



**FAIRFAX COUNTY, VIRGINIA
POPULAR ANNUAL FINANCIAL REPORT
JULY 1, 2017 – JUNE 30, 2018**





FY 2018 Fairfax County Popular Annual Financial Report



November 20, 2018



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Online Resources:
Interested in reading more about a particular topic? Look for the Action Code squares in the document.



Simply download a scan code reader app to a smart phone or tablet, hold the camera over the code, and the topic website will appear.

FY 2018 PAFR and FY 2018 CAFR are both located on County public website: <https://www.fairfaxcounty.gov/finance>.

Cover photo is the new Public Safety Headquarters Building (PSHQ) that opened in the fall of 2017.

PSHQ photos throughout the PAFR, courtesy of the Fairfax County Police Dept.

We are pleased to present to you, our residents, the Popular Annual Financial Report (PAFR) for the County of Fairfax, Virginia, covering Fiscal Year (FY) 2018 (July 1, 2017 - June 30, 2018). The PAFR is designed to offer those with a general interest in the County's financial activities a less detailed glimpse at selected data from the FY 2018 Comprehensive Annual Financial Report (CAFR) presented in a highly readable format.

The County's financial statements conform to generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), have been audited as required by the Code of Virginia, and, have received an unmodified opinion by the accounting firm of Cherry Bekaert LLP.

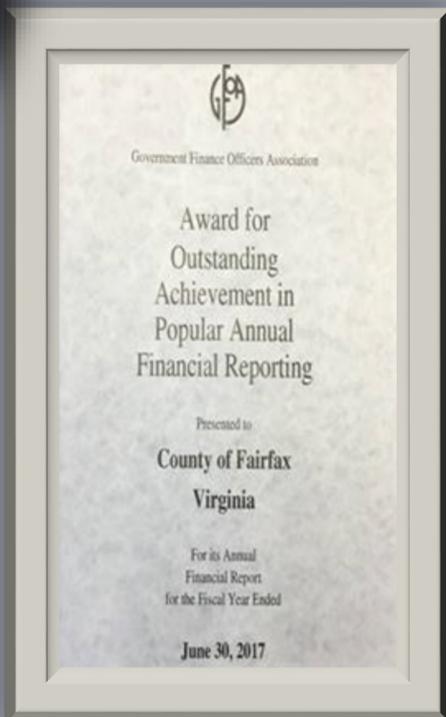
We hope this issue of the PAFR helps the reader gain a better understanding of the County's financial activities and reinforces our commitment to fiscal integrity and sound financial management. The PAFR also reflects our continued commitment to the residents and businesses of Fairfax County, the Board of Supervisors, and all interested readers of this report by providing financial, economic, and demographic information about the County, while demonstrating our deep pride in serving it.

Respectfully,

Bryan J. Hill
County Executive

Joseph M. Mondoro
Chief Financial Officer

Christopher J. Pietsch
Director of Finance



The Government Finance Officers Association of the United States and Canada (GFOA) has recognized Fairfax County with the Award for Outstanding Achievement in Popular Annual Financial Reporting for FY 2017. The County received this prestigious national award for its inaugural edition.

This report was prepared by:

COUNTY OF FAIRFAX, VIRGINIA
DEPARTMENT OF FINANCE

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<https://www.fairfaxcounty.gov/finance/pafr2018>



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Government Structure

Fairfax County operates under the urban county executive form of government, as defined by the Code of Virginia.

