



County Executive Budget Presentation

on the FY 2019 Advertised Budget Plan

February 20, 2018

www.fairfaxcounty.gov/budget

FY 2019 Advertised Budget Context

- Focuses on priority requirements in FY 2019
- Expands County and School cooperation and collaboration
- Incorporates One Fairfax into decision-making process
- Initiates multi-year strategic planning effort
- Plan for FY 2020 and beyond
- Continues to identify efficiencies
 - Lines of Business Phase 2, working in partnership with Schools
 - Joint Budget Workgroup
 - Expenditure trends

FY 2019 Advertised Budget Highlights

- Recommended Real Estate Tax rate of \$1.155 per \$100 of assessed value – an increase of 2.5 cents
- An overall increase for County and Schools of 4.38%
 - Fully funds School Board's requested transfer after accounting for increased state revenues
 - Begins to address increased School capital needs with the assumption of an annual increase of \$25 million in school bonds
- Fully funds compensation for all County employees
- Funds Board priorities such as Diversion First, Gang and Opioid Prevention Efforts, Early Childhood Initiatives, South County Police Positions
- Net position increase of 77 County positions
- Available balance of \$3.88 million for the Board's consideration

FY 2019 Budget by the Numbers

- FY 2019 General Fund Revenues are increased \$192.32 million, or 4.69%, over the FY 2018 Adopted Budget Plan
- FY 2019 General Fund Disbursements are increased \$181.48 million, or 4.42% over the FY 2018 Adopted Budget Plan

FY 2019 Advertised Budget Summary

- In November, County and Schools presented joint fiscal forecast
 - Revenues projected to grow 2.6 percent – primarily driven by moderate growth in Real Estate
 - At that time, projected joint budgetary shortfall of almost \$99 million
- Real Estate picture has improved slightly – revenue growth now projected at 2.82 percent
- At the current Real Estate Tax rate, important investments in County employees and other Board priorities would be partially funded or deferred

FY 2019 Advertised Budget Summary

- **With no change to Real Estate Tax rate:**
 - Schools support would be reduced by more than \$28 million from what is included in the FY 2019 proposal
 - The County's Market Rate Adjustment would be partially funded at 1.26% (of the calculated 2.25%)
 - Limited funding would be available for Diversion First, Gang Prevention, Opioid Epidemic, South County Police Positions, School Readiness Initiatives, and other priorities
- A 2.5 cent increase in the Real Estate Tax rate results in an increase in the average tax bill of approximately \$268

Economic Outlook



National Economy

- In 2017, U.S. economy experienced faster growth than it had in 2016
 - Real GDP grew 2.3%, up from 1.5% in 2016
- 2.1 million jobs were added in 2017, another solid year after 2.2 million were gained in 2016
 - December was the 87th consecutive month of job gains, one of the longest streaks
 - Wages grew 2.9 percent in January compared to a year ago, the best gain since June 2009
 - Points to a tightening labor market
- The Federal Reserve continued to raise the federal funds rate at a gradual pace throughout 2017
 - Most economists expect 3 rate hikes in 2018
 - Pace of tightening might accelerate if inflation rises abruptly
 - Interest rates impact the Investment Interest revenue that the County earns on its portfolios
- Consumer confidence is high
- Added stimulus by the recently approved federal tax reform is expected to also reinforce the economy

National Economy

- Looking ahead, most economists expect an above average year for the U.S. economy in 2018
- Potential risks for the future performance of the economy include:
 - Extended current business cycle, which is almost in its ninth year of expansion
 - Structural imbalances in the economy such as labor shortages of qualified workers and demographic changes
 - Rising interest rates and Fed tightening policy
 - Stock market volatility
 - White House administration policy regarding trade and immigration
 - Federal spending

