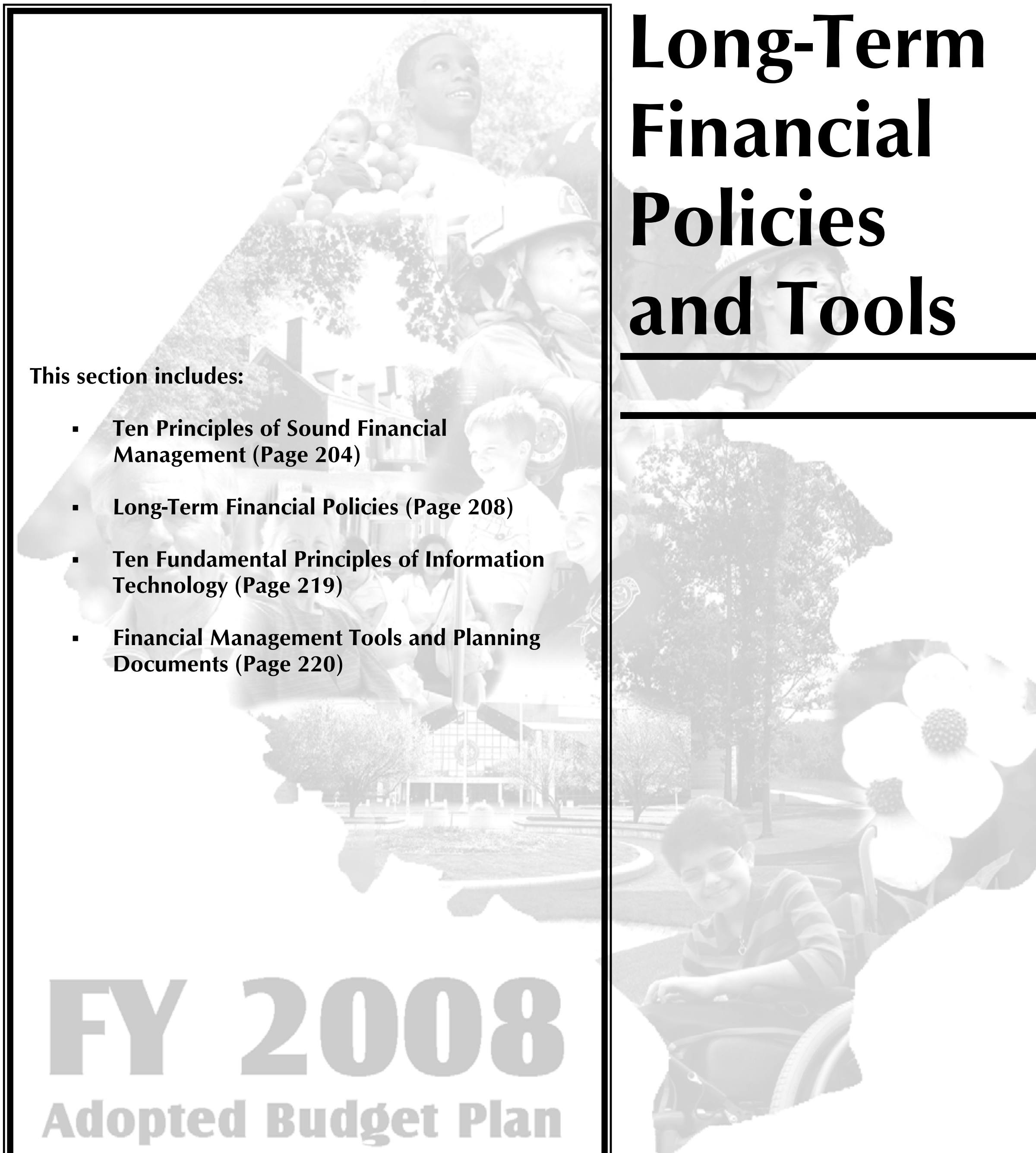
County of Fairfax, Virginia

Long-Term Financial Policies and Tools



This section includes:

FY 2008

Adopted Budget Plan

This section identifies some of the major policies, long-term financial management tools and planning documents which serve as guidelines for decisions, support the strategic direction of the County and contribute directly to the outstanding fiscal reputation of the County. Adherence to these policies historically has enabled the County to borrow funds at the lowest possible interest rates available in the municipal debt market.

Fairfax County is proud to have been named "one of the best-managed jurisdictions in America" by *Governing* magazine and the Government Performance Project (GPP) during their last evaluation of counties in 2001. The GPP conducted a comprehensive study evaluating the management practices of 40 counties across the country and Fairfax County received an overall grade of "A-," one of only two jurisdictions to receive this highest grade. Also, for the significant effort on performance measurement, the County was recognized by the Performance Institute with its Performance Management Award, the International City/County Management Association's (ICMA) Certificate of Distinction, and Special Recognition for Performance Measures as part of the Government Finance Officer's Association's (GFOA) Distinguished Budget Presentation Award in 2004 and 2005.

The keystone to the County's ability to maintain its fiscal integrity is the continuing commitment of the County's Board of Supervisors. This commitment is evidenced by the Board of Supervisors' adoption in 1975 of *Ten Principles of Sound Financial Management*, which remain the policy context in 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.

