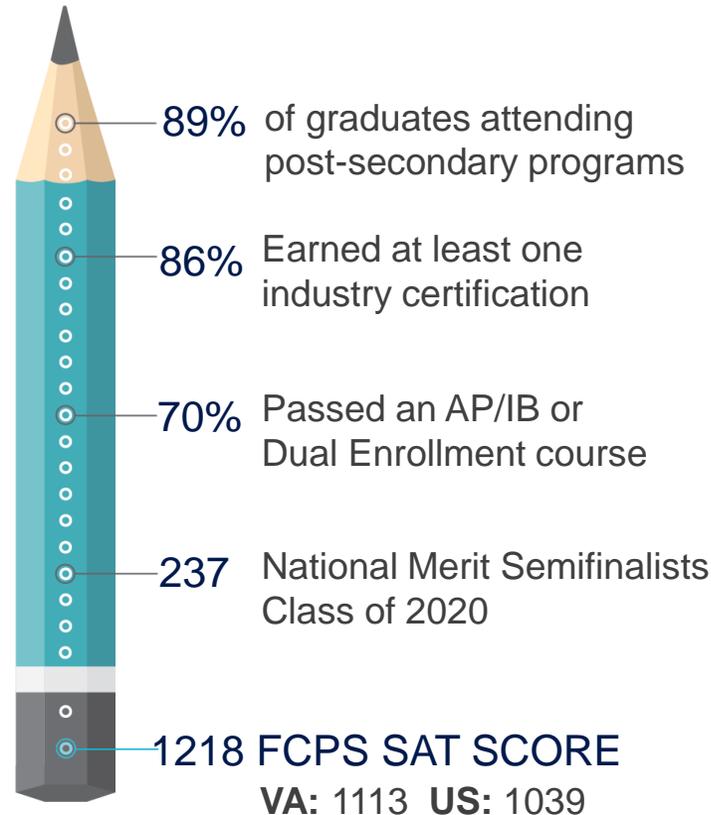
\$131,693,460



91.5%* | **4-YEAR ON-TIME**
GRADUATION RATE
CLASS of 2018

22 Cappie Awards

Students in 6 FCPS theater programs received 22 Cappie Awards at the Kennedy Center



STUDENT COMMUNITY ENGAGEMENT AND SERVICE LEARNING

595,068 hours served by our students

34,465 students engaged in service

\$50,000
GRANT



FCPS Named a **2020 Best School District** by Niche and given an **overall grade of A**

* VDOE Membership Report – Class of 2018 – Four-Year Virginia On-Time Graduation Rate. This year's data is still being compiled. SAT Scores are from class of 2019.

Fairfax County's Economic Outlook



National Economy

“The overall economy is growing at a moderate rate. We see the outlook as for more of the same.”

– Jerome Powell, Fed Chairman, Oct. 2019

- The U.S. economy is in its 11th year of expansion, the longest on record – supported by rising incomes and solid consumer spending
- U.S. unemployment rate, at 3.6%, remains near a 50-year low
 - Employers have added jobs for a record 109-straight months, but the pace of job creation is slowing
- Stock market at record levels as of November
- Solid consumer confidence
- However:
 - Business investment and exports remain weak
 - Slowing global economic growth and trade policy tensions create uncertainty
 - Federal budget - increase in federal deficit is a concern
 - Late economic cycle risks
 - Recent reductions in Fed rate





State Revenue Picture

- State revenue in FY 2019 was almost \$800 million higher than forecasted
 - Net revenue of \$455 million was due to temporary provisions of the Tax Cuts and Jobs Act; used to provide taxpayer relief refunds
 - \$344 million added to reserve balances
- State revenue collections in the first quarter of FY 2020 are tracking higher than the adopted budget estimate, pointing to increased revenue at year-end
 - The state assumed additional sales tax revenue generated by the Wayfair legislation would total \$145 million; currently generating \$26 million a month versus the assumed \$13 million a month
- In addition to the projected revenue increase, substantial resources are likely to become available as a starting point for FY 2021
 - This is the result of FY 2019 discretionary balances, reduced appropriation needs for Medicaid, and the Rainy Day Fund in FY 2020
- The projected available resources are expected to be sufficient to cover currently identified funding needs for the next biennium
 - Forecast assumes modest revenue growth

Local Revenue Picture

- In Fairfax County, revenue growth during FY 2019 was 4.7%:
 - BPOL tax revenue grew 3.0% after increasing a strong 4.4% in the previous year
 - The Fed interest rate increases resulted in more than a \$27 million revenue increase over FY 2018 from the County's investment portfolio
- For FY 2020, the fall revenue review indicates we're on track to meet the adopted revenue estimate
 - Investment Interest revenue is expected to be down, offset primarily by projected higher Sales Tax, Personal Property Tax, and Recordation/Deed of Conveyance receipts
- Modest revenue growth is expected for FY 2021, mainly driven by growth in the Real Estate tax base



Investment Interest Revenue Projections

“We entered the year expecting some further rate increases, we went to ‘patient’, now we’ve done three rate cuts. It is a very substantial shift.”