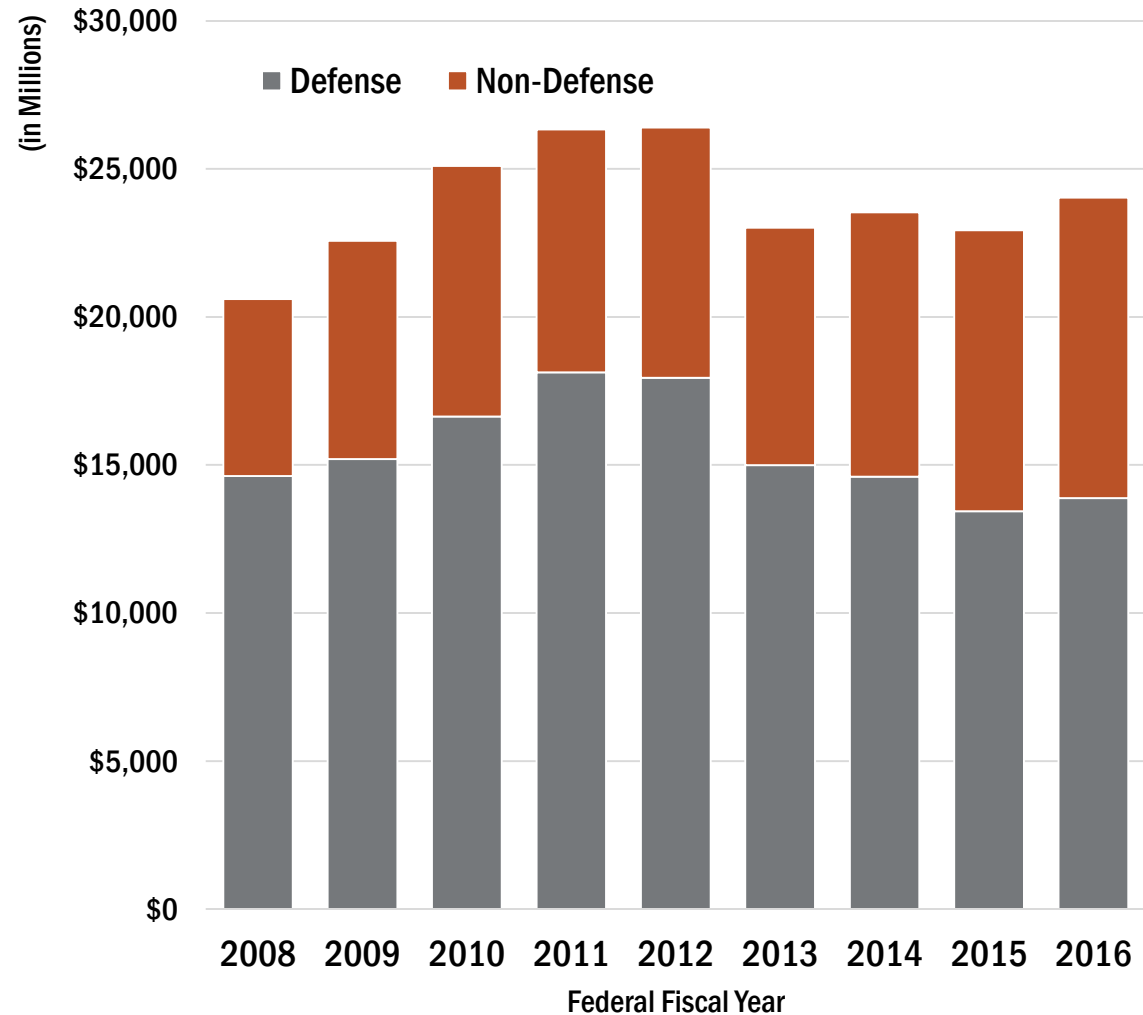
Local Economy

- After underperforming for years as a result of the 2013 sequester, in 2017 the Washington region's economy grew almost on par with the U.S. economy
 - Growth was achieved in spite of the absence of significant federal spending increases
 - In 2010, federal government spending accounted for almost 40% of the Gross Regional Product; by 2017, it was down to an estimated 30%
- Office vacancy rates in the County are declining
 - As of mid-year 2017, direct office vacancy rate was 15.4%, down from 15.8% at the end of 2016
 - The amount of empty office space declined to 18.9 million sq. ft.
- County's FY 2019 real estate equalization growth was the best in 4 years
- The effects of sequestration and defense spending cuts are lasting
 - Employment in Professional and Business Services sector, which includes most federal contractors, is still 3.3% below the 2012 level (prior to the sequester)
 - Jobs being added in Education and Health Services, Financial Activities, Leisure and Hospitality

Federal Procurement Spending in Fairfax County

- Federal procurement contracts in the County increased 4.8% in FY 2016 (the last year for which data is available)
- After declining in the previous 4 years, defense spending increased in 2016
- Federal procurement spending is 9.0% below its level in FY 2012

Fairfax County Procurement Contract Awards



Fairfax County's Labor Market

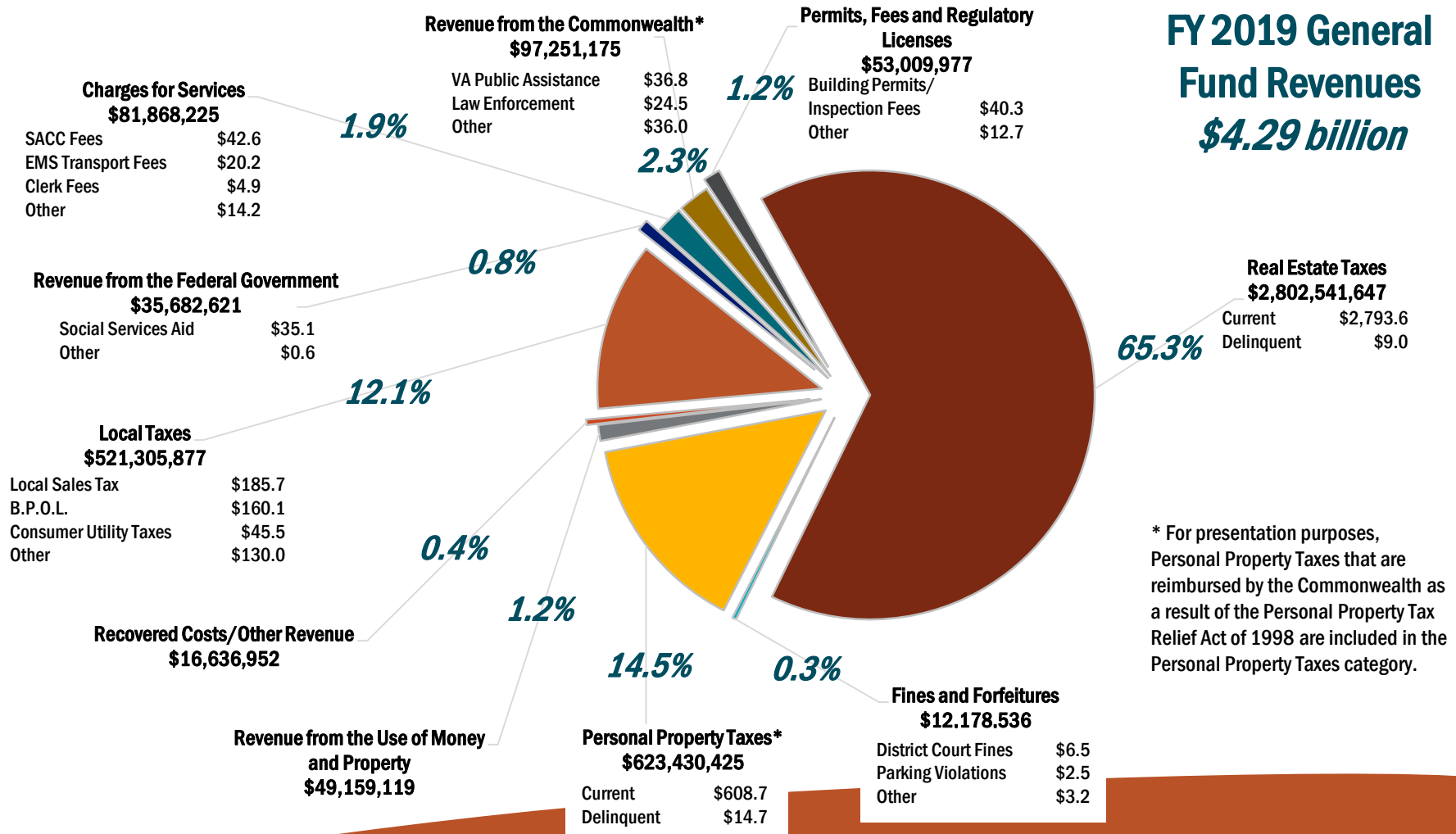
Job Growth in Fairfax County (all data as of June each year)

	Total Non-Farm Employment	Increase/ (Decrease)	% Change
2012	597,533	12,352	2.1%
2013	595,638	(1,895)	(0.3%)
2014	588,507	(7,131)	(1.2%)
2015	596,878	8,371	1.4%
2016	603,348	6,470	1.1%
2017	610,318	6,970	1.2%

