



Joint Meeting of the Board of Supervisors and School Board

November 27, 2018





Joint Fiscal Forecast Format

- Continued collaborative framework
- Unified methodology
 - Format and order of presentation
 - Revenue presentation
 - Expenditure presentation
 - Calculation of gap between projected revenue and expenditures



Fairfax County's Economic Outlook

National Economy

**“Our economy is strong. Growth is running at a healthy clip.”
– Jerome Powell, Fed Chairman, Sept. 2018**

- U.S. unemployment rate at 3.7%, lowest in nearly 50 years
- The economy has now added jobs for nearly 8 consecutive years
- Consumer confidence is at its highest level in about 18 years
- U.S. economy projected to register its strongest growth rates of the decade in 2018 and 2019
- However:
 - Headwinds for the housing market, including rising mortgage rates, low inventory, high home prices and the impact of the new tax law that reduces homeownership incentives
 - Stock market volatility
 - Increase in federal deficit is a concern
 - The economic expansion is 9 years old – how long will it continue?





State and Local Revenue Picture

- State revenue in FY 2018 was over \$550 million higher than forecasted
 - Sales tax collections posted the strongest growth in the last 3 years
 - Increased reserve balances
- Improved state revenue picture for the current biennium
 - Based on positive economic conditions, the state is projecting additional available resources
 - Also, a significant windfall is anticipated as a result of the federal Tax Cuts and Jobs Act
 - The available resources from the economic forecast are projected to be sufficient to cover funding commitments/budget pressures such as Medicaid increases
- In Fairfax County, revenue growth during FY 2018 was 2.1%:
 - BPOL tax revenue experienced the strongest growth since FY 2011
 - The Fed interest rate increases have resulted in continued revenue increase from the County's investment portfolio