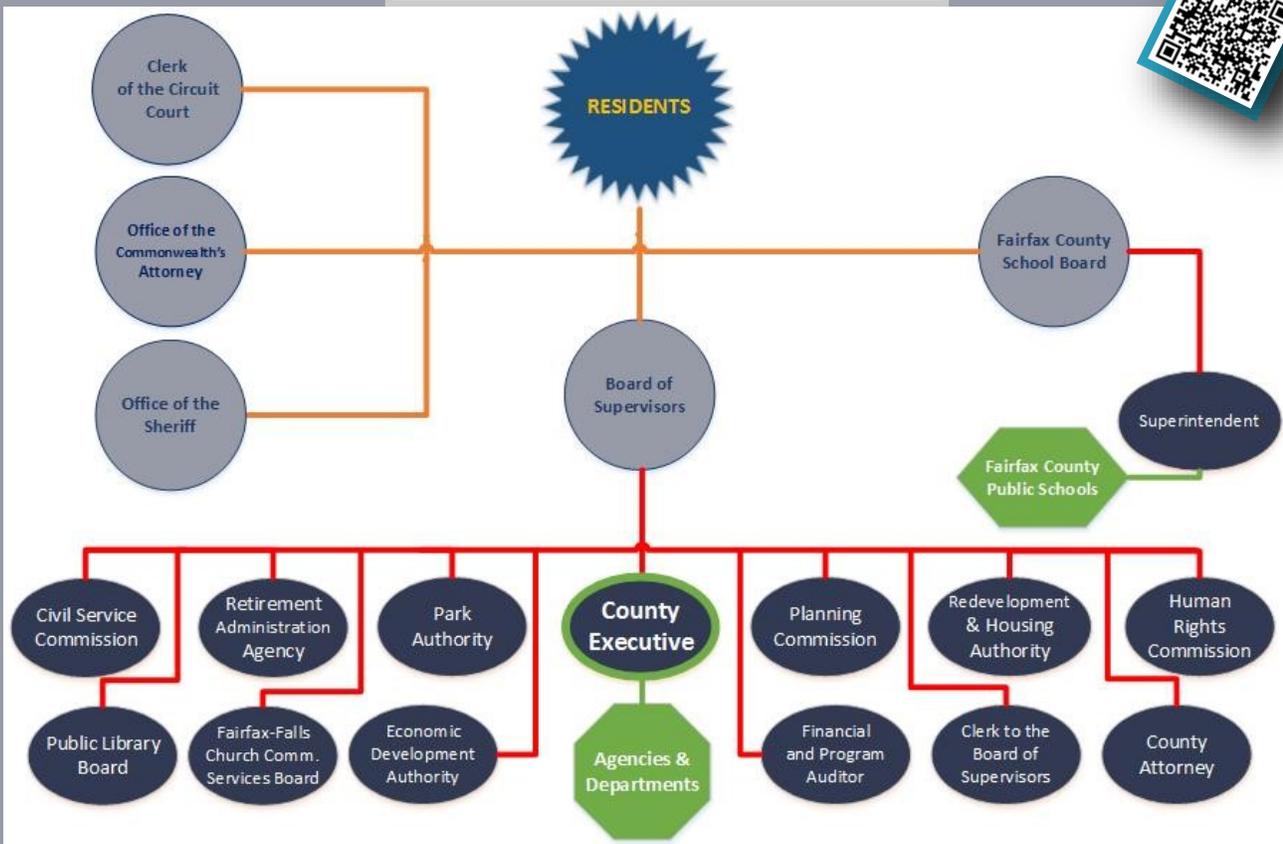
The powers of government are vested in an elected Board of Supervisors (the Board) consisting of nine members elected by district, plus a Chairman elected at large. Board members are elected for four-year terms by the voters of the district in which each member resides. There is no legal limit to the number of terms a member can serve. The Board sets policy for the administration of the County and appoints a County Executive to act as the administrative head of the County. The County Executive carries out the policies established by the Board, directs business and administrative procedures, and recommends officers and personnel to be appointed by the Board.



Fairfax County Board of Supervisors

From Left to Right: Daniel G. Storck (Mount Vernon District), John C. Cook (Braddock District), Catherine M. Hudgins (Hunter Mill District), Jeffrey C. McKay (Lee District), Sharon Bulova (Chairman, At-Large), Penelope A. Gross (Mason District), John W. Foust (Dranesville District), Kathy L. Smith (Sully District), Linda Q. Smyth (Providence District), and Pat Herry (Springfield District)

Fairfax County Organization Chart





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Board of Supervisors' Priorities



A Quality Education System



Safe Streets and Neighborhoods



A Vibrant Economy



Efficient Transportation



A Clean, Sustainable Environment



Livable, Caring and Affordable Communities



Recreational and Cultural Opportunities



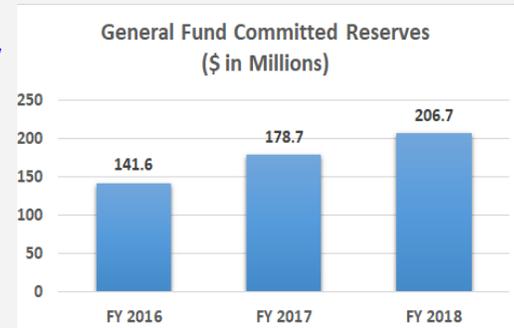
Taxes that are Affordable

Ten Principles of Sound Financial Management

1. Planning Policy
2. Annual Budget Plans & Reserves
3. Cash Balances
4. Debt Ratios
5. Cash Management
6. Internal Controls
7. Performance Measurement
8. Reducing Duplication
9. Underlying Debt & Moral Obligations
10. Diversified Economy

The keystone to the County's ability to maintain its fiscal integrity is the continuing commitment of the Board, This commitment is evidenced by their adoption of the Ten Principles of Sound Financial Management (Ten Principles) in 1975, which remain the policy context within which financial decisions are considered and made. These principles relate primarily to the integration of capital planning, debt planning, cash management, and productivity as a means of ensuring prudent and responsible allocation of the County's resources.

From time to time the Board amends the Ten Principles in order to address changing economic conditions and management practices. In FY 2016 as a response to concerns from the bond rating agencies, the Board committed to increasing the County's reserve policies to strengthen the County's financial position (see adjacent chart). As a result the County reserve policy is more in-line with other Triple A jurisdictions.