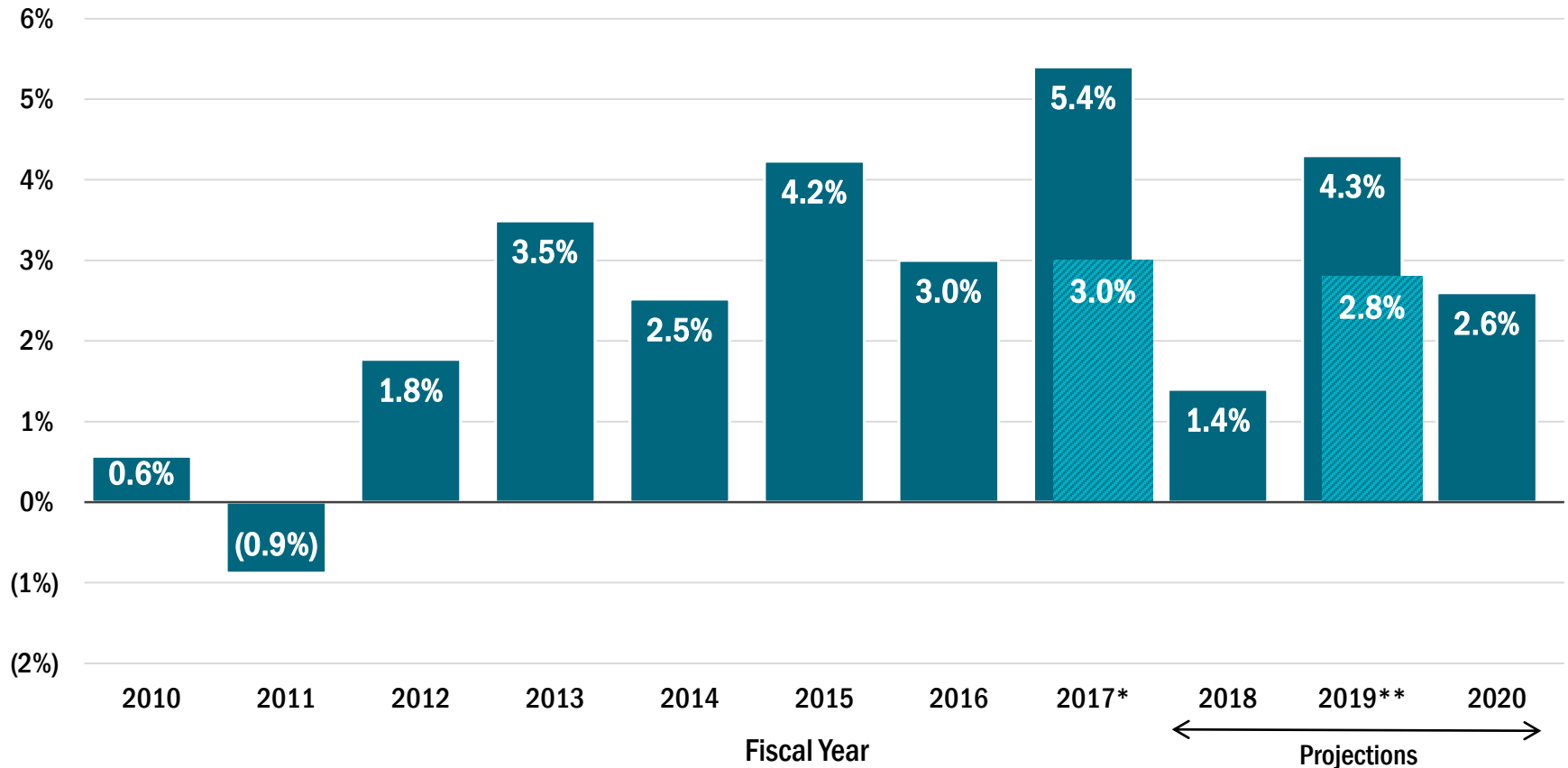
Available Resources



FY 2019 Advertised Budget: Where It Comes From



Annual Change in General Fund Revenue FY 2010 – FY 2020



* In FY 2017, without the 4 cent Real Estate tax rate increase, revenue would have been up 3.0%

** In FY 2019, without the proposed 2.5 cent Real Estate tax increase, revenue would be up 2.8%

Annual Growth in Major Revenue Categories

(Dollars in millions)	FY 2014	FY 2015	FY 2016	FY 2017	Projections		
					FY 2018	FY 2019	FY 2020
Real Estate - Current	\$2,208.0	\$2,347.1	\$2,428.8	\$2,591.6	\$2,641.1	\$2,793.6	
Percent Change	4.4%	6.3%	3.5%	6.7%	1.9%	5.8%	3.0%
Personal Property - Current	\$556.5	\$568.2	\$579.6	\$597.5	\$598.9	\$608.7	
Percent Change	0.2%	2.0%	2.0%	3.1%	0.2%	1.6%	1.5%
Sales Tax	\$165.5	\$176.4	\$178.8	\$176.6	\$181.2	\$185.7	
Percent Change	(0.9)%	6.6%	1.4%	(1.2)%	2.6%	2.5%	2.5%
BPOL - Current	\$152.0	\$152.5	\$153.5	\$155.4	\$157.7	\$160.1	
Percent Change	(2.7)%	0.4%	0.7%	1.2%	1.5%	1.5%	1.5%
Total General Fund	2.5%	4.2%	3.0%	5.4%*	1.4%	4.3%**	2.6%

* In FY 2017, without the 4 cent Real Estate tax rate increase, revenue would have increased 3.0%

** In FY 2019, without the proposed 2.5 cent Real Estate tax rate increase, revenue would be up 2.8%

Real Estate Tax Base

	2007	2008	2009	2010	2011	2012	2013
Equalization	19.76%	2.47%	(1.02)%	(10.52)%	(8.98)%	2.67%	2.53%
- Residential	20.57	(0.33)	(3.38)	(12.55)	(5.56)	2.34	0.71
- Nonresidential	16.64	13.57	7.00	(4.51)	(18.29)	3.73	8.21
Growth	2.94	1.68	1.53	0.57	(0.22)	0.60	0.74
TOTAL	22.70%	4.15%	0.51%	(9.95)%	(9.20)%	3.27%	3.27%