Local Labor Market

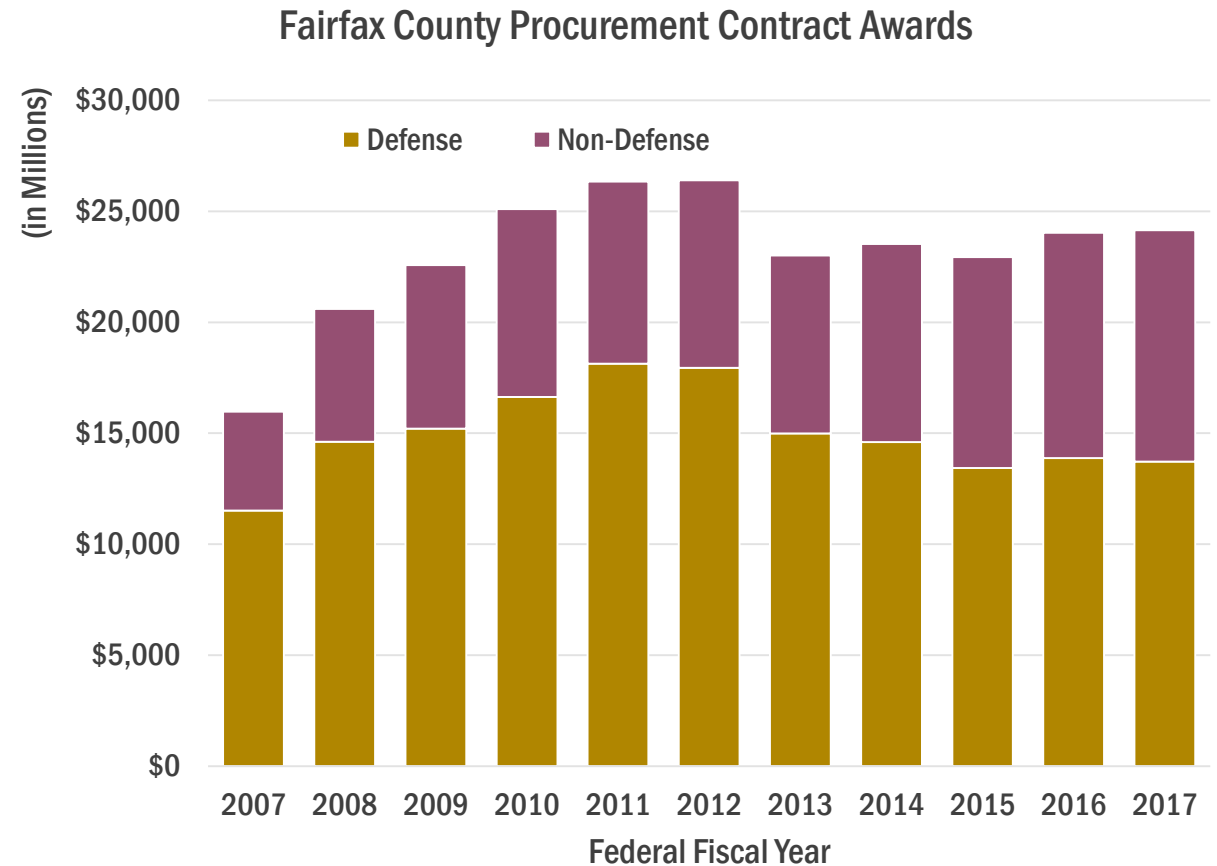
Job Growth in Fairfax County

- Employment in Professional and Business Services sector is still 3.6% 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%

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 2017 (most recent data available), increased only 0.5% after increasing a strong 4.8% in 2016; level is still 8.5% below peak FY 2012
- Defense contract awards are 24.3% below peak level in FY 2011



Source: Federal Procurement Data System

Northern Virginia Real Estate Market

- Average home sales price through October 2018 compared to the same period of 2017

Jurisdiction	Average Home Sales Price	% Change
Arlington	\$658,294	0.4%
Alexandria	\$566,033	2.5%
Fairfax County	\$576,085	2.2%
Prince William	\$375,762	4.1%
Loudoun	\$519,913	3.5%

Data Source: Metropolitan Regional Information Systems (MRIS)

County Strategic Initiatives



Initiatives Underway

- Strategic Plan
 - First meeting between consultant and senior staff occurred in early November
 - Draft updated calendar will be refined by the consultant and staff and will be discussed by the Board in Fall
 - New Strategic Planning Committee of the Board anticipated to begin to meet in the Fall
 - Fiscal flexibility for FY 2020 and beyond
- County Executive Efficiency Initiatives
 - Space review
 - Organizational reviews
 - Operational reviews
 - Community engagement
- Facility Opportunities
 - Original Mount Vernon High School
 - Joint use/co-location of services
 - Review of paydown and bonding requirements



