



County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County

Honorable Board of Supervisors
County of Fairfax
Fairfax, Virginia 22035

February 26, 2007

Chairman and Board Members:

I am pleased to forward for your review and consideration the Fairfax County *Advertised Capital Improvement Program (CIP) for Fiscal Years 2008 – 2012, with Future Fiscal Years to 2017*. The CIP is an important document which is linked strategically to the Comprehensive Plan and the County's Budget. I believe that this proposed program provides a framework for scheduling new facilities and renewal projects in a systemic and cost-effective manner which addresses the County's existing and future facility needs. The CIP will be released concurrently with the FY 2008 Advertised Budget Plan and will be available on compact disc (CD).

During the development of this year's CIP, the following primary objectives were accomplished:

- Reviewed the County's current debt and bond referendum capacities to determine the resources available to support identified CIP projects;
- Developed new Public-Private Educational Facilities and Infrastructure Act (PPEA) proposal criteria to provide important guidance in determining the best projects to be considered for implementation;
- Revised the *Ten Principles of Sound Financial Management* to include the use of variable rate debt;
- Provided flexibility for the Board of Supervisors to respond to changing requirements;
- Identified a portion of the funding required to address capital renewal needs at County facilities;
- Revised the current design review policy to include the application of Crime Prevention through Environmental Design procedures to the design phase of future County facilities;
- Revised the application of the criteria for recommending, prioritizing and ranking CIP projects to apply this ranking to future CIP projects only and not to projects that are currently approved and included within the CIP 5-year timeframe; and
- Continued to enhance the CIP document by including CIP maps linked to the County's Geographic Information System (GIS) and adding additional illustrations of current and proposed capital projects.

Office of the County Executive

12000 Government Center Parkway, Suite 552

Fairfax, VA 22035-0066

703-324-2531, TTY 703-222-5494, Fax 703-324-3956

www.fairfaxcounty.gov

1. Reviewed the County's Debt and Bond Referendum Capacities

A review of the County's debt and bond referendum capacities is conducted annually. The FY 2008 – FY 2012 CIP includes a target on annual sales of \$275 million per year. The ratio of debt to taxable property value is projected to remain less than 3.0 percent and the ratio of debt service to General Fund disbursements is projected to remain less than 10.0 percent. Continuing discussions with bond rating agencies have reaffirmed the importance of maintaining strict adherence to these principles. As of June 30, 2006, the ratio of debt to taxable property value was 1.02 percent and debt service to General Fund disbursements was 7.5 percent.

Proposed Bond Referenda

In order to better plan for the future, I have continued to identify County bond referenda every other year. During the 5 -year CIP period, referendum are proposed for County projects in fall 2008 and fall 2010. In addition, the proposed bond schedule also includes a fall 2007 Transportation Bond Referendum totaling \$110 million, as directed by the Board of Supervisors during the adoption of the FY 2007 CIP. The fall 2008 referendum is proposed to total \$100 million and support the County Park Authority capital program, the County's annual contribution to the Northern Virginia Regional Park Authority, and other public facilities to be determined; and the fall 2010 referendum is proposed to total \$120 million and support Transportation and other public facilities to be determined.

Fairfax County Public Schools have also planned a referendum every other year in keeping with a robust program for school improvements. A School Bond referendum is planned for fall 2007, fall 2009, and fall 2011. The exact amounts have not yet been determined, but have been shown at \$280 million each for planning purposes. The School Board is expected to make a recommendation on the upcoming 2007 referendum prior to Board action on the CIP.

2. Developed new Public-Private Educational Facilities and Infrastructure Act (PPEA) Policies

As part of this year's review, staff has examined the long term impact of proposals utilizing the Commonwealth's PPEA and the use of the various types of authorities and fee structures that have been proposed in the context of supporting these programs. Use of these tools can be advantageous in the context of the debt limits established by the *Ten Principles of Sound Financial Management*.