– Jerome Powell, Fed Chairman, Oct. 2019

- The Fed raised rates four times throughout 2018
- At the end of 2018, indicated further rate increases were expected in 2019
- However, in July, September, and October the Fed reduced the rate by quarter percentage point at each meeting, bringing it to 1.50-1.75% range

	FY 2018 Actual	FY 2019 Actual	FY 2020 Adopted	FY 2020 Current Estimate	FY 2021 Multi-Year Forecast	FY 2021 Estimate as of Nov. 2019
Investment Interest Revenue	\$41.4 mil	\$69.0 mil	\$80.0 mil	\$57.9 mil	\$84.2 mil	\$42.4 mil
Investment Interest Yield	1.61%	2.62%	3.00%	2.15%	3.00%	1.55%

Local Labor Market

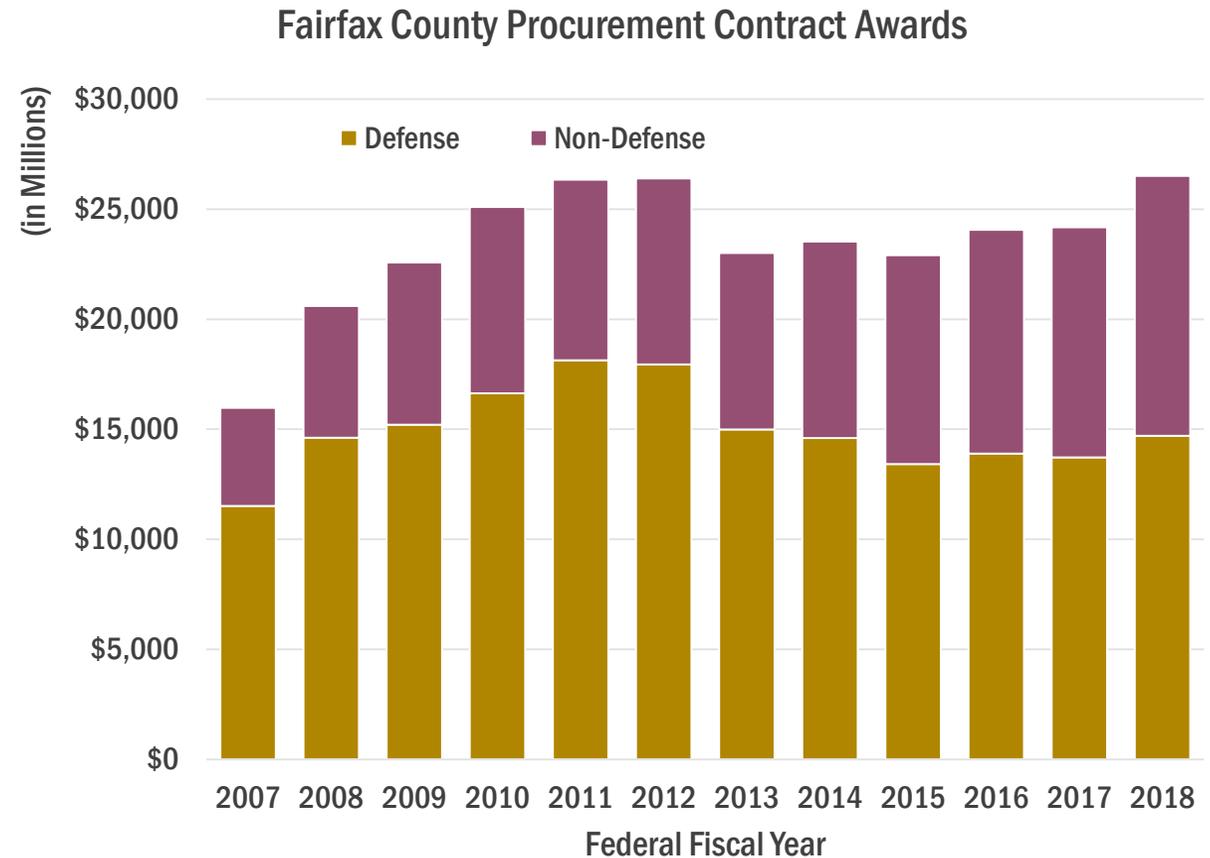
Job Growth in Fairfax County

- Employment in Professional and Business Services sector is still 1.3% below the peak 2012 level

	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%
2017	6,600	1.1%	1,900	0.9%
2018	10,700	1.8%	5,200	2.4%

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 2018 (most recent data available), increased a strong 9.7%; level just surpassed the previous peak in FY 2012
- Defense contract awards are 18.9% below peak level in FY 2011



Source: Federal Procurement Data System

Northern Virginia Real Estate Market

- Average home sales price through October 2019 compared to the same period of 2018