FCPS' Educational Outlook

Strategic Plan Drives Priorities



Successes

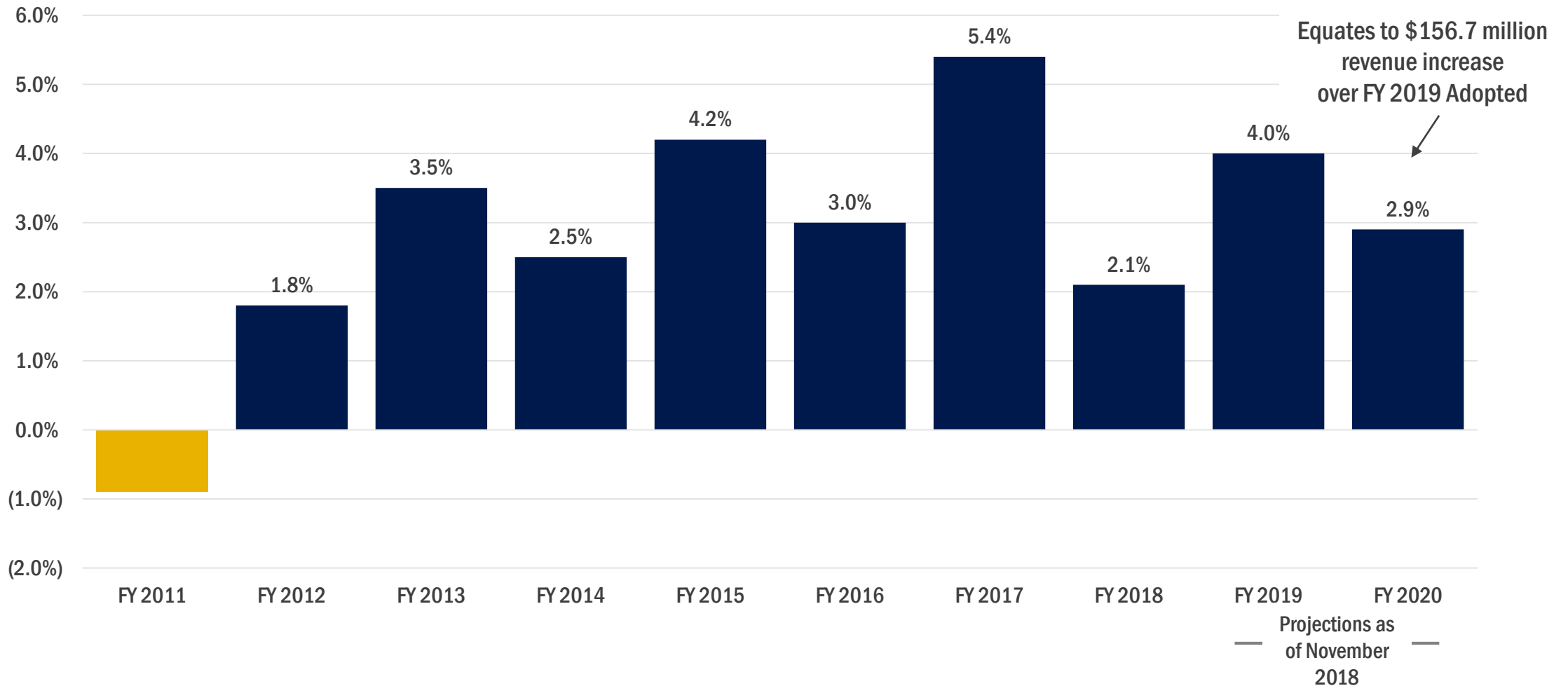
- Ninety-nine percent — 193 of 194 Fairfax County Public Schools have earned full accreditation from the Virginia Department of Education for 2018-19
- Seniors in the class of 2018 exceeded state and national averages on the SAT
 - The mean score was 28 points higher in 2018 as compared to 2017
 - The overall SAT mean score was 103 points over the Virginia average and 164 points over the US average
- Students earned more than 20,100 VDOE-approved industry certifications and licenses in 2016-2017
- The number of teacher vacancies at the beginning of the school year decreased from 170 in FY 2017, to 99 in FY 2018, to 86 in FY 2019