In October 2005, Fairfax County adopted guidelines for review of unsolicited PPEA proposals. Since that time, County staff has gained experience with the procedures and is now recommending that further guidance be given to the Core Team involved in the initial review, which includes members of the Department of Public Works and Environmental Services, Department of Purchasing and Supply Management, the Office of the County Attorney, the Department of Management and Budget and the agencies in charge of the affected programs. This guidance provides additional project screening criteria and is primarily aimed at assisting the County in determining the desirability of the PPEA project in light of the County's current CIP, the affordability of the project within debt guidelines, and the unique benefits of the project's financial proposal being provided to the County. For FY 2008, staff recommends adoption of these criteria, presented in the *Fiscal Policies and Summary Charts* section of the CIP, as a management initiative guideline for determining when a PPEA project should be pursued or rejected. It is anticipated that other refinements, including any required legislative updates to the PPEA evaluation and review process will be developed and presented to the Board of Supervisors as needed.

3. Revised the *Ten Principles of Sound Financial Management*

I am also recommending a revision to the *Ten Principles for Sound Financial Management* in order to include authorization for the use of variable rate debt. Variable rate obligations are debt obligations that are quite frequently used for short term or interim debt financing and have an interest rate that is reset periodically, usually for periods of less than one year. Variable rate debt is typically used to take advantage of low short-term rates in anticipation of converting to longer-term fixed rate financing for complex projects or to mitigate the impact of volatile markets. The *Ten Principles of Sound Financial Management* were last revised by the Board of Supervisors on May 1, 2006 and endorse a set of policies designed to contribute to the County's fiscal management and maintain the County's "triple A" bond rating. Fairfax County has maintained its superior rating in large part due to its firm adherence to these policies. 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 the residents of Fairfax County. It is anticipated that the use of variable rate debt will provide opportunities for interest rate savings, reduce arbitrage payments and promote more accurate sizing for long-term bond issues. Use of variable rate debt is anticipated for Sewer projects initially in order to allow capital projects to be constructed using lower-rate interim financing. Debt policies shall stipulate that variable rate debt is appropriate to use when it achieves a specific objective consistent with the County's overall financial strategies. Therefore in FY 2008, it is recommended that the *Ten Principles of Sound Financial Management* be updated to include authorization for the use of variable rate debt.

4. Provided Flexibility

Although the CIP is a strong planning tool, it also must provide the Board of Supervisors flexibility to respond to emerging needs and issues. It is recognized that as new capital needs arise, the County must be in the position to appropriately respond. Transportation requirements and pedestrian initiatives, public safety, stormwater management issues, and opportunities for the additional acquisition of open space are among the needs that may require additional attention. The FY 2008 – FY 2012 CIP provides limited flexibility to address some of these issues in future years.

I continue to be cognizant of the impact of a significant level of construction cost escalation that has taken place in the Northern Virginia regional area in recent years. From early 2004 to late 2005 construction costs in the region escalated at a rate of more than 15 percent per year due to high demand and short supply of numerous commodities, and due to the regional shortage of labor and skilled tradesmen. While the rate of construction cost escalation returned to more historically normal levels of approximately 5 percent per year in 2006, the budgets for projects that were approved in the 2004-2005 timeframe remain under significant fiscal pressure. As part of the FY 2007 Adopted Budget Plan, I established a Construction Inflation Reserve to help offset some of the projected increases.

Overall, approximately 144 capital projects (i.e., fire stations, libraries, human service facilities) and capital programs (i.e., watershed planning, athletic field maintenance, dam safety programs) have been identified for future requirements beyond the CIP period. Of this amount, preliminary cost estimates have been developed for approximately 71 percent or 102 projects and programs. For planning purposes, these preliminary estimates indicate a projected requirement of over \$1.304 billion. Concept design for the remaining 29 percent of the projects and programs is required and cost estimates are

being developed. Cost estimates for long term CIP projects are based on preliminary project descriptions provided by the requesting agency, and include all estimated costs for land acquisition, permits and inspections, project management and project engineering, consultant design, construction, utilities, fixed equipment, and information technology infrastructure. Preliminary scoping and concept work have not been completed for these projects and estimates are in today's dollars. Therefore, each estimate is considered an Estimate - No Scope, No Inflation (ENSNI). It is expected that total funding requirements will grow as these cost estimates are refined.