In addition to the *Ten Principles of Sound Financial Management*, this section includes an overview of the County's long-term financial policies with a brief description of policies relating to the budget guidelines, reserves, internal financial controls, debt management, risk management, information technology, and investments. Long-term financial management tools and planning documents used by the County are also briefly described.

Ten Principles of Sound Financial Management

The *Ten Principles of Sound Financial Management* adopted by the Board of Supervisors on October 22, 1975, endorsed a set of policies designed to contribute to the County's fiscal management and maintain the County's "triple A" bond rating. The 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.

From time to time the Board of Supervisors has amended the *Ten Principles of Sound Financial Management* in order to address changing economic conditions and management practices. For FY 2008, a review of the County's financial management policies was completed in accordance with the Board's yearly direction to review the *Ten Principles of Sound Financial Management*. Based on this review, it was recommended by staff and approved by the Board of Supervisors that the *Ten Principles for Sound Financial Management* be updated 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. Also, variable rate debt reduces interest costs and typically provides the ability to redeem bonds without a prepayment penalty. 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.

Previously the most recent amendment to the *Ten Principles* was in May 2006 reflecting changes in the economy and the market place. Annual bond sale limits were increased from $200 million to $275 million per year. Prior to that update the last amendments occurred in 2002.

In addition to the more traditional methods of long-term financing through General Obligation Bonds, the County has been able to accomplish major capital improvements through the use of alternative financing while maintaining the County's fiscal integrity as required by the *Ten Principles*. Accomplishments such as Metro station parking garages, construction of Route 28, the opening of a commuter rail and construction of government facilities have all been attained in addition to a robust bond construction program. In 2003 the County was able to accelerate the construction of a new high school by three years through the creative use of revenue bonds in connection with the joint development of a senior care facility and a golf course in conjunction with the high school. From 1995 through 2007, the County has approved $2.40 billion of new debt at referendum, with $1.65 billion for Schools.

Since 1975, the savings associated with the County having a "triple-A" bond rating is estimated at $245.8 million. Including savings from the various refunding sales, the total benefit to the County exceeds $346.3 million. Also, implementation of a Master Lease program and judicious use of short-term lease purchases for computer equipment, copier equipment, school buses and energy efficient equipment have permitted the County and the Schools to maximize available technology while maintaining budgetary efficiency.

The *Ten Principles* were updated by the Board of Supervisors concerning variable rate debt. Section 4e was added as part of the Board's deliberations on the FY 2008 – FY 2012 Advertised Capital Improvement Program (With Future Years to 2017) and the FY 2008 Advertised Budget Plan. Keeping the *Ten Principles* current allows the County to continue to maintain its superior position and fiscal integrity. This change permits the use of variable rate debt in order to provide opportunities for interest rate savings, reduce arbitrage payments and promote more accurate sizing for long-term bond issues. In addition, one minor change was made to section 2b concerning the Revenue Stabilization Fund (RSF). In light of the full funding of the RSF, section 2b provisions for funding the RSF were no longer required and this was deleted. The *Ten Principles* full text is as follows:

Ten Principles of Sound Financial Management
April 30, 2007

1. **Planning Policy**. The planning system in the County will continue as a dynamic process, which is synchronized with the capital improvement program, capital budget and operating budget. The County's land use plans shall not be allowed to become static. There will continue to be periodic reviews of the plans at least every five years. Small area plans shall not be modified without consideration of contiguous plans. The Capital Improvement Program will be structured to implement plans for new and expanded capital facilities as contained in the County's Comprehensive Plan and other facility plans. The Capital Improvement Program will also include support for periodic reinvestment in aging capital and technology infrastructure sufficient to ensure no loss of service and continued safety of operation.

Ten Principles of Sound Financial Management
April 30, 2007

2. **Annual Budget Plans**. Annual budgets shall continue to show fiscal restraint. Annual budgets will be balanced between projected total funds available and total disbursements including established reserves.

   a. A managed reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than two percent of total Combined General Fund disbursements in any given fiscal year.

   b. A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. The ultimate target level for the RSF will be three percent of total General Fund Disbursements in any given fiscal year. After an initial deposit, this level may be achieved by incremental additions over many years. Use of the RSF should only occur in times of severe economic stress. Accordingly, a withdrawal from the RSF will not be made unless the projected revenues reflect a decrease of more than 1.5 percent from the current year estimate and any such withdrawal may not exceed one half of the RSF fund balance in that year.

   c. Budgetary adjustments which propose to use available general funds identified at quarterly reviews should be minimized to address only critical issues. The use of non-recurring funds should only be directed to capital expenditures to the extent possible.

   d. The budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property in order to minimize disruption of budgetary planning from irregularly scheduled monetary demands.

3. **Cash Balances**. It is imperative that positive cash balances exist in the General Fund at the end of each fiscal year. If an operating deficit appears to be forthcoming in the current fiscal year wherein total disbursements will exceed the total funds available, the Board will take appropriate action to balance revenues and expenditures as necessary so as to end each fiscal year with a positive cash balance.