County General Fund Revenues

Annual Change in General Fund Revenue FY 2011 – FY 2020

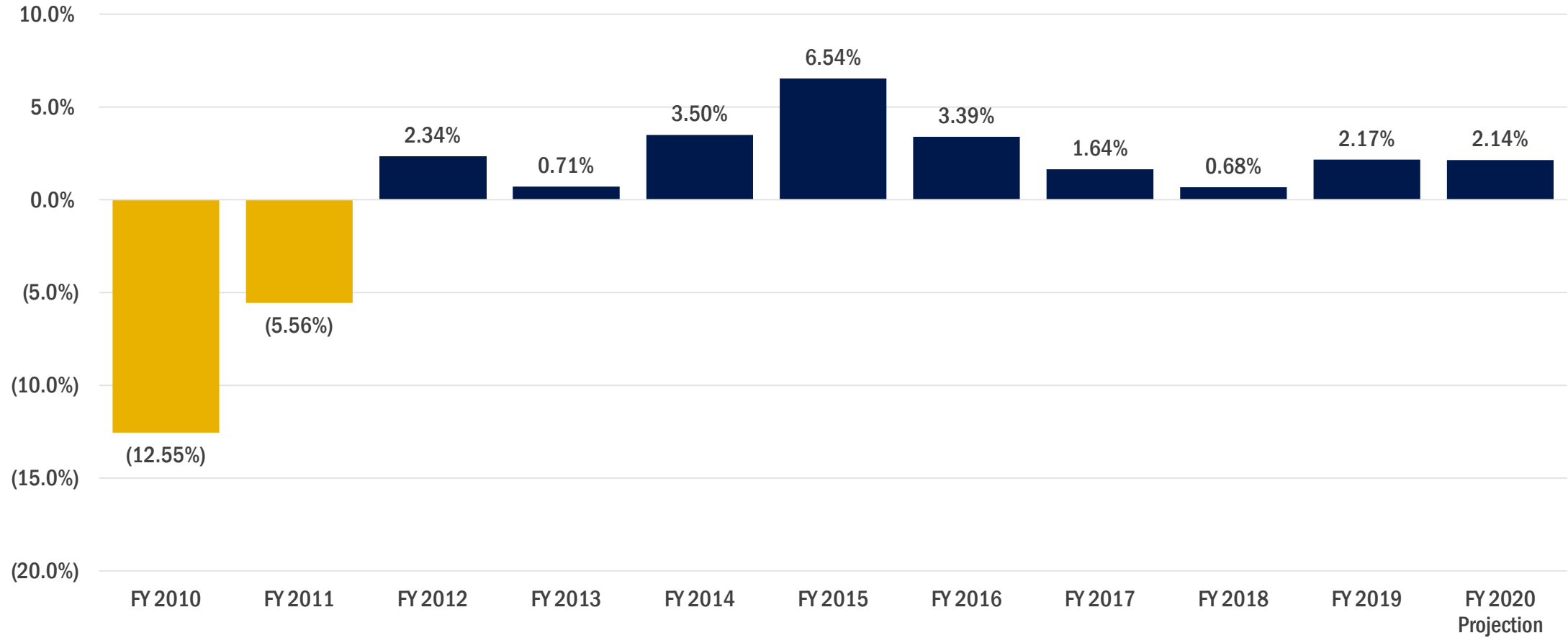


Real Estate Projections - Multi-Year Versus November Estimates

- Compared to the forecast included in the multi-year budget, the November Real Estate revenue estimate is up almost \$11 million

Changes in Assessments	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Multi-Year Estimate in FY 2019 Adopted Budget	FY 2020 Estimate as of Nov. 2018
Residential	1.64%	0.68%	2.17%	1.75%	2.14%
Nonresidential	2.87%	1.85%	3.79%	2.70%	2.41%
New Construction	1.04%	0.92%	1.01%	1.00%	1.17%
Total Real Estate base	2.98%	1.89%	3.59%	3.00%	3.38%