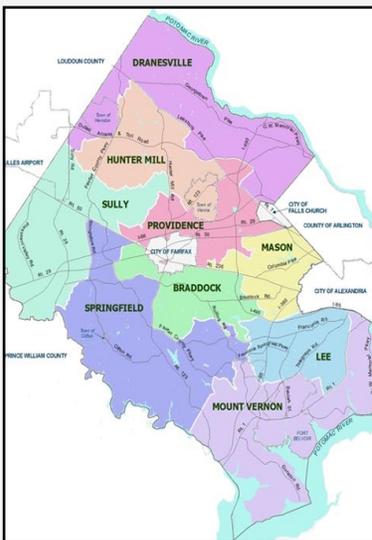


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About Fairfax County

Fairfax County is located in the northeastern corner of Virginia and encompasses an area of 407 square miles, including land and water. The County is part of the Washington, D.C. metropolitan area which includes jurisdictions in Northern Virginia, Maryland, and the District of Columbia, and has a population in excess of 1.14 million.

Fairfax County surrounds the City of Fairfax and is adjacent to the Cities of Falls Church and Alexandria. Cities and counties in Virginia are discrete units of government that under Virginia law may not be overlapping districts. The incorporated towns of Clifton, Herndon, and Vienna are underlying units of government within the County.



Public Safety Headquarters



With a ribbon cutting ceremony on October 26, 2017, the County's new Public Safety Headquarters (PSHQ) officially opened. The nine-story, 274,00 square-foot facility accommodates both Police and Fire and Rescue Department administrative staff to maximize shared resources among first responder agencies that often work together in the field. The building is located on a secure 9.3-acre portion of the Fairfax County Government Center campus and includes an 850-stall parking structure. The facility, designed to accommodate up to 700 employees by 2030, includes features such as central records, a press room, training rooms, an occupational health center, a fire marshal's office, exhibit areas and departmental memorials. The total project budget for the new facility was \$142 million.

On June 28, 2018, PSHQ achieved Leadership in Energy and Environmental Design (LEED) Gold certification from the U.S. Green Building Council. Certified buildings are resource efficient and less expensive to heat, cool, and maintain. The building is the County's first large facility to use LED lighting throughout.

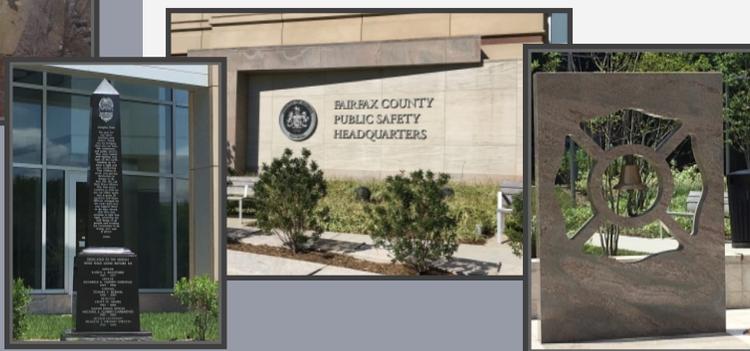
PSHQ was recognized in May 2018 with a Project of the Year Award (Structures: \$75M-category) by the Mid-Atlantic chapter of the American Public Works Association. The awards program highlights the best infrastructure projects in the National Capital Region.

The two memorials pictured below are prominently located in front of the PSHQ. The Police Memorial (below left) and the Fire and Rescue Memorial (below right) honor and remember our fallen heroes who made the ultimate sacrifice for the County in the line of duty.



Did You Know....?

With the addition of the Public Safety Headquarters, Fairfax County now has 15 LEED Gold certified and 15 LEED Silver municipal buildings.



Police Memorial

Fire and Rescue Memorial



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Business and Employment Facts

Through the years, Fairfax County has grown to be a healthy economic urban-suburban community that continues to attract businesses and families. Its economic growth and community prosperity are the direct outcomes of its sound financial management and fiscal integrity that fortifies its strong financial base.

There are more than 37,300 payroll businesses including corporate and regional headquarters in Fairfax County, with 28% in the professional, scientific and technical services industries (see chart below).



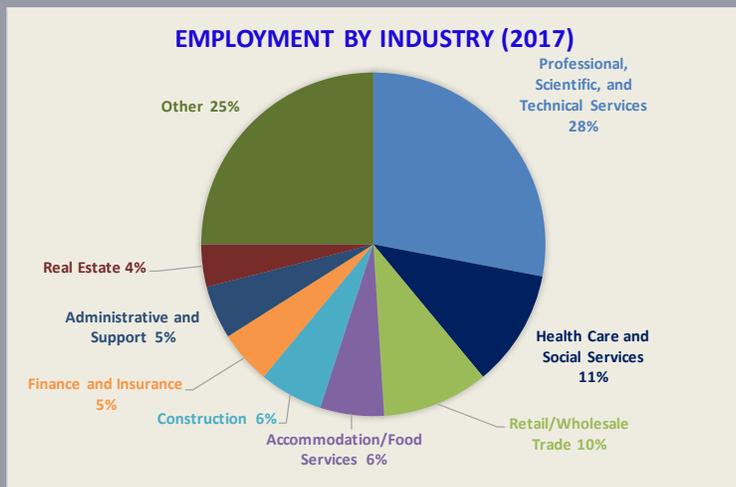
As illustrated in the chart on the right, Fairfax County's unemployment rates, not seasonally adjusted, have consistently tracked well below both state and national percentages.