	2014	2015	2016	2017	2018	2019	2020 Prelim
Equalization	2.63%	4.84%	2.40%	1.94%	0.97%	2.58%	2.00%
- Residential	3.50	6.54	3.39	1.64	0.68	2.17	1.75
- Nonresidential	0.14	(0.10)	(0.60)	2.87	1.85	3.79	2.70
Growth	0.77	0.93	1.06	1.04	0.92	1.01	1.00
TOTAL	3.40%	5.77%	3.46%	2.98%	1.89%	3.59%	3.00%



Projected Value of "One Penny" in FY 2019 = \$24.64 million in Revenue

Equalization Trends

- Residential equalization increases had been on a downward trend in the last several years, but experienced an uptick in FY 2019
- Nonresidential equalization growth has outperformed residential in the last three years

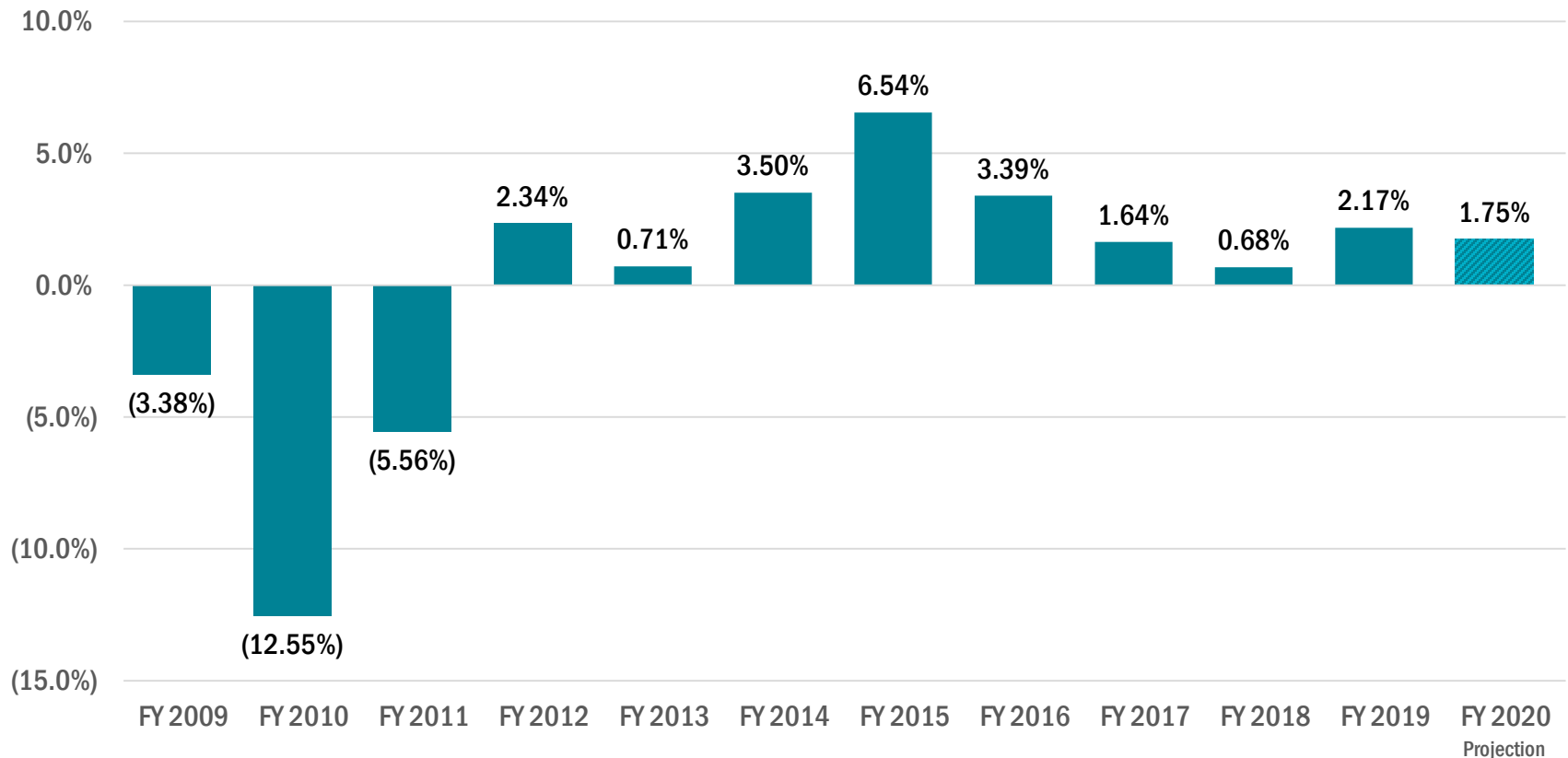
	2016	2017	2018	2019	2020 Prelim
Equalization	2.40%	1.94%	0.97%	2.58%	2.00%
- Residential	3.39	1.64	0.68	2.17	1.75
- Nonresidential	(0.60)	2.87	1.85	3.79	2.70
Growth	1.06	1.04	0.92	1.01	1.00
TOTAL	3.46%	2.98%	1.89%	3.59%	3.00%

- It takes approximately \$2.13 billion in additional assessed value to equal 1 cent on the Real Estate tax rate (\$24.64 million)

Residential Market

- **Total increase of 2.17% in residential equalization**
 - Average price of homes sold in CY 2017 was up 4.3%
 - The number of home sales rose 2.3%, from 15,755 homes in 2016 to 16,109 in 2017
 - Homes that sold in 2017 stayed on the market for an average of 45 days, down from 52 days in 2016
 - There are more than 342,000 residential properties in Fairfax County
 - ✦ Almost 65% saw an increase in assessed value
 - ✦ Last year, over half had no change or saw a decrease in assessed value