Jurisdiction	Average Home Sales Price	% Change
Arlington	\$699,036	6.2%
Alexandria	\$582,487	2.9%
Fairfax County	\$596,971	3.6%
Prince William	\$409,072	4.6%
Loudoun	\$541,340	4.1%

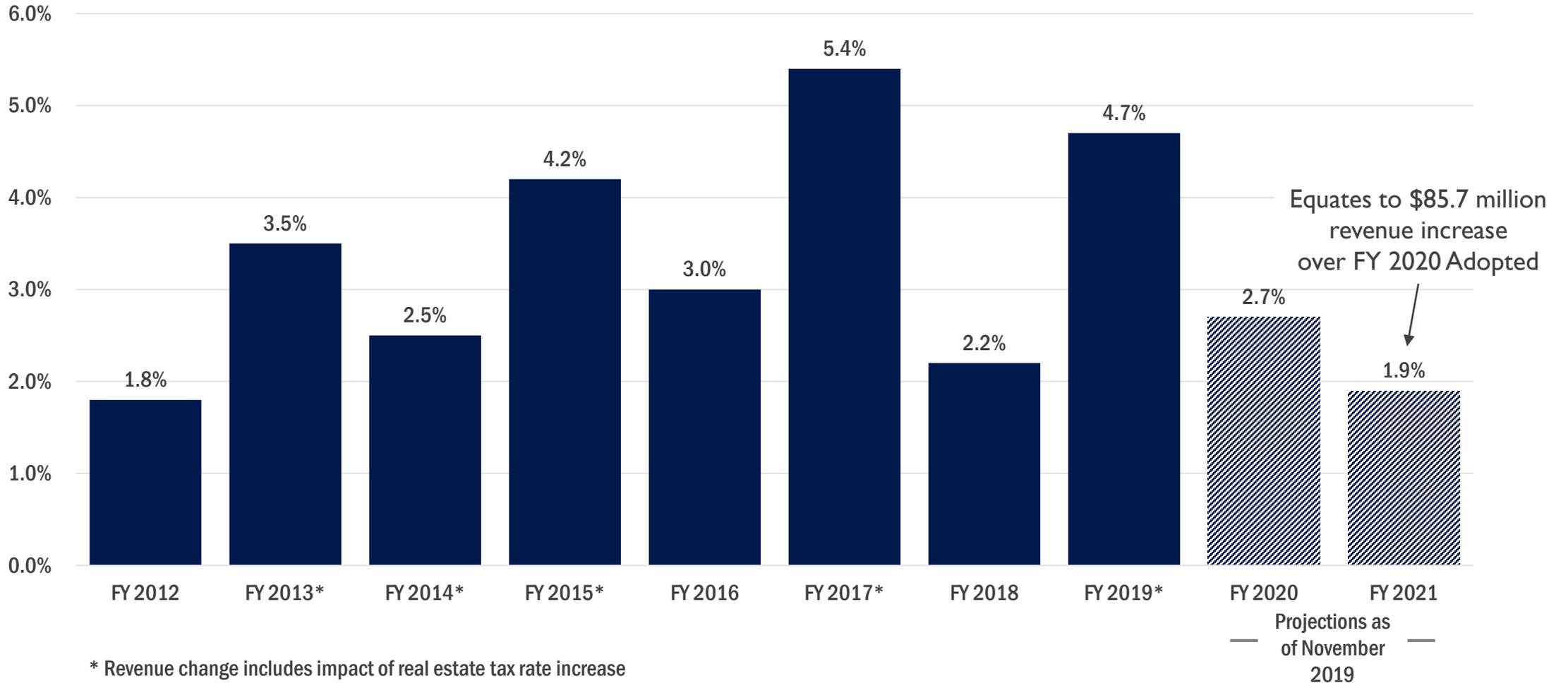
Data Source: Metropolitan Regional Information Systems (MRIS)