4. **Debt Ratios**. The County's debt ratios shall be maintained at the following levels:

   a. Net debt as a percentage of estimated market value shall be less than 3 percent.

   b. Debt service expenditures as a percentage of General Fund disbursements shall not exceed 10 percent. The County will continue to emphasize pay-as-you-go capital financing. Financing capital projects from current revenues is indicative of the County's intent to use purposeful restraint in incurring long-term debt.

   c. For planning purposes annual bond sales shall be structured such that the County's debt burden shall not exceed the 3 and 10 percent limits. To that end sales of General Obligation Bonds and general obligation supported debt will be managed so as not to exceed a target of $275 million per year, or $1.375 billion over five years, with a technical limit of $300 million in any given year. Excluded from this cap are refunding bonds, revenue bonds or other non-General Fund supported debt.

   d. For purposes of this principle, debt of the General Fund incurred subject to annual appropriation shall be treated on a par with general obligation debt and included in the calculation of debt ratio limits. Excluded from the cap are leases secured by equipment, operating leases, and capital leases with no net impact to the General Fund.

Ten Principles of Sound Financial Management
April 30, 2007

e. Use of variable rate debt is authorized in order to increase the County's financial flexibility, provide opportunities for interest rate savings, and help the County manage its balance sheet through better matching of assets and liabilities. 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; however, the County must determine if the use of any such debt is appropriate and warranted given the potential benefit, risks, and objectives of the County. The County will not use variable rate debt solely for the purpose of earning arbitrage pending the disbursement of bond proceeds.

f. For purposes of this principle, payments for equipment or other business property, except real estate, purchased through long-term lease-purchase payment plans secured by the equipment will be considered to be operating expenses of the County. Annual General Fund payments for such leases shall not exceed 3 percent of the annual General Fund disbursements, net of the School transfer. Annual equipment lease-purchase payments by the Schools and other governmental entities of the County should not exceed 3 percent of their respective disbursements.

5. **Cash Management**. The County's cash management policies shall reflect a primary focus of ensuring the safety of public assets while maintaining needed liquidity and achieving a favorable return on investment. These policies have been certified by external professional review as fully conforming to the recognized best practices in the industry. As an essential element of a sound and professional financial management process, the policies and practices of this system shall receive the continued support of all County agencies and component units.

6. **Internal Controls**. A comprehensive system of financial internal controls shall be maintained in order to protect the County's assets and sustain the integrity of the County's financial systems. Managers at all levels shall be responsible for implementing sound controls and for regularly monitoring and measuring their effectiveness.

7. **Performance Measurement**. To ensure Fairfax County remains a high performing organization all efforts shall be made to improve the productivity of the County's programs and its employees through performance measurement. The County is committed to continuous improvement of productivity and service through analysis and measurement of actual performance objectives and customer feedback.

8. **Reducing Duplication**. A continuing effort shall be made to reduce duplicative functions within the County government and its autonomous and semi-autonomous agencies, particularly those that receive appropriations from the General Fund. To that end, business process redesign and reorganization will be encouraged whenever increased efficiency or effectiveness can be demonstrated.

9. **Underlying Debt and Moral Obligations**. The proliferation of debt related to but not directly supported by the County's General Fund shall be closely monitored and controlled to the extent possible, including revenue bonds of agencies supported by the General Fund, the use of the County's moral obligation and underlying debt.

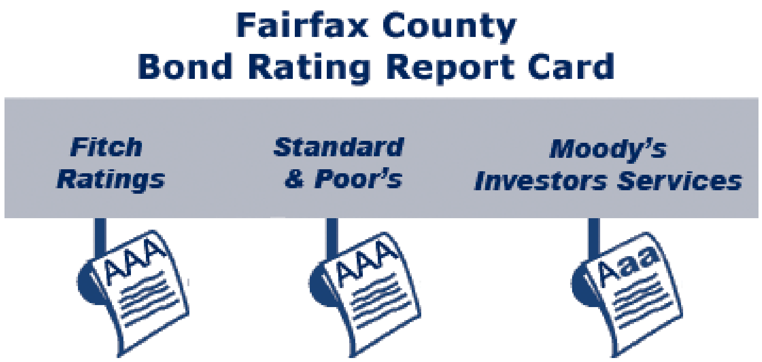
   a. A moral obligation exists when the Board of Supervisors has made a commitment to support the debt of another jurisdiction to prevent a potential default, and the County is not otherwise responsible or obligated to pay the annual debt service. The County's moral obligation will be authorized only under the most controlled circumstances and secured by extremely tight covenants to protect the credit of the County. The County's moral obligation shall only be used to enhance the credit worthiness of an agency of the County or regional partnership for an essential project, and only after the most stringent safeguards have been employed to reduce the risk and protect the financial integrity of the County.

   b. Underlying debt includes tax supported debt issued by towns or districts in the County, which debt is not an obligation of the County, but nevertheless adds to the debt burden of the taxpayers within those jurisdictions in the County. The issuance of underlying debt, insofar as it is under the control of the Board of Supervisors, will be carefully analyzed for fiscal soundness, the additional burden placed on taxpayers and the potential risk to the General Fund for any explicit or implicit moral obligation.

10. **Diversified Economy**. Fairfax County must continue to diversify its economic base by encouraging commercial and, in particular, industrial employment and associated revenues. Such business and industry must be in accord with the plans and ordinances of the County.