Annual Changes in Residential Equalization



Residential Equalization

- Residential properties comprise approximately 73.8% of total base

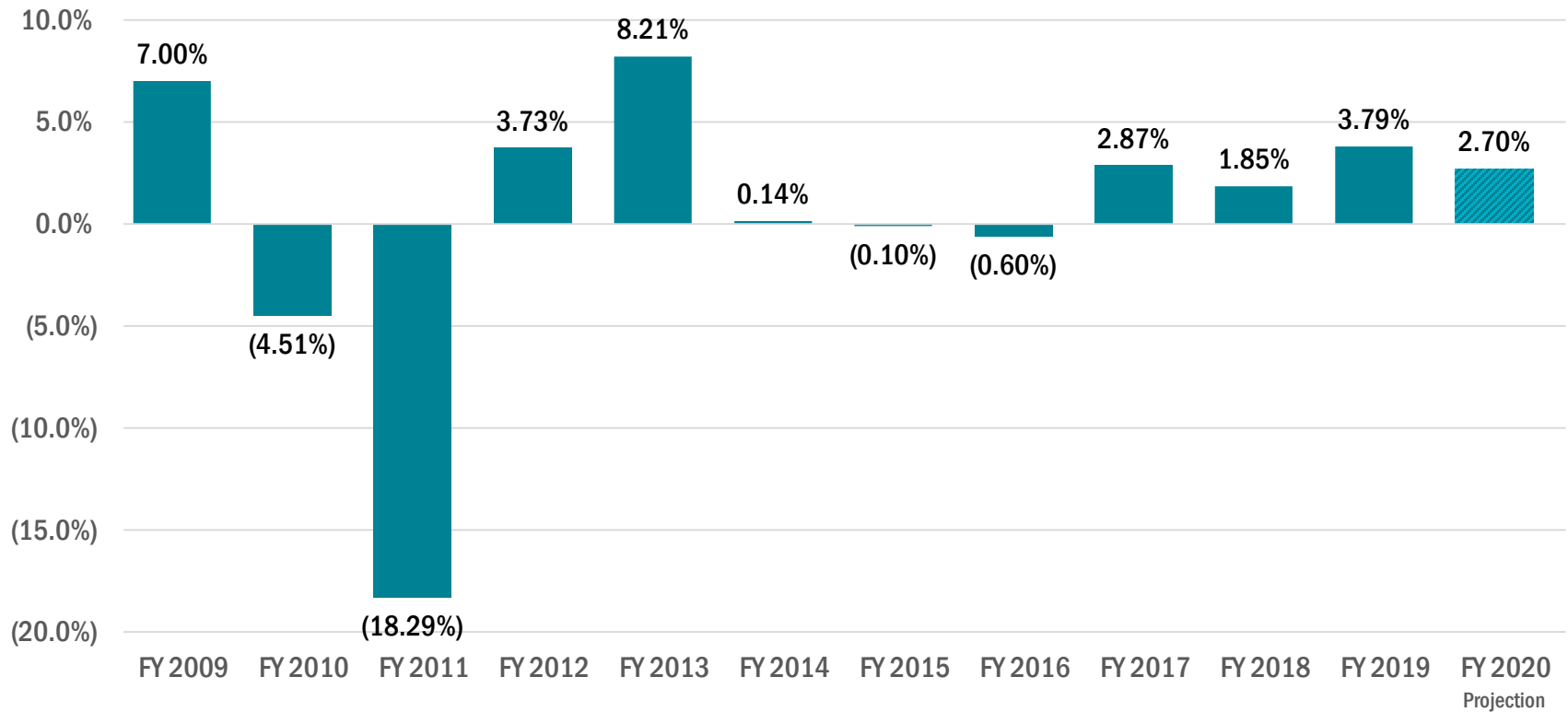
Residential Equalization Percent Changes

Housing Type (Percent of Base)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020 Prelim
Single Family (71.7%)	3.13	5.82	3.27	1.69	0.62	2.11	
Townhouse/Duplex (19.8%)	4.50	8.39	3.81	2.05	1.37	2.86	
Condominiums (8.0%)	5.42	10.51	4.48	0.73	(0.32)	1.68	
Vacant Land (0.4%)	2.89	3.38	3.03	0.92	0.03	2.01	
Other (0.1%)	4.74	3.42	2.56	6.42	9.52	9.70	
Total Residential Equalization (100%)	3.50	6.54	3.39	1.64	0.68	2.17	1.75

Nonresidential Real Estate

- The amount of empty office space declined to 18.9 million sq. ft. out of 116.5 million sq. ft.
- Office vacancy rates as of mid-year 2017
 - 15.4% direct, down from 15.8% as of year-end 2016
 - 16.2% with sublets, down from 16.8% at year-end 2016
- Office real estate assessed values up after decreasing last year
- Overall non-residential real estate values improved for a third consecutive year
- Currently, over 3.1 million sq. ft. of office space under construction
 - More than 70% is already pre-leased or will be owner-occupied
- Metrorail's new Silver Line spurring new construction, including residential

Annual Changes in Nonresidential Equalization



Nonresidential Equalization

Nonresidential Equalization Percent Changes

Category (Percent of Base)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020 Prelim
Apartments (24.3%)	4.90	3.59	1.20	2.92	3.37	2.40	
Office Condominiums (3.7%)	(0.66)	(0.07)	0.58	1.86	0.49	1.19	
Industrial (6.7%)	0.69	1.77	5.83	7.43	(0.26)	9.61	
Retail (17.6%)	1.18	1.52	2.46	1.60	7.39	7.00	
Office Elevator (32.0%)	(2.41)	(2.93)	(4.67)	3.42	(1.39)	2.82	
Office – Low Rise (2.8%)	(1.72)	(2.41)	(5.00)	1.73	1.39	1.11	
Vacant Land (3.4%)	(0.74)	(1.19)	(4.62)	1.50	(1.17)	(0.35)	
Hotels (3.3%)	(3.94)	(4.82)	0.26	3.61	(0.12)	8.13	
Other (6.2%)	1.17	2.37	5.26	3.70	6.73	6.13	
Total Nonresidential Equalization (100%)	0.14	(0.10)	(0.60)	2.87	1.85	3.79	2.70

Nonresidential Real Estate Revenue

- Commercial/Industrial percentage of total real estate assessment base:
 - FY 2019 = 19.43%
 - FY 2018 = 19.12%
 - FY 2017 = 18.89%
 - FY 2016 = 18.67%
 - FY 2015 = 19.01%
 - FY 2014 = 19.96%
 - FY 2013 = 20.77%
 - FY 2012 = 19.64%
 - FY 2011 = 19.70%
 - FY 2010 = 22.67%
- FY 1990 – Highest rate recorded of 26.76%**