Annual Changes in Residential Equalization





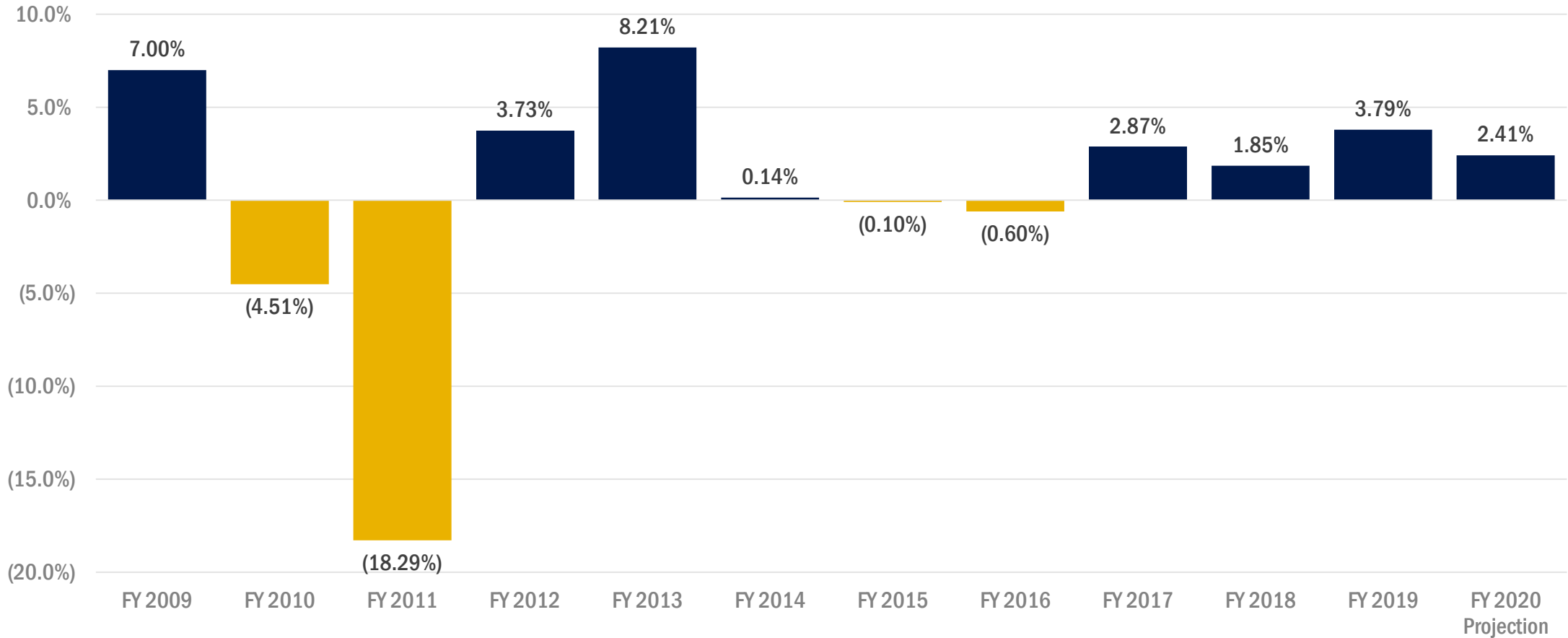
Fairfax County's Housing Market

Residential Values are projected to increase 2.14% in FY 2020

- Home prices in Fairfax County are up 2.2% through October
- Year-to-date through October, the number of home sales has decreased 2.9%
- Supply of homes for sale on the market is down 5.0% in October
- According to Freddie Mac, the average 30-year fixed mortgage interest rate in September was 4.63%, up from 3.81% a year ago
- Through the third quarter of calendar year 2018, the number of new single family permits in the County is up 4.8%

Annual Changes in Nonresidential Equalization

FY 2020 County and Schools Fiscal Forecast



Nonresidential Real Estate

Projected to increase 2.41% in FY 2020

- As of mid-year 2018, overall vacancy rate (with sublets) is 16.1% - the lowest since 2012
- Fairfax County was the 18th most active office construction market in the nation at mid-year 2018 with 7 buildings totaling 2.9 million square feet under construction
- Office leasing topped 5 million square feet, which puts Fairfax County on pace for over 10 million square feet in 2018
 - Fannie Mae's 850,000 square foot office lease is the largest in the past ten years
- Fairfax County is on pace to have over \$2 billion traded in office sales by the end of 2018, which would be the highest in the past ten years





Schools Revenue

Revenue Other Than County

Category	Change from FY 2019 Approved (millions)
Beginning Balance	\$0.4
Sales Tax	\$4.5
State Aid	\$18.1
Federal	\$1.2
City of Fairfax	\$0.9
Other Revenue	\$2.5
Textbook Revenue	(\$5.6)
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Projected Revenue	
Increase prior to County Transfer	\$22.1



FY 2020 Forecast Summary

Projected Available Resources

- County revenue growth projected at 2.9% generates \$156.67 million
 - To maintain equal growth for both the Schools and County (3.59%), the revenue is allocated as follows for disbursement requirements:
 - Schools: \$84.02 million
 - County: \$74.85 million
 - Reserves: (\$2.20) million
- In addition, Schools projects an increase in revenue of \$22.09 million
- Combined revenue growth will not cover disbursement needs for either the Schools or the County

Forecast Summary

COUNTY	Funding in \$millions	SCHOOLS
\$74.85	Available County Revenue (\$159 million after reserve savings)	\$84.02
--	Net Schools Revenue	\$22.09
\$74.85	TOTAL AVAILABLE	\$106.11
(\$59.60)	Employee Pay	(\$80.17)
(\$12.80)	Employee Benefits	(\$11.50)
\$8.97	Debt/Capital Requirements	(\$2.10)
(\$6.52)	County: Prior Commitments	--
(\$11.35)	County: Public Safety	--
(\$12.69)	County: Human Services	--
(\$0.92)	County: Cost of Operations	--
(\$30.33)	County: Community Development	--
\$1.00	County: Organizational Efficiencies	--
--	Schools: Enrollment & Other	(\$26.52)
(\$4.94)	Net Additional Reserves	(\$1.42)
(\$129.18)	NET USES	(\$121.71)
(\$54.33)	Net Balance	(\$15.60)