Long-Term Financial Policies and Tools

Through the application of the *Ten Principles*, careful fiscal planning and sound financial management, Fairfax County has achieved a "triple A" bond rating from the three leading rating agencies. The County has held a Aaa rating from Moody's Investors Service since 1975, a AAA rating from Standard and Poor's Corporation since 1978, and a AAA rating from Fitch Investors Services since 1997. As of April 2007, Fairfax County is one of only 22 counties in the country with "triple A" bond ratings from all three rating agencies.



As of April 2007, only a handful of jurisdictions, including Fairfax County, have received a "triple A" bond rating from Moody's Investors Service, Standard and Poor's Corporation, and Fitch Investors Services:

- only 22 of the nation's 3,107 counties
- only 7 of the nation's 50 states
- only 23 of the nation's 22,529 cities

Long-Term Financial Policies

The following is a description of the primary financial policies that are used to manage the County's resources and contribute to its outstanding fiscal condition. Each year during budget adoption, the Board of Supervisors reaffirms and approves budget guidelines for the next budget year. These guidelines then serve as a future budget development tool.

BUDGET GUIDELINES FOR FISCAL YEAR 2009 AND BUDGET GUIDANCE FOR FISCAL YEAR 2008 AND FISCAL YEAR 2007 CARRYOVER REVIEW – April 30, 2007

The Board of Supervisors provided preliminary Budget Guidelines for FY 2008 on Monday, April 30, 2007. Those guidelines are as follows:

1. The County will prepare a financial forecast including information on the FY 2009 revenue and economic outlook which will provide the framework for the continued County-School discussion on the budget and will help identify for the Board the projected state of the housing market and the associated impact on revenue projections. Based on current market trends, it appears that residential real estate assessments will continue to be negative and that overall County revenue growth will be even less than that projected for FY 2008. As a result, increases in County and School spending will be further limited in FY 2009, and possibly for several years beyond. The Board directs the County Executive to develop a budget for Fiscal Year 2009 that limits increases to what is needed to accommodate growth and cost factors, and clearly identifies funding requirements driven by state and/or federal mandates and major County initiatives. The Board recognizes that given the limitations for FY 2009 and beyond, the FY 2009 budget may require actual reductions in or eliminations of service and directs that the County Executive begin to review and evaluate where the County should focus such adjustments consistent with the Board's priorities and the County's strategic direction. This approach is consistent with the restraint exercised by the County in recent years and recognizes the need to carefully and thoughtfully balance the needs of County residents with the fiscal reality. In addition, the Board directs that increases in the transfer to the School Operating Fund also be contained within the same parameters as the General County Budget. Funding requirements beyond this increase will be identified and discussed in terms of initiatives to be undertaken if funding is available. <u>Specific direction on targeted budget growth rates should be provided to County staff and the School Board by the August 6, 2007 Board of Supervisors meeting</u>, which is the last meeting prior to the Board's August break.

2. The Board of Supervisors anticipates that a Board retreat will be helpful to the new Board to be elected in November to quickly come to terms with the bleak fiscal forecast for the next several years. Therefore County staff is directed to begin planning for a retreat to occur once the new Board is in place.

3. The Board directs that the County Budget presentation continue to focus on Board priorities and County vision elements. The County Executive and County staff will also provide contextual information regarding the growth in the budget, including but not limited to population growth, market forces impacting the budget, demographic changes, mandates and other primary drivers for growth. In addition, the presentation of the budget should continue to include a clear identification of the resources and new initiatives targeted for seniors, a rapidly growing group in our population.

4. In order to avoid structural imbalances between County resources and requirements, resources should be allocated with consideration for the continued availability of these funds:

   a. Non-recurring funds will be directed toward non-recurring uses.
   b. Only recurring resources may be targeted toward recurring expenses.
   c. The County's policy concerning the utilization of recurring and non-recurring funds should be followed by the School Board.

5. Any available balances materializing at the Carryover and Third Quarter Reviews that are not required to support County expenditures of a critical nature should be held in reserve to offset future requirements or to address one-time requirements such as GASB 45 liability, unfunded capital paydown projects, unfunded School Board priorities, and equipment replacement.

6. The Board of Supervisors appreciates the work of the School Board and School Superintendent in bringing forth a request for FY 2008 funding which recognizes the budget limits presented by the County's current revenue forecast.

   The Board's action on this budget continues to reflect public education as the Board's top priority as evidenced by FY 2008 support of the schools. Total FY 2008 revenues are anticipated to increase less than 3 percent over FY 2007. Yet, the approved transfer to the Schools for operations reflects an increase of 3.5% plus $8 million for the Schools Initiative for Excellence, bringing the overall increase to 4.0%. It is the Board of Supervisors' understanding that this additional $8.0 million will complete the phase-in of the Initiative for Excellence.

BUDGET GUIDELINES FOR FISCAL YEAR 2009 AND BUDGET GUIDANCE FOR FISCAL YEAR 2008 AND FISCAL YEAR 2007 CARRYOVER REVIEW – April 30, 2007

The prioritization of education needs over other parts of the budget required a 2% across-the-board reduction in County compensation budgets and restricted spending in all other areas. The Board of Supervisors requests that the Schools review available resources and reserves and potential spending reductions to address the shortfall between County funding and the School transfer request of $17.0 million.