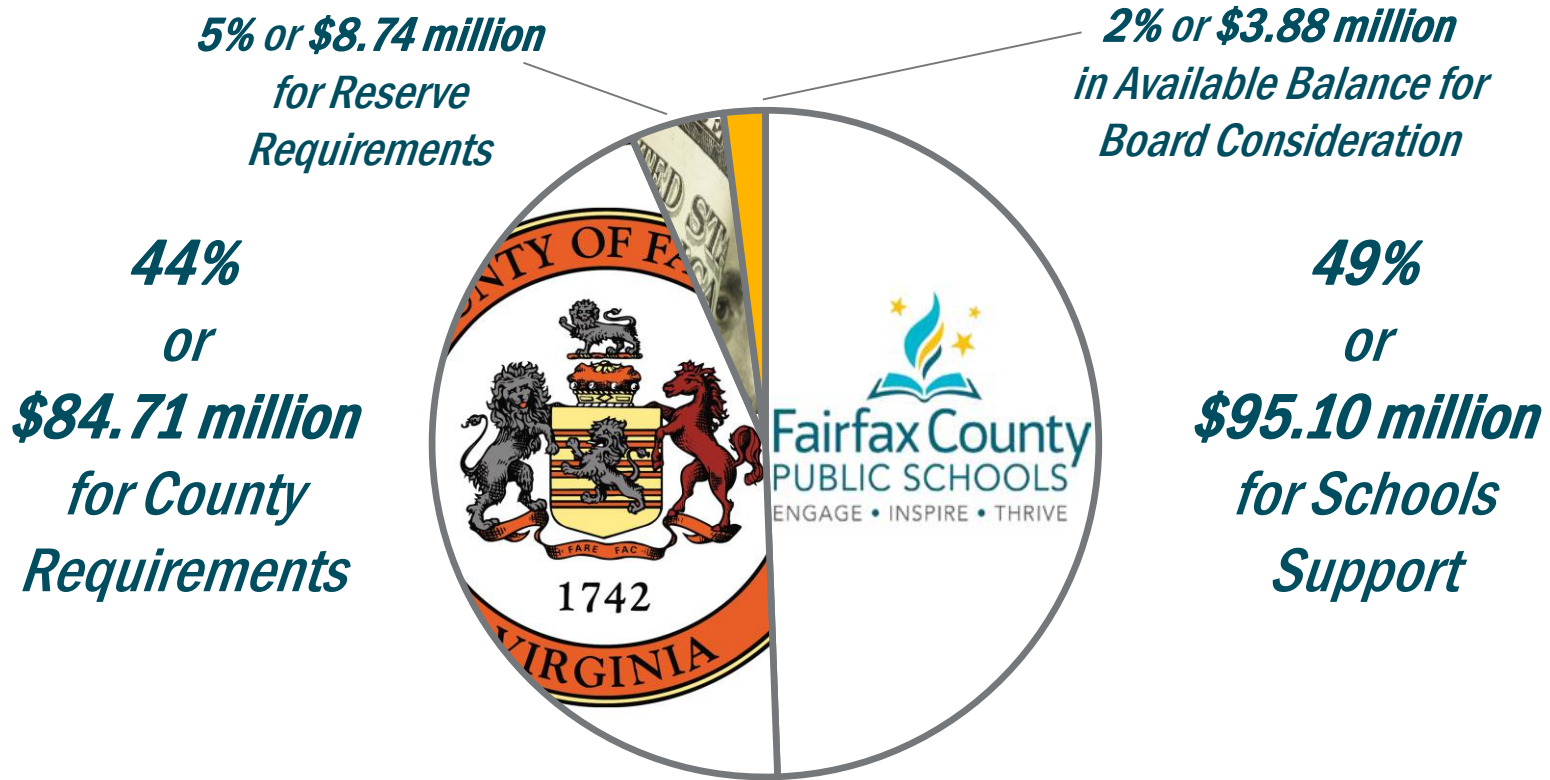
FY 1983 – Lowest rate recorded of 16.12%

Budget Summary



Allocation of FY 2019 Resources

How is \$192.43 million in available resources allocated?



FY 2019 Budget Summary

- Total available resources total \$192.43 million
- Schools support and County requirements are both increased 4.38% over FY 2018
- Reserve requirements are based on Board policy guidelines
- A balance of \$3.88 million is available for the Board's consideration in the adoption of the FY 2019 budget

	COUNTY	SCHOOLS
Increased Revenues	\$192.32	
Transfer In Adjustment	\$0.11	
Available Resources	\$192.43 million	
Employee Pay	\$49.96	\$86.90
Employee Benefits	\$5.76	\$7.00
Debt Service/Capital	\$3.02	\$6.75
Public Safety	\$7.48	--
Human Services	\$8.78	--
Community Development	\$11.36	--
Cost of County Operations	\$1.75	--
Reductions/Savings	(\$3.40)	--
Enrollment and Other Requirements	--	\$21.65
Net Additional Schools Revenue	--	(\$27.20)*
Total Uses	\$84.71	\$95.10
Combined Uses	\$179.81 million	
Revenue Stabilization	\$1.67	
Managed Reserve	\$7.07	
Reserve Requirements	\$8.74 million	
Available Balance	\$3.88 million	

* Includes \$8.7 million in anticipated state revenue resulting from re-benchmarking and changes in Local Composite Index

Detailed Disbursements



Fairfax County Public Schools

- **Proposed County General Fund transfers total \$2.26 billion**
- **Overall Schools support is increased \$95.10 million, or 4.38%, over FY 2018**
 - **School Operating transfer increased 4.49%, or \$88.35 million**
 - ✦ **Meets School Board's requested transfer after accounting for increased state revenues anticipated from re-benchmarking and change in Local Composite Index**
 - **School Debt Service transfer increased by \$4.25 million**
 - ✦ **Assumes \$180 million in School Bond sales – a \$25 million increase**
 - **Additional Debt Service of \$2.5 million would not be required until FY 2020 – redirected to School Construction in FY 2019**
 - **School Capital Construction transfer increased by \$2.5 million**

County Employee Compensation

- Full County Compensation plan is funded
 - 2.25% Market Rate Adjustment (MRA)
 - Performance, Merit, and Longevity Increases

	General County	Uniformed Public Safety
Market Rate Adjustment	2.25%	2.25%
Steps/Longevities	--	2.25%
Performance/Longevities	2.00%	--
Average Increase (Range of Increases)	4.25% (2.25%-6.25%)	4.50% (2.25%-7.25%)

- In addition, required benefit adjustments are funded
- Includes recommendation to index Living Wage to funded MRA
 - Increases from \$14.50 to \$14.83 per hour

Capital and Debt Service

- Meets debt service requirements
 - Assumes approximately \$120 million in County bond sales
- FY 2019 General Fund support for the County's capital program totals \$18.46 million
- No increases for paydown support have been included
 - Recommendations for one-time projects will be made as part of the *FY 2018 Third Quarter Review*