Revenue Projections



Annual Change in General Fund Revenue FY 2012 – FY 2021

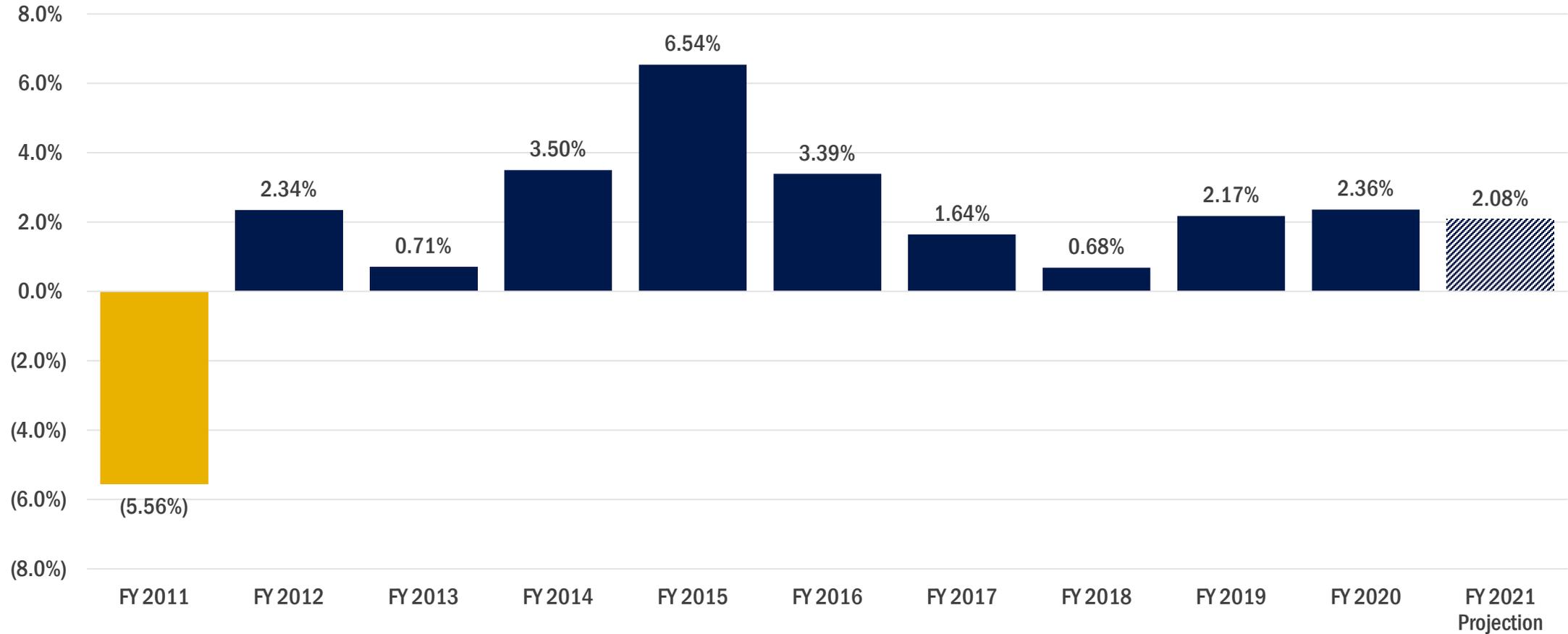


Real Estate Projections - Multi-Year Versus November Estimates

- Compared to the forecast included in the multi-year budget, the November Real Estate revenue estimate is up \$25 million

Changes in Assessments	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Multi-Year Estimate in FY 2020 Adopted Budget	FY 2021 Estimate as of Nov. 2019
Residential	0.68%	2.17%	2.36%	1.00%	2.08%
Nonresidential	1.85%	3.79%	2.71%	2.00%	1.84%
New Construction	0.92%	1.01%	1.15%	0.95%	1.03%
Total Real Estate base	1.89%	3.59%	3.60%	2.25%	3.04%