Ten Largest Employers in Fairfax County

- Fairfax County Public Schools
- Fairfax County Government
- Inova Health System
- U.S. Department of Defense
- Booz, Allen and Hamilton
- George Mason University
- Freddie Mac
- Capital One Financial
- Navy Federal Credit Union
- The MITRE Corporation

Did You Know....?

Fairfax County Public Schools is the 3rd largest employer in Virginia with 24,137 full-time employees, more than 93% of which are school-based and 6.6% are non-school-based.



Source: Fairfax County Economic Development Authority

Unemployment Rates as of June 2018 (Not seasonally adjusted)

	United States	4.2%
	Virginia	3.3%
	Fairfax County	2.7%

Source: Virginia Employment Commission

Economic Accolades

- ◆ The 2017 Inc. 5000 list of the nation's fastest-growing firms, most of them were in technology and professional services fields, included 158 Fairfax County companies.
- ◆ Nine Fairfax County companies made the 2017 Fortune 500 list: Freddie Mac, General Dynamics, Capital One Financial, Northrop Grumman, Hilton Worldwide, Computer Sciences Corporation, Leidos, NVR, and Booz Allen Hamilton.
- ◆ Four Fairfax County companies were on the 2017 Fortune List of the 100 best companies to work for in the United States.



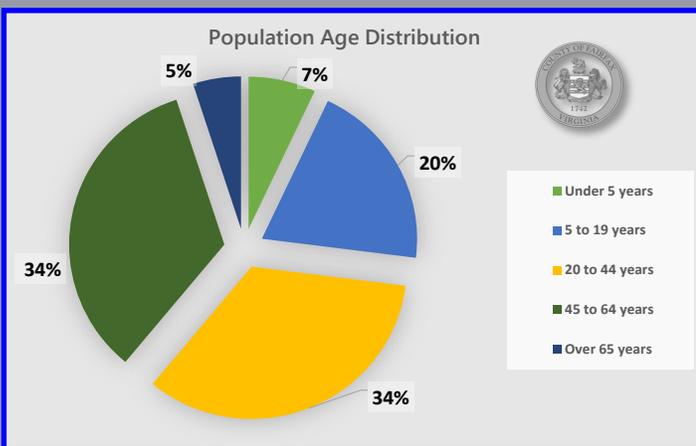
Photo courtesy of Tysons Partnership.



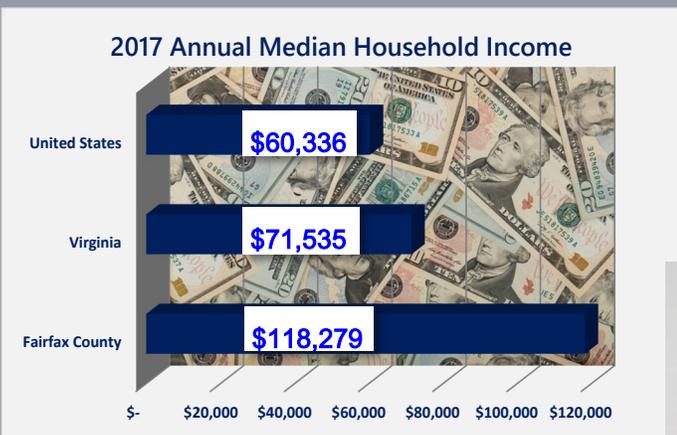
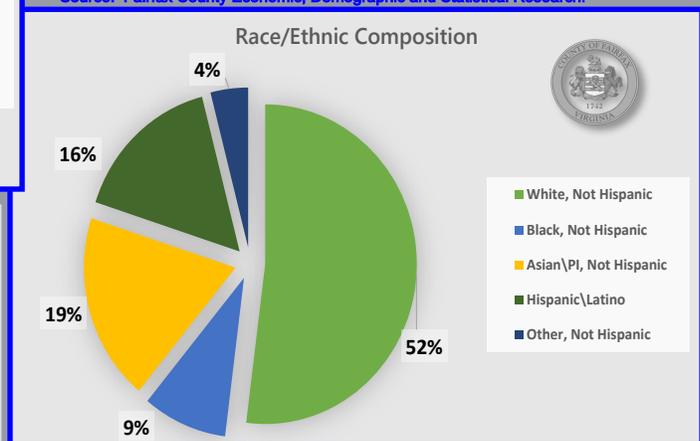
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Demographic Facts

Based on the latest Fairfax County Department of Management and Budget's Economic, Demographic and Statistical Research (EDSR) data for 2017, there are more than 1.14 million residents living in Fairfax County. The population is diverse, with more than 47 percent consisting of racial/ethnic minorities. Approximately 37.9 percent of all County residents, five years or older spoke a language other than English at home. Fairfax County had approximately 26.4 percent of its population under the age of 20, while about 39.2 percent were 45 years of age and older. As reported in the American Community Survey for 2017, Fairfax County had an estimated annual median household income of \$118,279, well above the Commonwealth of Virginia figure of \$71,535 and the national median income of \$60,336.