Public Safety

- **Priorities Funded (\$7.48 million):**
 - Staffing for South County Police Station
 - Diversion First Initiative
 - Funding for Police Relief Sergeants
 - Gang Prevention Initiative
 - Replacement of expiring SAFER grant funds in the Fire and Rescue Department
 - Increased contribution to Volunteer Fire and Rescue Association

Human Services

- **Priorities Funded (\$8.78 million):**
 - **Contract Rate Increases**
 - **Opioid Task Force**
 - **Early Childhood Care Slots**
 - **Expansion of Opportunity Neighborhoods**
 - **New School-Age Child Care Rooms**
 - **Expansion of Nurse Family Partnership Program**
 - **Nursing Services for Medically Fragile Students**
 - **Support for Area Agency on Aging Grants**

Cost of County Operations

- **Priorities Funded (\$1.75 million):**
 - Service enhancements in Tax Administration
 - IT Software Support
 - Basic requirements for facility costs
 - Positions supporting Capital Facilities, Stormwater, Wastewater, Cable, and Business Planning and Support with no General Fund impact

Community Development

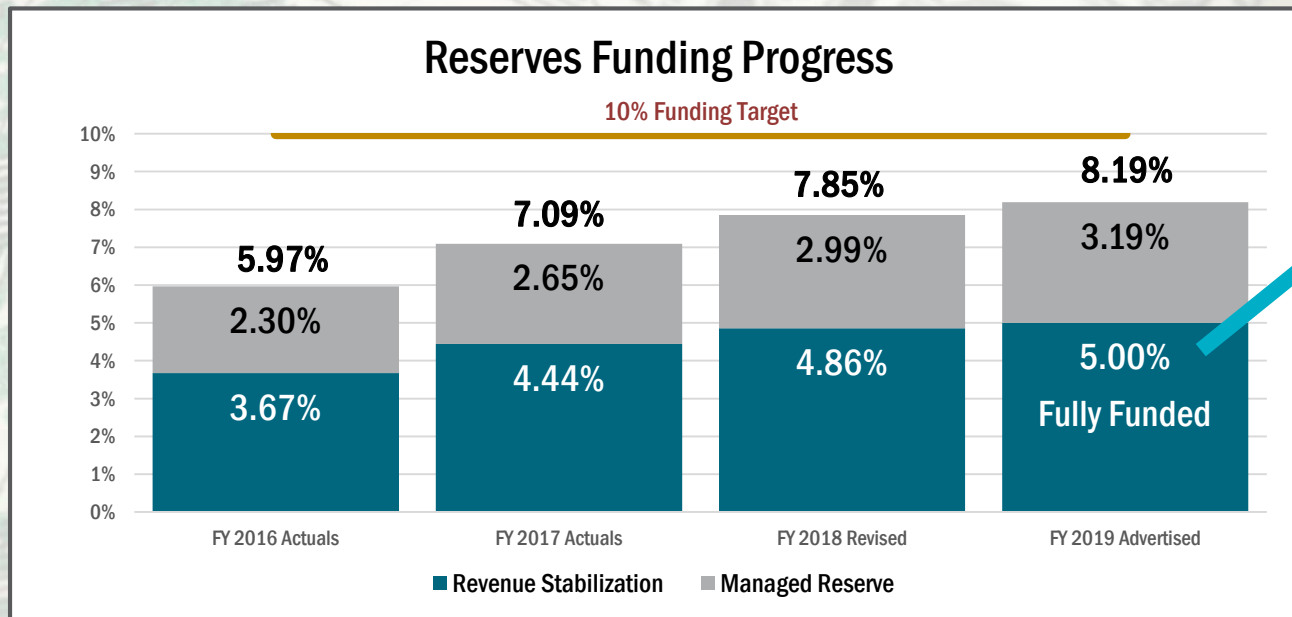
- **Priorities Funded (\$11.36 million):**
 - Metro Requirements (continued placeholder pending long-term solution)
 - Fairfax First Initiative
 - Fairfax Connector and Virginia Railway Express (VRE) Requirements
 - Parks Support
 - Transportation positions supported by non General Fund revenues

Reductions and Savings

- In total, reductions and savings included in the FY 2019 Advertised Budget total \$3.4 million, primarily due to:
 - Savings in regular salaries based on position vacancies and turnover trends
 - Overtime savings based on trends
 - Operating expense flexibility based on spending patterns

