FY 2026 Mid Year Update and Economic Outlook

Town Council Work Session

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TOWN OF Herndon

LIVE DIFFERENTLY.

Agenda

- Financials FY 2026 – status of Revenues and Expenditures
- Economic outlook
- Key Budget Process dates

Finance Summary FY 2026 – General Fund Revenues

($ thousands)	FY 2026		
Revenue Description	**Amended Budget**	**Act thru 12/31/25**	**Achieved (%)**
General Property Taxes	15,294	15,336	100.3%
Other Local Taxes	19,867	6,349	32.0%
Permits & Fees	759	782	103.0%
Fines & Forfeitures	406	207	51.0%
Use of Money & Property	2,048	957	46.8%
Charges for Services	2,691	1,518	56.4%
Misc. Revenue	108	48	44.0%
Intergovernmental Revenue	5,510	2,863	52.0%
Total	**46,683**	**28,059**	**60.1%**
Other Financing Sources			
Use of Fund Balance	10,018	-	n/a
Other	225	183	n/a
Total with Use of Fund Balance	56,926	28,241	n/a

Other Local Taxes excl BPOL and Bank Stock	*50.8%*

Finance Summary FY 2026 – General Fund Expenditures

($ thousands)	FY 2025				
Revenue Description	**Adopted Budget**	**Revised Budget**	**Act thru 12/31/24**	**Encumbered**	**Availabble**
Personnel Services	33,285	33,285	14,749	-	18,536
Operations and Maintenance	11,616	14,230	5,294	3,081	5,855
Capital Outlay	2,899	6,773	923	1,285	4,565
Non-Departmental & Transfers	1,324	1,324	-	-	1,324
Debt Service	1,315	1,315	233	-	1,082
Total	**50,438**	**56,926**	**21,198**	**4,366**	**31,361**
% of revised Budget			37.2%	7.7%	55.1%

FY 2026 – Mid year notes Governmental Funds

- **Capital Projects Fund**
  - YTD spending + encumbrances of $1.3M on a budget of $8.7M.
  - The largest project budgeted is the recently approved Energy Project for $3.0M which kicks off this quarter, with Phase 1 continuing into FY 2027 (total Phase 1 >$7M).

- **Stormwater Management Fund**
  - Work continues on the Sugarland North Stream Restoration Project. This project is funded by a stormwater fee revenue "grant" from Fairfax County combined with a SLAF grant.
  - Additional CFPF (Flood Preparedness) grants have been identified which will provide additional spending capacity into this fund for assessments and studies.
  - Capital projects also include pipe relining projects that extend the life of existing pipes.

FY 2026 – Mid year notes Enterprise Funds

- **Chestnut Grove Cemetery Fund**
  - Environmental and archeological requirements continue to push completion of development project.
  - Cemetery management historical reconciliation provides additional site availability.

- **Herndon Centennial Golf Fund**
  - Budgeted capital spending for FY 2026 will likely push to FY 2027 awaiting completion of an overall golf facility master plan.
  - YTD Revenues of $1.7M on pace with the FY 2026 budget.

- **Water and Sewer Fund**
  - Operating Revenues YTD are 49.4% of FY 2026 Budget.
  - Certain FY 2026 budgeted capital spending pushing to FY 2027 and beyond; current forecast at $8.7M.

Economic Outlook – composite messaging

- **US economic growth** expected to be 2.0-2.6% in 2026.
  - High-income households will continue to drive consumer spending.
  - Lower-income families will remain under the pressure of high prices, slow wage and job growth and relatively higher interest rates.
  - Capital spending centers around AI investment; private and residential investment continues to contract each quarter.
  - Tax cuts may provide some boost to growth; Federal Policies may continue to create uncertainty.

- **Inflation** “moderating but persistent”.
  - Reflects the gradual pass-through of higher tariffs to consumer prices.
  - Inflation rates for 2026 predicted at 2.5% - 2.9% (Federal Reserve target remains 2%).

Sources: EY Parthenon, Goldman Sachs, Investopedia, FCPS FY27

Economic Outlook – composite messaging

- **Interest Rates**
  - Rate cuts by the Federal Reserve likely in the second half of 2026.
  - Bond rates not directly tied to the Federal Rates; linked more to long-term treasuries.
  - Expect declining interest income as we move forward.
- **Job market**
  - Described as “sluggish” and “potentially fragile”; some sources predict a bounce-back.
  - Will potential shifts in job creation due to AI-driven productivity occur in 2026?
  - Fairfax County unemployment rate: 3.3% (as of September).
- **Fairfax County**
  - Lower growth in real estate tax base is projected for FY 2027.
  - Average sales price of all homes is up 2.9% through October 2025.
  - County predicts sales tax and BPOL increases of 1.5% for FY 2027.

Sources: EY Parthenon, Goldman Sachs, Investopedia, FCPS FY27

FY 2027 Budget Process – Upcoming Key Dates

Activity	Date
Draft Operating Budgets completed by Departments	complete
Preliminary Real Estate Assessment from the County	Jan 23
TC Work Session – Davenport presentation on Water-Sewer	Feb 10
Proposed FY27 Budget delivered to Council and available to residents	Mar 2
TC Work Sessions: Fund Presentations and discussions	March
Full Proposed Budget Book – review for adoption	Apr 1
Begin Public Hearings	Apr 14
Budget Adoption	Apr 28