5. Identified a Portion of the Funding Required to Address Capital Renewal

As you know, the County infrastructure is aging and the renewal of the County's building subsystems such as roof replacement, electrical systems, plumbing and HVAC systems require increasing attention. Excluding schools, parks, revenue facilities, leased space, housing and human services residential facilities, Fairfax County owns and manages 170 buildings with approximately 8.0 million square feet of space. With such a large inventory, and the possible construction and acquisition of additional space, it is important that a program of facility repair and renewal be adequately supported.

To begin addressing this issue, the fall 2004 bond referendum for libraries and human service/juvenile facilities included \$5.0 million in general obligation bonds for capital renewal efforts. The fall 2006, public safety bond referendum included an additional \$14.0 million to address capital renewal for major system upgrades at older public safety buildings. As the County's facilities continue to age, additional funding must be identified to avoid system failures that disrupt County services. The County remains committed to addressing capital renewal requirements for aging facilities by including funding for prioritized renewal in the annual Paydown program, including renewal funding in planned bond referendum, and appropriating one-time General Fund dollars, as available.

6. Revised Design Procedures to Include Facility Security Review

In order to place heightened awareness on security considerations at County facilities, I convened a Security Task Force to strategically plan for security improvements at County facilities. The task force's initial focus was to evaluate and improve security at public safety and criminal justice facilities and develop a more strategic approach to addressing security considerations at all County facilities. A specialized crime prevention consultant was retained to conduct a security assessment at public safety and criminal justice facilities, and implementation of the recommendations from that assessment is underway. In response to some of the recommendations, an inter-departmental team has been identified to provide guidance on security issues at proposed new County facilities. As such, the principles of Crime Prevention through Environmental Design will now be applied in the design phase of all future County facilities.

In addition, as part of the *FY 2006 Third Quarter Review*, the Board of Supervisors approved an amount of \$600,000 to support a Public Safety Master Plan feasibility study and needs assessment to identify and prioritize the County's long-term needs for all public safety agencies. The study is intended to focus on, but is not limited to, identifying the size, location and cost of a new public safety headquarters building to replace the Massey Building facility. An additional \$300,000 was approved for a Pine Ridge Feasibility Study which will examine the future needs of the existing facility after it is partially vacated due to operations moving to the Public Safety and Transportation Operations Center (PSTOC). A multi-agency team has begun the process of evaluating public safety facilities in terms of operational requirements, facility assessments of building subsystems, and security considerations.

7. Revised Application of Criteria to Rank CIP Projects

The CIP Criteria for ranking capital projects were first adopted by the Board of Supervisors in FY 2003 and have been used to develop the priority ranking of all existing and future CIP projects shown in the "Project Lists" section of the CIP. However, since projects within the 5-year CIP timeframe are approved or underway, these criteria are now applied to future CIP projects only. Application of these criteria to future proposed projects ensures that each recommended project supports the policy objectives of both the Board of Supervisors and the Comprehensive Plan. Criteria include: 1: Immediate, May be moved to the 5-Year Plan within a year; 2: Near Term, May be moved to the 5-Year plan in 2-3 years; 3: Long Term, May be moved to the 5-Year plan in 4-5 years and 4: Future, Anticipated, but not yet scheduled. These criteria are used to rank the priority of future projects in order to indicate the relative time period in which a project may be included in the 5-year CIP, initiated, and allocated available resources.

8. Enhanced the CIP Document

The FY 2008 – FY 2012 CIP includes additional illustrations of some current and proposed capital projects as well as enhanced maps which are now linked to the County's Geographic Information System (GIS).

Conclusion

I believe the County's proposed FY 2008 – FY 2012 CIP, will continue to provide substantial benefits to the County's financial and comprehensive planning efforts and provide a course for continuing to address the County's capital requirements, managing existing capital facilities, and completing important new capital projects. Your action on this five year program will provide the guidance necessary for the efficient and timely provision of services to the citizens of Fairfax County. I look forward to working with the Board of Supervisors, boards and commissions, the County staff, and the community to complete this important work.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "A. Griffin". The signature is stylized and cursive.

Anthony H. Griffin
County Executive



1742