In addition, as the Board of Supervisors discussed during the July 2006 meeting with the Schools, the Board is fully supportive of the initiative to implement full day kindergarten in every elementary school in the County. As public policy, the benefits are well established and will result in significant improvements in the education of our young people. However, based on the realities of the County's current revenue situation and the likelihood that revenues will be stagnant for the next several years, the implementation schedule for full day kindergarten may need to be revised to reflect these limited resources. The Board of Supervisors supports this initiative and other initiatives such as revised school start times and consolidation of School and County services for more efficient service delivery. The Board of Supervisors also requests that Fairfax County Public Schools provide information on the growing population of children with autism in County Schools to assist the County as it plans for future services. The Board of Supervisors hopes to work closely with the School system on these issues and add discussion of them to a future joint School/County meeting.

7. Given the critical nature of the impact of State funding reductions on the Child Care Assistance and Referral (CCAR) program, County staff are directed to continue to work to address options for CCAR including identifying available balances in FY 2007 and FY 2008 and other sources of funding and to continue to maximize savings from the program to help address the FY 2008 gap in funding. The shortfall between FY 2007 and FY 2008 funding levels is $6.0 million which is made up of the loss of the one time funding of $3.4 million made available by the Governor for this program in November 2006 and the additional $2.6 million in federal pass-through funding which has been redirected from the County's program. At the minimum, County staff is directed to identify sufficient and sustainable funding to address the most recent $2.6 million shortfall. This action will restore services to approximately 400 children. It is important to note that despite the state reductions the County level of funding has remained consistent for this program. Staff is directed to report on the status of the program at the *FY 2007 Carryover Review*.

8. Affordable housing has been one of the top priorities of this Board of Supervisors. We have dedicated resources, most importantly an amount equal to one penny of the real estate tax rate, to serve a wide range of need within our community. This has resulted in affordable housing preservation for those in the workforce, for families with low and modest incomes and for those attempting to buy a home for the first time. The Board directs County staff to develop policies to guide the application of available affordable housing resources to address the needs of our residents including those most needy. Strategies could include the development of percentage- range based goals for the direction of available funding toward targeted income groups. Recommendations for these guidelines will be provided to the Board of Supervisors in conjunction with the Board's Housing Committee which will follow mark-up.

9. The Board of Supervisors appreciates the work of County employees, including the County's Employees Advisory Council (EAC), in the comprehensive review of the County's compensation program. The review included recommendations related to the Market Rate Adjustment, the promotional policy, pay for performance, reclassification and classification and compensation benchmarking. Recommendations were presented to the Board in December 2006 and the Board directs the County Executive to continue with implementation and at an appropriate time in the future assess the impact of the changes including employee feedback.

   With respect to the recommendation on promotions, the Board directs that one grade promotions continue to result in a 10 percent increase rather than the 5 percent as included in the study. This refinement of the study recommendation acknowledges the additional work and accountability placed on promotion candidates and seeks to appropriately compensate successful candidates for these new responsibilities.

BUDGET GUIDELINES FOR FISCAL YEAR 2009 AND BUDGET GUIDANCE FOR FISCAL YEAR 2008 AND FISCAL YEAR 2007 CARRYOVER REVIEW – April 30, 2007

The Board directs that the 95% threshold guideline be maintained as a methodology for pay comparability for public safety salaries; this policy will be evaluated during the 800 position class study review and recommendations. There is no supplemental pay adjustment for public safety salaries as a result of this action in FY 2008. Consistent with the consultant's study to address the compression issue raised by County employees, the new benchmarking policy for General County employees will be at 85% for regrades and 90% for pay and now will provide the opportunity for increases in compensation.

10. The Sheriff has communicated to the Board a significant issue of recruitment and retention in his department. The Board of Supervisors recognizes the important role of the Sheriff's Department in courtroom security and in jail operations and is supportive of measures to address these vacancy problems. The Sheriff has identified an opportunity for additional revenue in the form of a state approved increase in the Courthouse Security fee from $5.00 to $10.00 per case, effective July 1, 2007.

    The Board directs staff to return with the necessary notices to advertise and enact this change in time for a July 1, 2007 effective date. The additional revenue as a result of this increased fee is estimated at $900,000. The fee which is directed to courthouse security would free up funding that could be redirected to other needs. The Board directs that this funding be held in reserve pending the development of specific strategies and policies to address the recruitment and retention issues in the Sheriff's Department. The Board also directs the Board's Auditor and key County agencies, such as the Department of Human Resources, to work with the Sheriff's Department to evaluate the number of staff vacancies and causes and return to the County Executive with recommendations on how to address them, not to include pay parity. This review, completed cooperatively with the Sheriff's Department, should include but not be limited to a comparison of compensation, recruitment practices, retirement policies as well as the general vacancy patterns of public safety agencies in the region.

11. In response to the testimony of staff of the Fire and Rescue Department and the Board of Supervisors' interest in further defining the needs of the department, the Board of Supervisors directs the County Executive to work with the new Fire Chief to review staffing requirements for ladder trucks, including staffing patterns in similar communities and return with recommendations and implementation alternatives if appropriate. This review should include phasing options as well as targeting placement of additional levels of staffing based on location of station and types of incidents.

12. The Job Hut proposal presented by staff and the Human Services Council replaces County funding for other sources which are no longer available. The Board directs staff to continue exploring options for reopening Job Hut which do not involve County positions and funding. These options should include moving Job Hut to a site within the County including the space identified in Falls Church, or other space which may be identified.