Source: Fairfax County Economic, Demographic and Statistical Research.



Source: 2017 American Community Survey



FCPS Student Population at a Glance

As the 10th largest school division in the U.S. with 198 schools and centers, Fairfax County Public Schools (FCPS) serves a diverse student population of more than 190,000 (projected) students in grades prekindergarten through 12. More than 54,000 (29 percent of the total population) of those students are eligible for free and reduced-price meals; more than 26,000 (14 percent of the total population) receive special education services and more than 54,000 (29 percent of the total population) receive English for speakers of other languages (ESOL) services.

Demographically, 38.7 percent of FCPS students are White, 25.8 percent are Hispanic, 19.6 percent are Asian, 10.1 percent are Black, 5.4 percent are two or more races, 0.3 percent are American Indian, and 0.1 percent are Native Hawaiian (Source: 2017 Fall Membership by Subgroup as reported in the Virginia Department of Education School Quality Profile).





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Financial Facts

The Commonwealth of Virginia requires that counties, and their financially dependent component units, be financed under a single taxing structure. The component units are responsible for the assets purchased or constructed with debt proceeds, such as for building public schools. Generally accepted accounting principles require that the primary government and its component units make up the financial reporting entity. Consequently, the best way to represent the financial position is to first look at the net position of the financial reporting entity. Net position reflects the accumulation of change in revenues and expenses. Over time, the net position may also serve as a useful indicator of whether the financial health of the County is improving or deteriorating.



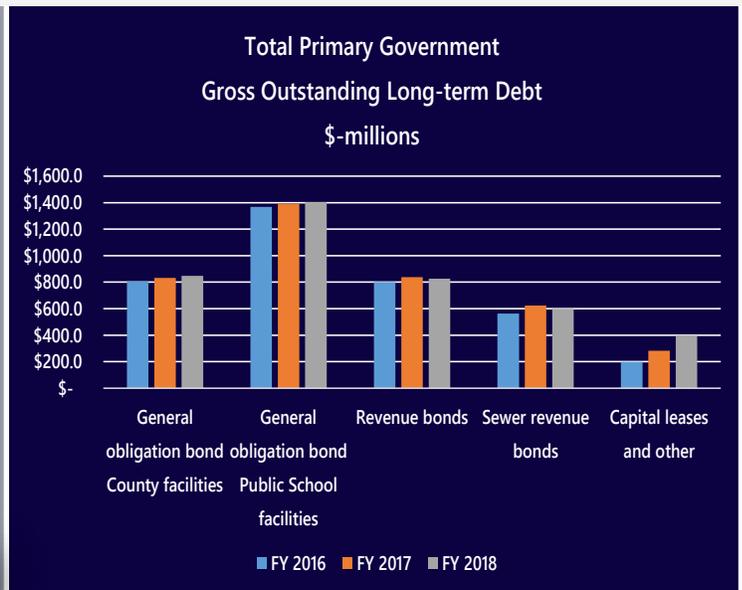
Government-wide financial statements consist of three categories: Government Activities; Business-type Activities; and Discretely Presented Component Units. The County's governmental and business-type activities are collectively referred to as the Primary Government. Together, the Primary Government and its discretely presented component units are referred to as the Reporting Entity. Most of the County's basic services are reported in the Governmental Activities category. The County's only Business-type activity is the Integrated Sewer System.

To get a more comprehensive explanation on the Fairfax County's financial statements, please refer to the Management's Discussion and Analysis section in the CAFR.

Primary Government Long-term Debt

The County primarily borrows money by issuing general obligation (GO) bonds to finance capital projects. All general obligation bonds must be approved by voter referendum. The County's exceptional Triple A bond rating gives its bonds an unusually high level of marketability and results in the County being able to borrow for needed capital improvements at low interest rates, thus realizing significant savings now and in the future for County residents.

While there is no legal limit on the amount of long-term indebtedness that the County can at any time incur or have outstanding, the Board has established self-imposed limits with respect to long-term debt. The adjacent chart compares the debt distribution over the last three fiscal years for the Primary Government. Public school facilities represent the largest amount of GO bond debt, which, in part, reflects County residents' strong community support for our public schools.



Did You Know....?