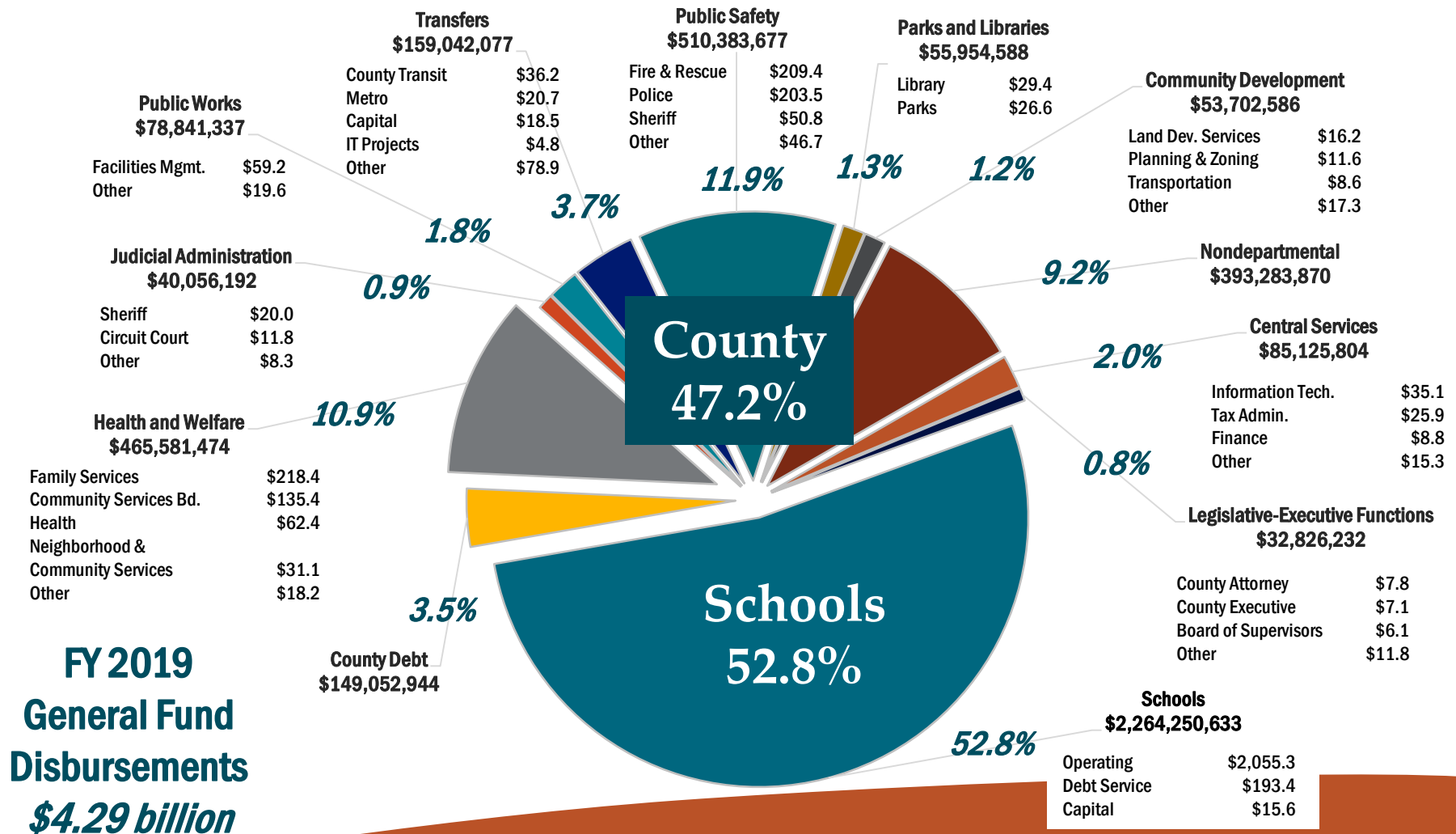
Reserves

- **10% of FY 2019 Disbursement Increases held in Reserve**
 - Overall Disbursement Growth in FY 2019 = \$181.48 million
 - ✦ Total General Fund reserve contributions – including Revenue Stabilization and Managed Reserve – total \$18.15 million



Revenue Stabilization is expected to be fully funded in FY 2019

FY 2019 Advertised Budget: Where it Goes



FY 2019 Budget by the Numbers

- **FY 2019 All Appropriated Fund Revenues total \$8.42 billion**
 - An increase of \$441.55 million, or 5.53 percent, over the FY 2018 Adopted Budget Plan
- **FY 2019 All Appropriated Fund Expenditures total \$7.97 billion**
 - An increase of \$381.39 million, or 5.02 percent, over the FY 2018 Adopted Budget Plan

County Taxes and Fees Recommended to Change

Type	Unit	FY 2018 Actual Rate	FY 2019 Recommended Rate
GENERAL FUND TAX RATES			
Real Estate	\$100/Assessed Value	\$1.13	\$1.155
NON-GENERAL FUND TAX RATES			
Refuse Rates			
Refuse Collection (per unit)	Household	\$345	\$350
Refuse Disposal (per ton)	Ton	\$64	\$66
Sewer Charges			
Sewer Base Charge	Quarterly	\$27.62	\$30.38
Sewer Service Charge	Per 1,000 Gallons	\$6.75	\$7.00
Other			
Stormwater Services District	\$100/Assessed Value	\$0.0300	\$0.0325

FY 2020 Multi-Year Plan

- FY 2020 Forecast is based on projected revenue growth of 2.60%
- At this level, with equal growth for County and Schools:
 - \$55.5 million available for County
 - \$62.4 million available for Schools
- County faces \$5 million budgetary shortfall after funding only compensation and benefits
- County's projected shortfall is \$60 million if other major drivers are included, such as:
 - Continued implementation of fiscally-constrained Public Safety Staffing Plan
 - FY 2020 needs identified in Health and Human Services Resource Plan
 - South County Police positions
 - 4th year of Diversion First
 - Investments in Capital and Information Technology
- Expenditures cannot be supported without additional revenues
- Will need to clearly identify priorities to manage expectations

Looking Forward

- **Restrained revenue growth anticipated for foreseeable future**
 - Expenditure needs will continue to outpace resources – fiscal constraint will be required
 - Focus on Board priorities, balancing them against resources
- **Continued uncertainty about U.S. fiscal policy and impact of tax reform**
- **Will continue to monitor State budget**
- **Regional response to address ongoing Metro funding requirements**

Looking Forward – continued

- Committed to working collaboratively with Schools to meet joint priorities
- Continue to identify efficiencies
 - Lines of Business Phase 2
 - Joint Budget Workgroup
 - Expenditure trends
- Lay out multi-year strategic planning effort
 - Board, School and community partners engaged
 - In the context of One Fairfax

How to Become Involved

- To sign up to speak at one of the public hearings, call the Clerk to the Board's Office at (703) 324-3151, TTY (703) 324-3903 or to access the form to sign up to speak, go to www.fairfaxcounty.gov/bosclerk/speakers-form
- The public can send written testimony or communicate with the Clerk's Office by email at: clerktothebos@fairfaxcounty.gov
- The entire FY 2019 Advertised Budget Plan and the FY 2019-FY 2023 Capital Improvement Program (CIP) are available online at: www.fairfaxcounty.gov/budget

FY 2019 Budget Schedule

February 20, 2018	County Executive presents FY 2019 Advertised Budget Plan
February 27, 2018	Joint Board of Supervisors/School Board Budget Committee Meeting
March 6, 2018	Board of Supervisors advertises FY 2019 tax rates
March 20, 2018	Board of Supervisors advertises <i>FY 2018 Third Quarter Review</i>
April 10-12, 2018	Board of Supervisors holds Public Hearings on FY 2019 Budget, <i>FY 2018 Third Quarter Review</i> , and FY 2019-FY 2023 Capital Improvement Program
April 24, 2018	Board of Supervisors marks-up FY 2019 Budget, adopts FY 2019-FY 2023 Capital Improvement Program and <i>FY 2018 Third Quarter Review</i>
May 1, 2018	Board of Supervisors adopts FY 2019 Adopted Budget
May 15-16, 2018	School Board holds public hearings on FY 2019 budget
May 24, 2018	School Board adopts FY 2019 Approved Budget
July 1, 2018	FY 2019 Budget Year Begins