13. The neighborhood zoning enforcement effort which is being initiated to preserve health and safety in our communities is being done so in the short term within existing resources. Recognizing that an effective, unified and vigorous response to the enforcement issues which have been raised in the community might require a more permanent and sustained solution, the County Executive is directed to return to the Board with a longer term plan including enhanced community empowerment and engagement by the *FY 2007 Carryover Review*.

14. The Board of Supervisors directs staff to ramp up education and deer management activities to combat the spread of Lyme disease, and staff is also directed to review staffing associated with the Animal Shelter and Animal Control. The cost of the activities associated with deer management, including an estimated $80,000 of equipment, should be accommodated within existing resources in the Police Department while the cost of activities associated with education to combat the spread of Lyme disease including training, outreach and community education totaling $60,000 will be absorbed within Fund 116, Integrated Pest Management Program.

BUDGET GUIDELINES FOR FISCAL YEAR 2009 AND BUDGET GUIDANCE FOR FISCAL YEAR 2008 AND FISCAL YEAR 2007 CARRYOVER REVIEW – April 30, 2007

15. The Board of Supervisors directs the Police Department to prioritize within existing resources or other resources such as grants and traffic mitigation funding, the replacement of radar units that are currently assigned to each station and purchase LIDAR units. LIDAR units are extremely accurate, provide quicker target acquisition, and are well-suited to speed enforcement on multi-lane and high-speed highways. In addition, other equipment options including in-vehicle equipment such as digital video technology should also be considered for additional sources of funding and priority should be placed on stations without current technology.

16. The Board of Supervisors directs staff to return prior to the *FY 2007 Carryover Review* with information regarding regular status employees who currently make less than a living wage as well as recommendations to address this issue.

A Copy Teste:

Nancy Vehrs

Nancy Vehrs
Clerk to the Board of Supervisors

Managed Reserve

It is the policy of the Board of Supervisors to maintain a managed reserve in the General Fund at a level sufficient for temporary financing of unforeseen emergency needs and to permit orderly adjustment to changes resulting from termination of revenue sources through actions of other governmental bodies. The reserve will be maintained at a level not less than 2.0 percent of total General Fund disbursements in any given year. This reserve has been maintained since FY 1983.

Revenue Stabilization Fund

On September 13, 1999, the Board of Supervisors established a Revenue Stabilization Fund to provide a mechanism for maintaining a balanced budget without resorting to tax increases and expenditure reductions that aggravate the stresses imposed by the cyclical nature of the economy. The Revenue Stabilization Fund has a target balance of 3.0 percent of General Fund disbursements. The Fund is separate and distinct from the County's 2.0 percent Managed Reserve; however, the aggregate balance of both reserves shall not exceed 5.0 percent of General Fund disbursements. The target balance of 3.0 percent of General Fund disbursements was to be accomplished by transferring funds from the General Fund over a multi-year period. The Board of Supervisors determined that a minimum of 40 percent of non-recurring balances identified at quarterly reviews would be transferred to the Revenue Stabilization Fund and the Fund would retain the interest earnings on this balance, and the retention of interest would continue until the Reserve is fully funded. It should be noted that, as part of the *FY 2006 Third Quarter Review*, the Board of Supervisors approved a General Fund transfer of $30.2 million that along with projected interest earnings enabled the reserve to reach its target level of 3.0 percent of General Fund disbursements. Based on the projected earnings on the balance in the fund and depending on the average yield for the portfolio, it is anticipated that the fund will remain fully funded by retaining its interest earnings. However, if adjustments to disbursements result in a target level which exceeds the amount of interest projected to be earned by the fund, a general fund transfer to this fund would be required to maintain the 3.0 percent of disbursements fully funded target level.

The Revenue Stabilization Fund will not be used as a method of addressing the demand for new or expanded services; it is solely to be used as a financial tool in the event of an economic downturn. Therefore, three specific criteria that must be met in order to make a withdrawal from the Fund include:

- Projected revenues must reflect a decrease greater than 1.5 percent from the current year estimate;
- Withdrawals must not exceed one-half of the fund balance in any fiscal year; and
- Withdrawals must be used in combination with spending cuts or other measures.

Other Reserves

In addition, to the Managed Reserve and the Revenue Stabilization Fund, the County has several reserves maintained within various funds. These reserves are necessary to provide a source of funding for planned replacement of major equipment or infrastructure over several years, or to maintain the necessary debt service reserves required to support the County's obligations on bond-funded programs. For example, the County maintains a vehicle replacement reserve within the Department of Vehicle Services to plan for vehicle replacement once age; mileage and condition criteria have been met. General Fund monies are set aside each year over the life of the existing vehicle in order to pay for its replacement. Helicopter, ambulance and large apparatus replacement funds are also maintained for the Police and Fire and Rescue Departments. Fixed payments to these reserves are made annually to ensure funding is available at such time that the equipment must be replaced. The County also manages a Personal Computer (PC) Replacement Fund. This reserve ensures that funding is available for future replacements to remain consistent with the advancements of technology. Another example of a County maintained reserve is the Sewer Bond Debt Reserve which was established to provide one year of principle and interest for the outstanding bond series as required by the Sewer System's General Bond Resolution.