Annual Changes in Residential Equalization



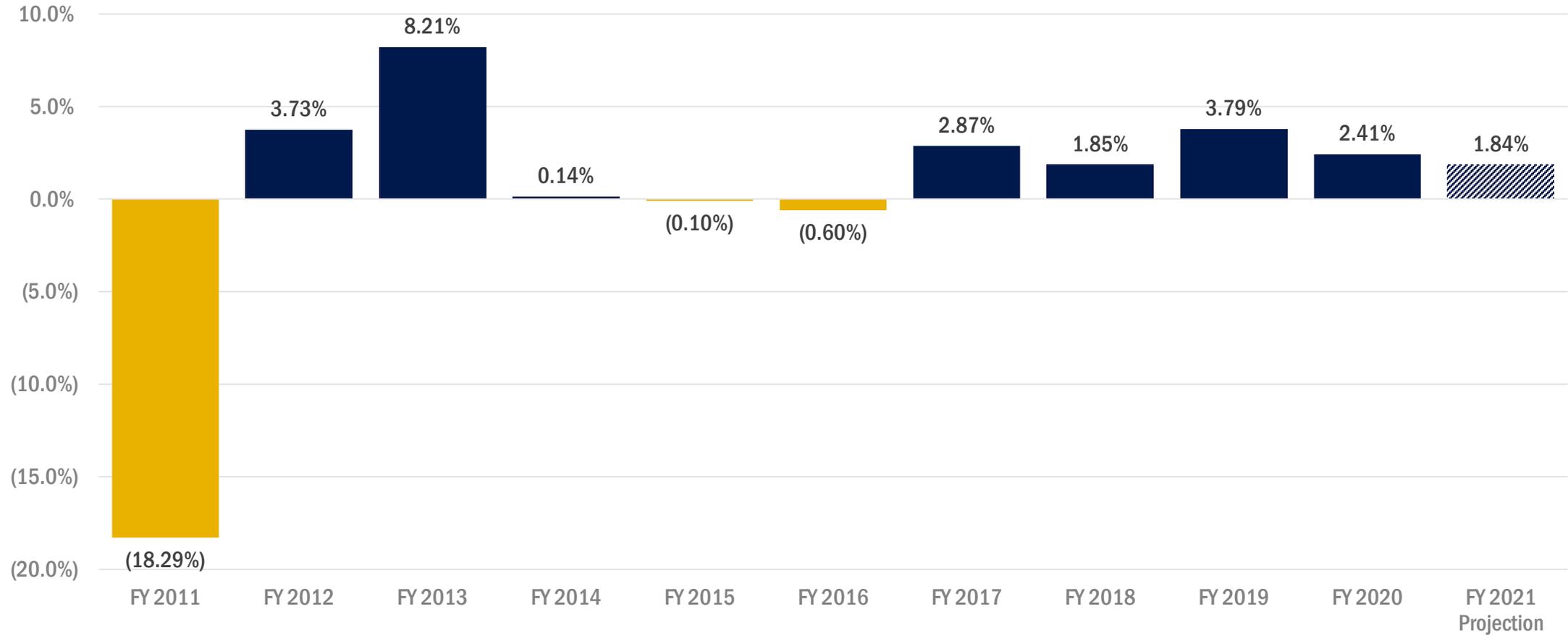


Fairfax County's Housing Market

Residential values are projected to increase 2.08% in FY 2021

- Home prices in Fairfax County are up 3.6% through October
- Year-to-date through October, the number of home sales has increased 2.1%
- Supply of homes for sale on the market is down 27.5% in October
- Average number of days to sell a home is 27 days in October 2019 compared to 34 last October
- According to Freddie Mac, the average 30-year fixed mortgage interest rate in October was 3.69%, down from 4.83% a year ago
- Through the third quarter of calendar year 2019, the number of new single-family permits in the County is up 13.7%

Annual Changes in Nonresidential Equalization



Nonresidential Real Estate

Projected to increase 1.84% in FY 2021

- As of mid-year 2019, overall vacancy rate (with sublets) is 14.4% - the 4th straight leasing period (half-year) the vacancy rate has dropped
- Fairfax County ranks 16th nationally for office construction, with 2.9 million square feet under construction across 11 buildings
- In the first half of 2019, the County saw close to 4.5 million square feet of office leasing, including two top-ten leases to co-working locations
- Six office buildings were demolished in the first half of the year, the highest number of buildings demolished since 2010





Schools Revenue

Category	Change from FY 2020 (\$ in millions)
Beginning Balance	(\$1.1)
Sales Tax and State Aid	\$36.1
Federal	\$0.0
City of Fairfax	\$2.7
Other Revenue	\$1.8
PROJECTED REVENUE OTHER THAN COUNTY	\$39.5

FY 2021 Forecast Summary



Projected Available Resources

- County revenue growth projected at 1.9% generates \$85.7 million
 - To maintain equal growth for both the Schools and County (1.93%), the revenue is allocated as follows for disbursement requirements:
 - Schools: \$45.2 million
 - County: \$40.5 million
- In addition, Schools projects an increase in revenue of \$39.5 million
- Projected revenue growth will not cover projected disbursement needs for either the Schools or the County

Forecast Summary

COUNTY	Funding in \$millions	SCHOOLS
\$40.5	Available County Revenue (\$85.7 million)	\$45.2
--	Net Schools Revenue	\$39.5
\$40.5	TOTAL AVAILABLE	\$84.7
(\$59.5)	Employee Pay	(\$76.4)
--	Employee Benefits	(\$31.4)
(\$12.0)	Debt/Capital Requirements	(\$3.1)
(\$13.7)	County: Public Safety	--
(\$5.3)	County: Human Services	--
(\$10.0)	County: Information Technology	--
(\$10.0)	County: Transportation	--
(\$1.3)	County: Community Development	--
--	Schools: Enrollment & Other	(\$53.0)
(\$111.8)	NET USES¹	(\$163.8)
(\$71.3)	Net Projected Balance/(Shortfall)	(\$79.1)

¹ Net Uses does not include the impact of reserve adjustments. The FY 2021 Advertised Budget Plan will include reserve contributions equal to ten percent of the growth in General Fund disbursements.



Employee Compensation

Employee Pay & Benefits

COUNTY

Forecast includes increases of \$59.5 million

<ul style="list-style-type: none"> • Market Rate Adjustment for all employees 2.06% based on formula of 40% CPI, 50% ECI, 10% Federal Wage adjustment 	\$29.4 million
<ul style="list-style-type: none"> • General County Performance/Longevities for non-uniformed merit employees 2.00% average 	\$14.2 million
<ul style="list-style-type: none"> • Merits/Longevities for uniformed merit employees 2.25% average 	\$10.2 million
<ul style="list-style-type: none"> • Placeholder for Market Studies <i>Adjustments for individual job classes determined to be outside of the market range</i> 	\$2.5 million
<ul style="list-style-type: none"> • Compensation adjustments identified as part of the Fire and Rescue Compensation and Organizational Study 	\$2.7 million
<ul style="list-style-type: none"> • Salary Supplements for State Employees 	\$0.5 million
<ul style="list-style-type: none"> • Employee Benefits 	\$0.0 million