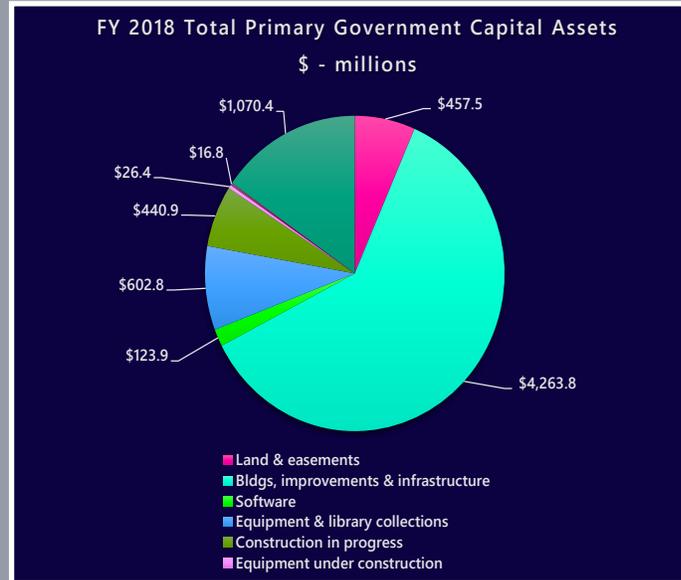
Since 1975, the savings associated with the County's Triple A bond rating is estimated at \$532.9 million. Including savings of \$283.0 million from various refunding sales, the total benefit to the County equates to \$815.9 million.



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Primary Government Capital Assets

As illustrated in the chart to the right, the Primary Government's investment in total capital assets as of June 30, 2018, amounted to over \$7.0 billion. Buildings, improvements, and infrastructure represent the largest category of capital assets for the County. Major activities for FY 2018 included: improvements to transportation, including bus and rail services, purchase of library books and audio/video materials; and expenditures related to the construction of the Huntington Flood Mitigation and new PSHQ.



Did You Know....?

The County does not capitalize roads and bridges as these belong to the Commonwealth of Virginia.



Net Position

The Governmental Accounting Standards Board (GASB) defines Net Position as: Assets + Deferred Outflows less Liabilities + Deferred Inflows. For the Fairfax County Reporting Entity, assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$379.3 million at the end of FY 2018, representing an increase of \$144.0 million from the restated net position at June 30, 2017. The Reporting Entity Net Position was in FY 2017 \$235.3 million and FY 2018 \$379.3 million.

The Net Position of the Primary Government has experienced relatively stable growth over the past three fiscal years: FY 2016 \$589.1 million; FY 2017 \$616.7 million; and FY 2018 \$638.1 million. This year, a change in accounting requirements as defined by GASB Statement No. 75, requires government entities to report their other post employment benefits (OPEB) liabilities and expenses on the face of the financial statements instead of within the Notes section of the CAFR, as was required in prior years. As a direct result of this required change, the net position of the Primary Government will report a modest increase of 3.5 percent from FY 2017 to FY 2018 (see chart at right for more detail).



Did You Know....?

GASB is the Governmental Accounting Standards Board, responsible for establishing the accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP). The financial information presented in this PAFR is based on GAAP.

Summary of Changes in Net Position

Total Primary Government

For the Fiscal Years Ended June 30

(-\$-millions)

	FY 2016	FY 2017**	FY 2018
Revenues			
Program Revenues			
Charges for services	\$ 786.5	\$ 836.0	\$ 881.5
Operating grants & contributions	\$ 250.2	\$ 264.0	\$ 273.0
Capital grants & contributions	\$ 33.7	\$ 34.8	\$ 57.0
General Revenues			
Real property tax	\$ 2,437.6	\$ 2,601.6	\$ 2,652.3
Personal property tax	\$ 380.1	\$ 403.2	\$ 412.3
Business licenses tax	\$ 158.4	\$ 160.7	\$ 167.8
Local sales and use tax	\$ 249.3	\$ 246.9	\$ 252.0
Consumers utility tax	\$ 102.2	\$ 104.3	\$ 104.8
Other taxes	\$ 57.9	\$ 61.6	\$ 60.6
Unrestricted grants & contributions	\$ 211.4	\$ 211.5	\$ 211.4
Revenue from the use of money	\$ 11.0	\$ 7.6	\$ 11.5
Total Revenues	\$ 4,678.3	\$ 4,932.2	\$ 5,084.2
Expenses			
Expenses			
General government administration	\$ 188.8	\$ 199.2	\$ 191.0
Judicial administration	\$ 58.1	\$ 62.2	\$ 64.0
Public safety	\$ 702.1	\$ 743.9	\$ 783.3
Public works	\$ 388.0	\$ 397.6	\$ 444.1
Health and welfare	\$ 589.3	\$ 621.7	\$ 641.6
Community development	\$ 373.6	\$ 450.0	\$ 553.9
Parks, recreation, and cultural	\$ 113.0	\$ 124.4	\$ 132.4
Education	\$ 1,998.7	\$ 2,085.9	\$ 2,139.2
*Interest on long-term debt	\$ 94.6	\$ 108.1	\$ 113.3
Total expenses	\$ 4,506.2	\$ 4,793.0	\$ 5,062.8
Increase in net position	\$ 172.1	\$ 139.2	\$ 21.4
Beginning net position	\$ 417.0	\$ 589.1	\$ 616.7
GASB 75 Adjustment for FY 2017 restatement			
		\$ (111.6)	
Ending net position	\$ 589.1	\$ 616.7	\$ 638.1

* For business-type activities, interest on long-term debt is included in the functional expense category.