Detailed Disbursements

County and Schools Employee Compensation

Employee Pay

COUNTY

Forecast includes increases of \$59.60 million

<ul style="list-style-type: none"> • Market Rate Adjustment for all employees 2.51% based on formula of 40% CPI, 50% ECI, 10% Federal Wage adjustment 	\$34.00 million
<ul style="list-style-type: none"> • General County Performance/Longevities for 8,900 non-uniformed merit employees 2.00% average 	\$13.50 million
<ul style="list-style-type: none"> • Uniformed Merits/Longevities for 3,600 uniformed merit employees 2.25% average 	\$9.60 million
<ul style="list-style-type: none"> • Placeholder for Market Studies Adjustments for individual job classes determined to be outside of the market range 	\$2.50 million





Employee Benefits

COUNTY

Forecast includes increases of \$12.80 million

<ul style="list-style-type: none"> Contributions to the Retirement systems per the County's funding policy <i>FY 2020 contributions will be 100% of the Annual Required Contribution (ARC), meeting the goal set in 2015</i> 	<i>\$6.30 million</i>
<ul style="list-style-type: none"> Employer share of Health Insurance premium increases <i>Assumes 5.5% increases in health insurance premiums for January 2020</i> 	<i>\$6.00 million</i>
<ul style="list-style-type: none"> Other benefits and adjustments based on experience 	<i>\$0.50 million</i>

Employee Pay

SCHOOLS

Forecast includes increases of \$80.18 million

<ul style="list-style-type: none"> • Teacher Salary Scale Enhancement <i>Completes the implementation plan and reaches the final proposed teacher salary scale</i> 	\$53.50 million
<ul style="list-style-type: none"> • Step Increases for eligible employees <i>2.6% average increase for employees</i> 	\$46.79 million
<ul style="list-style-type: none"> • Market Scale Adjustment (MSA) for non-teacher scales <i>1.0% increase for employees</i> 	\$8.21 million
<ul style="list-style-type: none"> • BA Lanes placeholder 	\$1.02 million
<ul style="list-style-type: none"> • Other Salary Increases 	\$2.31 million
<ul style="list-style-type: none"> • Staffing Standards placeholder 	\$6.00 million
<ul style="list-style-type: none"> • Base Savings Decrease 	(\$37.65) million