Employee Pay & Benefits

SCHOOLS

Forecast includes increases of \$107.8 million

<ul style="list-style-type: none"> • Step Increases for eligible employees <i>2.5% average increase for employees</i> 	\$50.1 million
<ul style="list-style-type: none"> • Market Scale Adjustment (MSA) <i>1.0% increase for all employees</i> 	\$25.3 million
<ul style="list-style-type: none"> • Instructional Assistant/PHTA Salary Scale Enhancement <i>Second year of a three-year implementation plan</i> 	\$2.7 million
<ul style="list-style-type: none"> • Scale Enhancement 	\$15.4 million
<ul style="list-style-type: none"> • Employee Benefits <i>VRS, Health, Workers Compensation</i> 	\$31.4 million
<ul style="list-style-type: none"> • Staffing Initiatives Placeholder 	\$6.0 million
<ul style="list-style-type: none"> • Base Savings and Lapse 	(\$23.1) million

Other Detailed Disbursements



Debt Service and Capital Requirements

COUNTY

- FY 2021 Forecast includes an increase of \$0.7 million for County Debt Service requirements
 - Reflects scheduled County GO Bond Sales and savings from retirement of past issuances
 - 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 includes a \$10.0 million increase to the County's General Fund contribution for Capital Paydown, including funding for environmental projects
- Consistent with action taken as part of the *FY 2019 Carryover Review*, a \$1.3 million increase is included to provide field maintenance for synthetic turf fields at Fairfax County Public Schools facilities

SCHOOLS

- FY 2021 Forecast includes an increase of \$3.1 million for School Debt Service requirements
 - Reflects Schools GO Bond Sales at \$180 million
- Forecast includes no change in the General Fund transfer to School Construction

Public Safety

COUNTY

Forecast includes increases of \$13.7 million and 52 positions

<ul style="list-style-type: none"> • Body-Worn Cameras (13 positions) <i>Consistent with action taken as part of the FY 2019 Carryover Review</i> 	\$5.5 million
<ul style="list-style-type: none"> • Partial-year costs to staff the new Scotts Run Fire Station (23 positions) 	\$4.2 million
<ul style="list-style-type: none"> • Staffing for the new South County Police Station (16 positions) 	\$4.1 million





Human Services

COUNTY

Forecast includes an increase of \$5.3 million. This amount does not include additional resources for affordable housing and school readiness noted later in the presentation.

<ul style="list-style-type: none"> • Priorities identified in the Health and Human Services Resource Plan <i>Diversion First, Opioid Task Force</i> 	\$4.0 million
<ul style="list-style-type: none"> • Public Assistance eligibility workers to address increasing caseloads <i>Consistent with action taken as part of the FY 2019 Carryover Review, this adjustment is fully offset by increased revenue</i> 	\$0.8 million
<ul style="list-style-type: none"> • Adult and Aging positions to address increasing caseloads <i>Consistent with action taken as part of the FY 2019 Carryover Review, this adjustment is fully offset by increased revenue</i> 	\$0.5 million