** FY 2017 amounts restated due to GASB Statement No. 75.



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Budget Process and Spending Controls

The County's budget is adopted by May 15 for the coming fiscal year which commences on July 1 and ends on June 30. The Code of Virginia requires that the County adopt a balanced budget. The County maintains extensive budgetary controls at certain legal, managerial and administrative levels. Any revisions that alter the total expenditures of any agency or fund must be approved by the Board of Supervisors.

Primary Government Revenue - Where the money comes from...

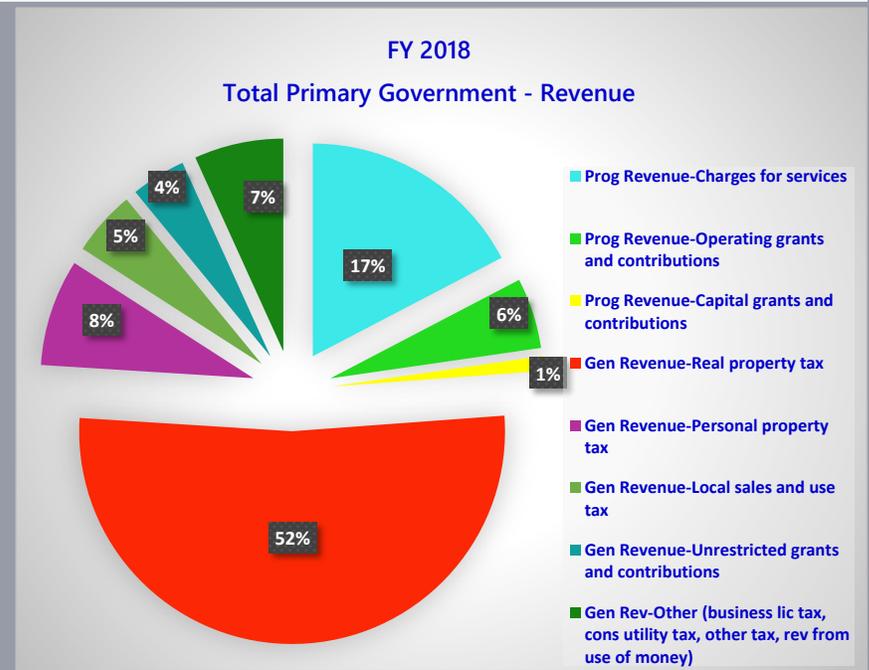
The chart below identifies the sources of funding coming into the County. Revenue is grouped into categories of Program Revenue and General Revenue. The largest source of revenue for the Primary Government is the General Revenue-Real Property tax at 52 percent. The next major source of revenue is the Program Revenue-

Charges for Services at 17 percent which includes collections for items such as fees for refuse collection and building permits. The third largest source is the General Revenue-Personal Property tax at 8 percent. These three combined revenue sources collectively make up 77 percent of Primary Government Revenue. The largest portion of this is included in the General Fund.

The FY 2019 Adopted Budget is \$4.28 billion, an increase of \$166.3 million, or 4.04 percent over the FY 2018 Revised Budget Plan.

Highlights of the FY 2019 tax rates and fees approved by the Board include:

- Real estate tax rate increased from \$1.13 to \$1.15 per \$100 of assessed value.
- Commercial real estate tax rate remained at \$0.125 per \$100 of assessed value. This tax is levied on all commercial and industrial properties in the County.
- Personal property tax rate remained at \$4.57 per \$100 assessed value.



Did You Know....?

Unlike private sector accounting and financial reporting, state and local governments use fund accounting.

While a number of different fund categories and types are used, the most common across all public entities is the General Fund, which serves as the main operating fund.

A government can only report one General Fund.