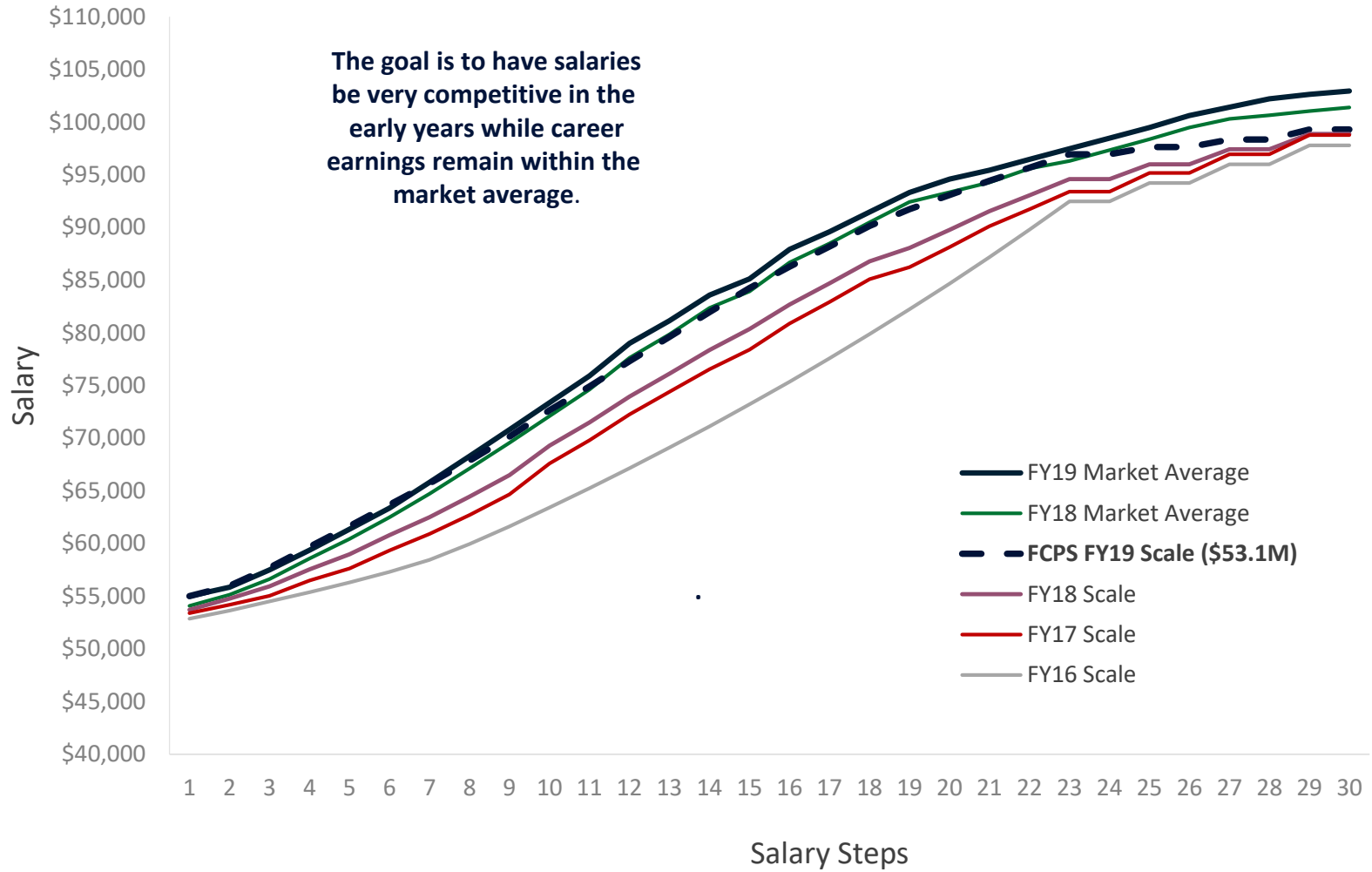
Required Expenditure Adjustments

SCHOOLS

Forecast includes increases of \$26.12 million

<ul style="list-style-type: none"> Enrollment Growth <i>Increase of 514 students, moderate increase in special education, nominal changes for students eligible for free or reduced price meals and English Learners</i> 	\$5.89 million
<ul style="list-style-type: none"> Employee Benefits & Recurring Salaries <i>Contributions to FCERS, ERFC, Health, and recurring cost of BA Lane and CIS employees</i> 	\$11.50 million
<ul style="list-style-type: none"> Contractual Increases <i>Utilities, IT, Facilities, etc.</i> 	\$8.73 million

FCPS Teacher Salary Progress (MA Lane)



Even after the FY19 investment, FCPS salaries are slightly below the FY19 market average.

FY 2020 Salary Scale Investments

- After the investments in FY 2019, FCPS teachers still remain slightly under the FY 2019 updated comparator market.
- Funding of \$53.5 million is included in the FY 2020 preliminary fiscal forecast to complete the implementation plan and reach the final proposed teacher salary scale.
- The goal remains to complete the FCPS teacher salary scale enhancement resulting in all teachers earning between 95-105% of the market average.
- Once full implementation is complete, FCPS will move to a routine step plus fixed MSA in future years.

Other Detailed Disbursements

County General Fund



Debt Service and Capital Requirements

County

- FY 2020 Forecast includes decreases of \$8.97 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 does not include any change to the County's General Fund contribution for Capital Paydown

Schools

- FY 2020 Forecast includes increases of \$4.60 million for School Debt Service requirements
 - Reflects first year of Schools GO Bond Sales at \$180 million
- Forecast includes a decrease of \$2.50 million in the General Fund transfer to School Construction
 - Reflects the planned redirection of these funds to support increased Schools bond sales



Prior Commitments

Forecast includes \$6.52 million for the recurring impact of adjustments approved as part of the *FY 2018 Carryover Review*, including adjustments such as:

- **Public Assistance** eligibility workers to address increasing caseloads including cases related to Medicaid expansion
- **Adult and Aging** positions to address increasing caseloads
- **Expanded Capacity at Artemis House** to provide 11 additional shelter units for victims of domestic and sexual violence
- **Increased Capacity of the SACC Program** to serve an additional 331 children before school and an additional 299 children after school
- Extended Hours for the **Rec-PAC Program**
- Funding to support the **Innovation Fund**, which will encourage the development of new and innovative approaches that transform nonprofit service delivery practices

These adjustments are partially offset by additional associated revenues, already included in projected revenues, for a net impact of \$1.71 million.