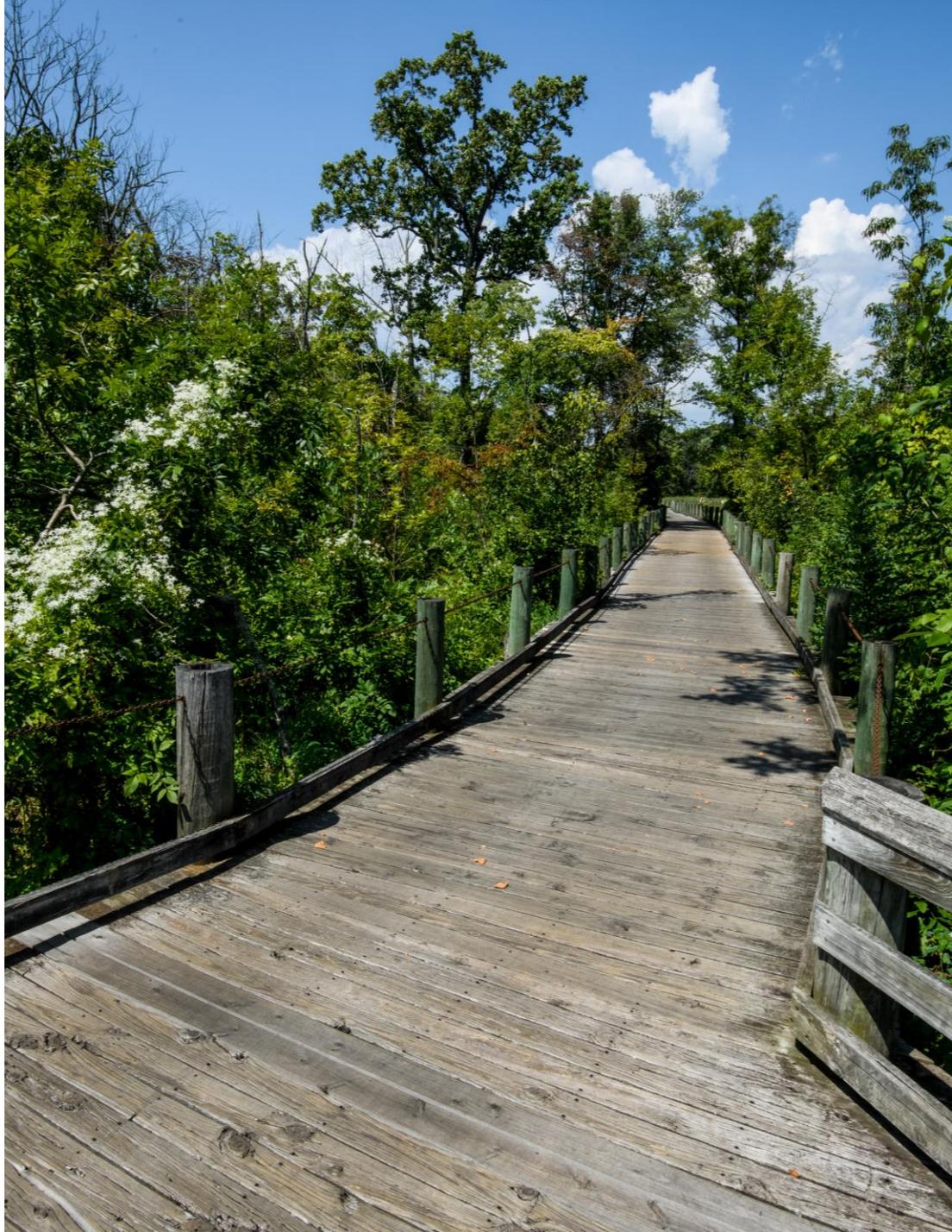
Other Expenditures

COUNTY

Forecast includes increases of \$21.3 million

<ul style="list-style-type: none"> Operating and capital support for Metro and Connector 	\$10.0 million
<ul style="list-style-type: none"> IT Projects 	\$10.0 million
<ul style="list-style-type: none"> Staffing to meet workload demands associated with increased Site Plan and Building Permit Activity <i>Consistent with action taken as part of the FY 2019 Carryover Review, this adjustment is fully offset by increased development revenue</i> 	\$1.3 million





Looking Ahead: Continued Focus on Board Priorities

- The FY 2021 Advertised Budget Plan will be released alongside the proposed strategic plan, and will be the first year that the budget will be linked to the strategic plan
- Additional revenue to be discussed as part of the FY 2021 Advertised Budget Plan in order to advance several of the Board's priorities:
 - A one-penny increase in the real estate tax rate which has been proposed for affordable housing
 - An increase in the real estate tax rate which has been proposed for school readiness
 - An admissions tax which may be proposed to provide support for arts and cultural activities





Required Expenditure Adjustments

SCHOOLS

Forecast includes increases of \$36.0 million

<ul style="list-style-type: none"> • Enrollment Growth and Demographic Changes* <i>Based on 1,696 increase in student enrollment, increases in services for special education and ESOL, and FRM</i> 	\$20.2 million
<ul style="list-style-type: none"> • FCPSOn High School <i>Funding to maintain FCPSOn initiative at HS</i> 	\$2.8 million
<ul style="list-style-type: none"> • Textbook Reserve <i>Adoption of math and social studies resources</i> 	\$2.8 million
<ul style="list-style-type: none"> • Recurring Year End Budget Additions <i>The recurring impact of FY 2019 Final Budget Review</i> 	\$2.2 million
<ul style="list-style-type: none"> • Contractual <i>Cost escalation, utilities, major IT projects, facilities</i> 	\$6.0 million
<ul style="list-style-type: none"> • Transfers to Other Funds <i>Construction, Cable, and local grant match</i> 	\$1.9 million