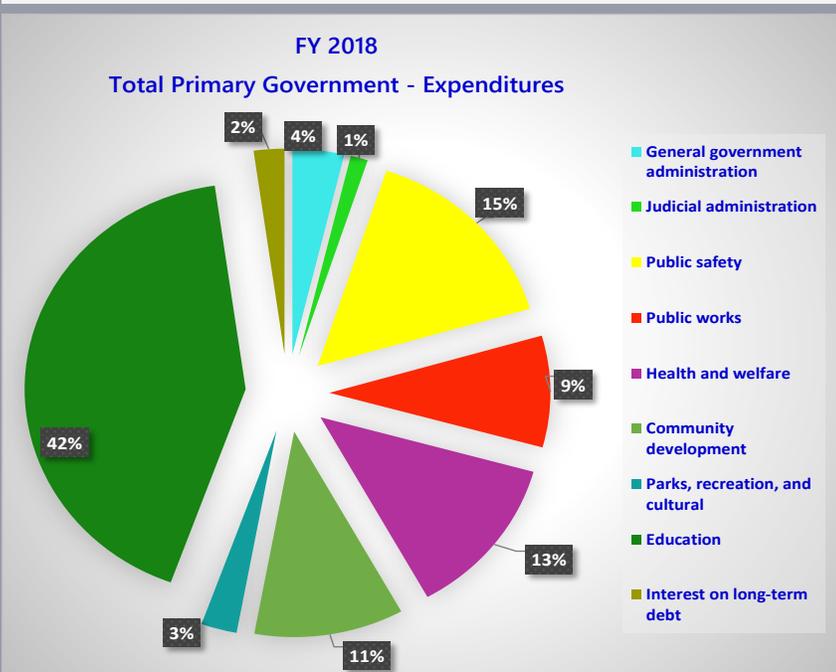




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Primary Government Expenditures-Where the money goes...

Expenditures for the County identify the sources of funding that are being spent on behalf of its residents. The chart below identifies the major expenditure sources and reflects the commitment the Board has to serving the community. The largest expenditure category is Education followed by Public Safety, and Health and Welfare. The Fairfax County Public Schools (FCPS) School Board does not have its own taxing authority, so there is no separate school tax in Fairfax County. Most of FCPS' funding comes from the County, approximately 71%, as compared to an average school division in Virginia that receives less than half of its funding from its local government. For FCPS, the Commonwealth of Virginia contributes approximately 23%, with the remaining 6% coming from other sources of funding (Federal, Local, Private, or Other).



Expenditure categories can also be viewed by the net cost of each program for the governmental activities. The total cost less fees generated by the program, and program-specific intergovernmental aid, determines a program's net cost. The chart in the lower left corner illustrates the net cost of each of the County's six largest programs: Education; Public Safety; Health and Welfare; Community Development; Public Works; and General Government Administration. In FY 2018, Education expenses totaled more than \$2.1 billion, supporting school operations and to service debt for bond-funded projects to build new schools and renew older facilities.

Community development increased from the prior fiscal year, with a significant portion of that change attributable to transportation projects.

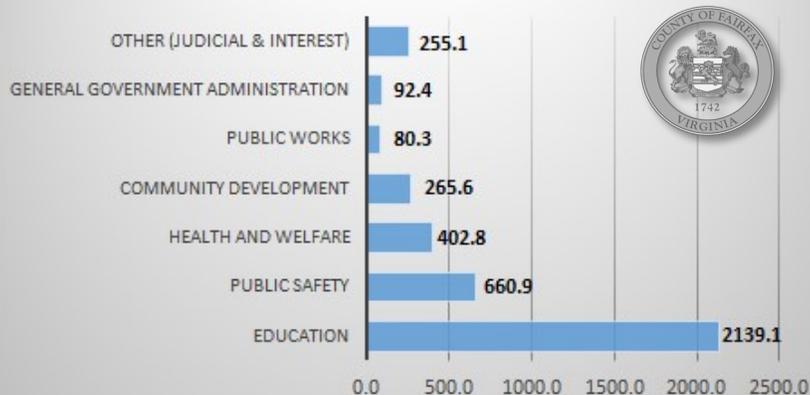


Some of the cost of governmental activities is paid by those who directly benefit from the programs, as well as by subsidies from other governments and organizations for certain programs through grants and contributions. Of the \$3.9 billion net cost of services, the amount that County taxpayers paid for these programs through County taxes was \$3.6 billion.

The General Fund FY 2019 Budget Disbursements, which include expenditures and transfers out, totaled \$4.28 billion, a 1.63 percent increase over the FY 2018 Revised Budget Plan. Total funding for FCPS is \$2.26 billion, or 52.8 percent of total County disbursements.

In closing, all financial areas reflect the County's sound financial structure, and the Board of Supervisors' commitment to its to the Ten Principles of Sound Financial Management and residents of Fairfax County.

FY 2018 Net Cost of County's Governmental Activities (\$ in Millions)



Fairfax County Government Center
12000 Government Center Parkway
Fairfax, VA 22035
www.fairfaxcounty.gov



Government Center Campus Photographs, clockwise from top: Government Center; Public Safety Headquarters; Herrity Building; Pennino Building

Fairfax County is committed to a policy of nondiscrimination in all County programs, services, and activities. Reasonable accommodations will be provided upon request.

Special accommodations/alternative information formats will be provided upon request.

Call 703-324-3120, TTY 711