Public Safety

Forecast includes increases of \$11.35 million and 72 positions

• Staffing for the new South County Police Station (17 positions)	\$4.27 million
• Continued implementation of Diversion First (13 positions)	\$2.20 million
• Partial-year costs to begin staffing the new Tysons East Fire Station (25 positions)	\$1.17 million
• Increase E-911 Call Capacity (10 positions)	\$1.00 million
• Full-year impact of Police Relief Sergeants added in FY 2018	\$0.73 million
• Regional Public Safety Projects previously supported by UASI grants	\$0.73 million
• Opioid Task Force (5 positions)	\$0.70 million
• Gang Prevention	\$0.35 million





Human Services

Forecast includes increases of \$12.69 million and 29 positions

- A number of Human Services priorities are identified in the Public Safety program area, including **Diversion First** and the **Opioid Task Force**
- Beginning with the FY 2019 budget process, staff and the Human Services Council developed a FY 2019 – FY 2021 **Health and Human Services Resource Plan** as a tool for discussions in the community
- The FY 2020 – FY 2022 resource plan is in development and will inform the FY 2020 budget for programs such as **School Readiness** and the **Welcoming Inclusion Network (WIN)**

Cost of Operations

Forecast includes increases of \$0.92 million

• Cybersecurity to protect against cyber attacks and secure sensitive data	<i>\$0.42 million</i>
• Environmental Improvement projects	<i>\$0.30 million</i>
• Costs related to Leases including annual escalations	<i>\$0.20 million</i>





Community Development

Forecast includes increases of \$30.33 million and 1 position

- Operating and capital support for **Metro and Connector**
 - Capital requirements of Metro have been addressed through state funding of \$154 million
 - The preliminary estimate of County support for the WMATA operating budget meets collective bargaining requirements and reflects the impact of recurring state support in the form of gas taxes and state aid

\$30.00 million

Funding Needs Not Included

- The County's projected \$54.33 million budgetary shortfall does not include funding for other significant items, including:
 - Baseline funding increases for Capital and IT Projects
 - Full funding of the Public Safety Staffing Plan
 - Other PFM study recommendations for Police related to the Ad-Hoc Commission recommendations
 - Fire & Rescue review results
 - Not all Human Services/Safety Net needs will be able to be addressed
 - Specialized Pay Study Impacts



Other Detailed Disbursements

Schools



FCPS Other Expenditures

Forecast includes other adjustments totaling \$11.9 million

• FCPS On High Schools	\$4.30 million
• Instructional Resources	\$3.60 million
• Transfers to Other Funds and Textbook Reserve	\$4.00 million

Looking Ahead: Challenges Continue

- FCPS will continue to face challenges in future years
 - Employee compensation remains a priority
 - Maintain market competitive employee compensation
 - Strategic staffing formula review and class size
 - Student enrollment and demographic shifts
 - Strategic Plan investments to include student programming
 - Critical capital and infrastructure requirements given accelerated corporate relocations



Moving Forward Collaboratively

- New joint fiscal forecast presentation methodology
- Joint Budget Work Plan progress
 - Budget planning
 - Shared services
 - Capital Improvement Program
 - Legislative advocacy
- Continued staff collaboration
 - Early Childhood Initiatives
 - Community in Schools
- Partnership between school and county leadership
 - Open dialogue
 - Strategic planning



FY 2020 Budget Timeline

COUNTY DATES		SCHOOLS DATES
	Superintendent releases FY 2020 Proposed Budget	January 10, 2019
	School Board holds public hearings on budget	January 28-30, 2019
	School Board adopts FY 2020 Advertised Budget	February 7, 2019
February 19, 2019	County Executive presents FY 2020 Advertised Budget	
March 5, 2019	Board of Supervisors advertises FY 2020 tax rates	
April 9-11, 2019	Board of Supervisors holds public hearings on FY 2020 Budget	
April 30, 2019	Board of Supervisors marks up FY 2020 Budget	
May 7, 2019	Board of Supervisors adopts FY 2020 Adopted Budget	
	School Board holds public hearings on budget	May 14-15, 2019
	School Board adopts FY 2020 Approved Budget	May 23, 2019
July 1, 2019	FY 2020 Budget Year begins	July 1, 2019