* To be finalized in December

Does not add due to rounding

Strategic Investments

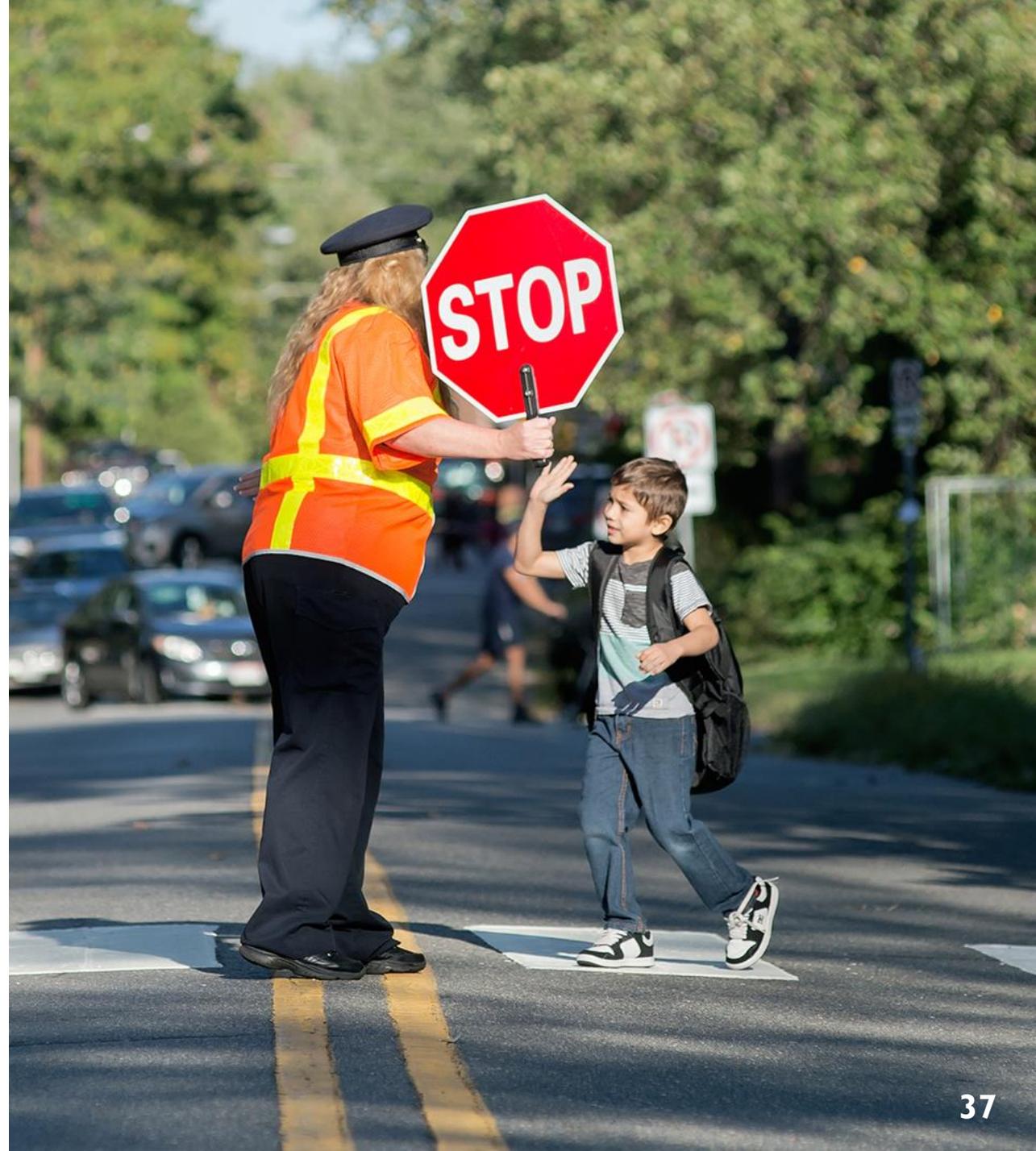
SCHOOLS

Forecast includes increases of \$17.0 million

- **Strategic Investments**

FCPS On MS, Substance Abuse Prevention, Project Momentum, Restraint and Seclusion, principal pay, ES special ed. lead teacher

\$17.0 million





Looking Ahead: Challenges Continue

FCPS will continue to face challenges:

- Student enrollment and demographic changes
- Potential new SOQ requirements prescribed by VBOE:
 - Counselors
 - Psychologist/Social Workers/Behavior personnel
 - County funded nurses
 - ESOL
 - Teacher Leader/Mentor programs
- Strategic Plan investments
- Critical capital and infrastructure requirements

Balancing the FY 2021 Budget

- Expenditure estimates included in this forecast will be refined, and some items will be reduced or deferred
- Revenue projections will be monitored as additional information becomes available
 - Every 1% change in the real estate tax base is equal to \$29.3 million
 - Every 1% of personal property growth is equal to \$6.3 million
 - Every 1% of sales tax growth is equal to \$2.0 million
- The value of a penny on the real estate tax rate is estimated to be \$26.3 million in FY 2021



FY 2021 Budget Timeline

COUNTY DATES		SCHOOLS DATES
	Superintendent releases FY 2021 Proposed Budget	January 9, 2020
	School Board holds public hearings on budget	January 27-29, 2020
	School Board adopts FY 2021 Advertised Budget	February 6, 2020
February 25, 2020	County Executive presents FY 2021 Advertised Budget	
February 28, 2020	Joint County/Schools Budget Committee Meeting	February 28, 2020
March 10, 2020	Board of Supervisors advertises FY 2021 tax rates	
April 14-16, 2020	Board of Supervisors holds public hearings on FY 2021 Budget	
April 28, 2020	Board of Supervisors marks up FY 2021 Budget	
May 5, 2020	Board of Supervisors adopts FY 2021 Adopted Budget	
	School Board holds public hearings on budget	May 11-13, 2020
	School Board adopts FY 2021 Approved Budget	May 21, 2020
July 1, 2020	FY 2021 Budget Year begins	July 1, 2020