Third Quarter/Carryover Reviews

The Department of Management and Budget conducts a Third Quarter Review on the current year Revised Budget Plan which includes a detailed analysis of expenditure requirements. All operating agencies and funds are reviewed during the Third Quarter Review and adjustments are made to the budget as approved by the Board of Supervisors. Section 15.1162.1 of the Code of Virginia requires that a public hearing be held prior to Board action when the potential increases in the appropriation are greater than $500,000 or 1.0 percent of revenues. The Board's adopted budget guidelines indicate that any balances identified throughout the fiscal year, which are not required to support expenditures of a legal or emergency nature, must be held in reserve.

Carryover Review represents the analysis of balances remaining from the prior year and provision for the appropriation of funds to cover the prior year's legal obligations (encumbered items) in the new fiscal year without loss of continuity in processing payments. Carryover extends the prior year funding for the purchase of specific items previously approved in the budget process, but for which procurement could not be obtained for various reasons. All operating agencies and funds are reviewed during the Carryover Review and adjustments are made to the budget as approved by the Board of Supervisors. Again, the Code of Virginia requires that a public hearing be held prior to Board action when the potential increases in the appropriation are greater than $500,000 or 1.0 percent of revenues.

Cash Management/Investments

Maintaining the safety of the principal of the County's public investment is the highest priority in the County's cash management policy. The secondary and tertiary priorities are the maintenance of liquidity of the investment and optimization of the rate of return within the parameters of the Code of Virginia, respectively. Funds held for future capital projects are invested in accordance with these objectives, and in such a manner so as to ensure compliance with U.S. Treasury arbitrage regulations. A senior interagency Investment Committee develops investment policies and oversees the effectiveness of portfolio management in meeting policy goals.

The County maintains cash and temporary investments in several investment portfolios. A general investment portfolio holds investments purchased by the County for the pooled cash and General Obligation Bond funds. Investments for this portfolio are held by a third-party custodian. Other portfolios are managed to meet the specific needs of County entities, such as, the Resource Recovery Bonds, the Fairfax County Economic Development Authority Parking Revenue Bonds (the Vienna and Huntington Metrorail Projects), Sewer Revenue Bonds, Housing Bonds, and the Equipment Acquisitions Fund. Investments for all portfolios are held by a third-party custodian.

Except where prohibited by statutory or contractual constraints, the General Fund is credited with interest earned in the general investment pool. Non-General Fund activities that earn interest through centralized investment management contribute to the cost of portfolio management by way of a market-based administrative charge that accrues to the General Fund.

Debt Management/Capital Improvement Planning

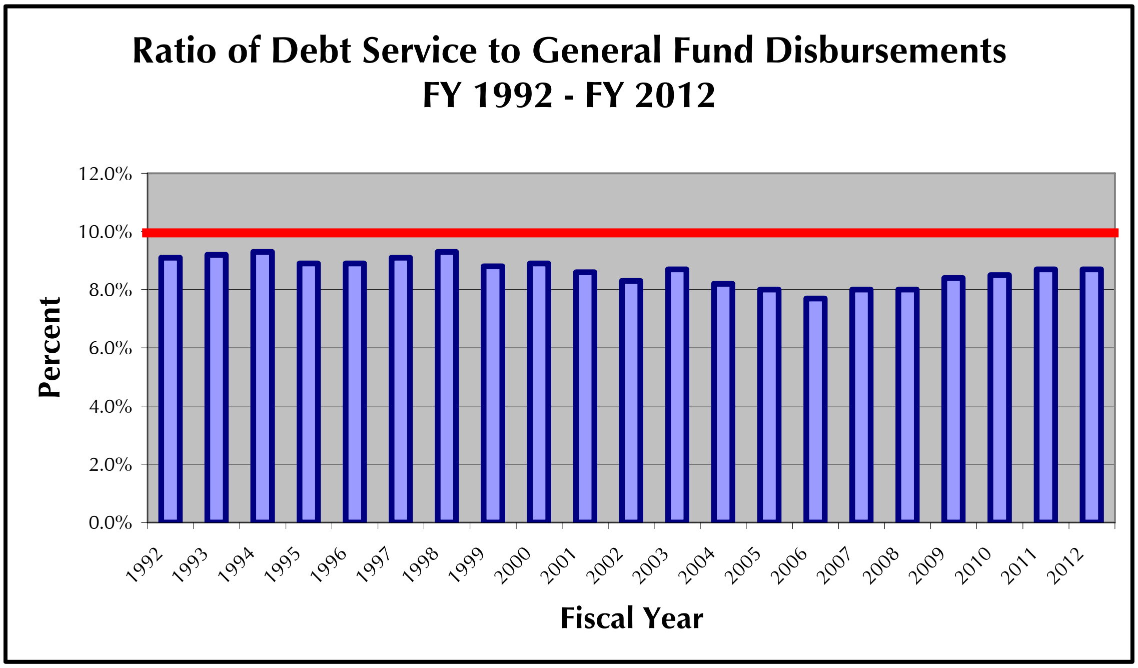
The Commonwealth of Virginia Constitution requires that long-term debt pledged by the full faith and credit of the County can only be approved by voter referendum. There is no statutory limit on the amount of debt the voters can approve. It is the County's own policy to manage debt within the guidelines identified in the *Ten Principles of Sound Financial Management*. Specifically, debt service expenditures as a percentage of General Fund disbursements should remain under 10.0 percent and the percentage of debt to estimated market value of assessed property should remain under 3.0 percent. The County continues to maintain these debt ratios, as illustrated below:

Debt Service Requirements as a Percentage of Combined General Fund Disbursements

Fiscal Year Ending	Debt Service Requirements [1]	General Fund Disbursements[2]	Percentage
2004	213,027,136	2,597,650,034	8.2%
2005	224,543,583	2,799,591,368	8.0%
2006	234,392,854	3,113,897,426	7.5%
2007 (est.)	262,973,348	3,288,997,359	8.0%
2008 (est.)	265,877,571	3,317,406,413	8.0%

[1] The amount includes debt service expenditures from July 1- June 30 in the year shown above, excluding bond issuance costs and other expenses and is from the Fairfax Department of Management and Budget.

[2] Fairfax County Department of Tax Administration and the Department of Management and Budget



Net Debt as a Percentage of Market Value of Taxable Property

Fiscal Year Ending	Net Bonded Indebtedness[1]	Estimated Market Value[2]	Percentage
2004	1,814,517,662	143,225,100,000	1.27%
2005	1,931,008,940	158,261,300,000	1.22%
2006	1,963,217,876	192,187,300,000	1.02%
2007 (est.)	2,057,354,681	232,437,000,000	0.89%
2008 (est.)	2,145,370,511	240,962,900,000	0.89%

[1] The amount includes outstanding General Obligation Bonds and other tax supported debt obligation as of June 30 in the year shown and is from the Fairfax County Department of Management and Budget.

[2] Fairfax County Department of Tax Administration and the Department of Management and Budget

Per capita debt is also an important measure used in analyses of municipal credit. Fairfax County has historically had moderate to low per capita debt and per capita debt as a percentage of per capita income due to its steady population growth, and growth in the assessed valuation of property and personal income of residents, combined with a record of rapid repayment of capital debt. Per capita debt as a percentage of per capita income as of June 30, 2004 was 3.05 percent and has remained less than 4.0 percent since 1981.

The *Ten Principles of Sound Financial Management* establishes as a financial guideline a self-imposed limit on the level of the average annual bond sale. Actual bond issues are carefully sized with a realistic assessment of the need for funds, while remaining within the limits established by the Board of Supervisors. In addition, the actual bond sales are timed for the most opportune entry into the financial markets.

The policy guidelines enumerated in the *Ten Principles of Sound Financial Management* also express the intent of the Board of Supervisors to encourage greater industrial development in the County and to minimize the issuance of underlying indebtedness by towns and districts located within the County.

Long-Term Financial Policies and Tools

It is County policy to balance the need for public facilities, as expressed by the countywide land use plan, with the fiscal capacity of the County to provide for those needs. The five-year Capital Improvement Program (CIP), submitted annually to the Board of Supervisors, is the vehicle through which the stated need for public facilities is analyzed against the County's ability to pay and stay within its self-imposed debt guidelines as articulated in the *Ten Principles of Sound Financial Management*. The CIP is supported largely through long-term borrowing that is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.

Pay-as-you-go Financing

Although a number of options are available for financing the proposed capital improvement program, including bond proceeds and grants, it is the policy of the County to balance the use of the funding sources against the ability to utilize current revenue or pay-as-you-go financing. While major capital facility projects are funded through the sale of General Obligation Bonds, the Board of Supervisors, through its *Ten Principles of Sound Financial Management*, continues to emphasize the importance of maintaining a balance between pay-as-you-go financing and bond financing for capital projects. Financing capital projects from current revenues indicates the County's intent to show purposeful restraint in incurring long-term debt. No explicit level or percentage has been adopted for capital projects from current revenues as a portion of either overall capital costs or of the total operating budget. The decision for using current revenues to fund a capital project is based on the merits of the particular project in relation to an agreed upon set of criteria. It is the Board of Supervisors' policy that non-recurring revenues should not be used for recurring expenditures.

Risk Management

Continuing growth in County assets and operations perpetuates the potential for catastrophic losses resulting from inherent risks that remain unidentified and unabated. In recognition of this, the County has adopted a policy of professional and prudent management of risk exposures.

To limit the County's risk exposures, a Risk Management Steering Committee was established in 1986 to develop appropriate policies and procedures. The County Risk Manager is responsible for managing a countywide program. The program objectives are as follows:

- To protect and preserve the County's assets and workforce against losses that could deplete County resources or impair the County's ability to provide services to its citizens;
- To institute all practical measures to eliminate or control injury to persons, loss to property or other loss-producing conditions; and
- To achieve such objectives in the most effective and economical manner.

While the County's preference is to fully self-insure, various types of insurance such as workers' compensation, automobile, and general liability insurance remain viable alternatives when they are available at an affordable price.

Pension Plans

The County funds the retirement costs for four separate retirement systems including: Educational Employees Supplemental Retirement System, Police Officers Retirement System, Fairfax County Employees' Retirement System and Uniformed Retirement System. These retirement systems are administered by the County and are made available to Fairfax County government and school employees in order to provide financial security when they reach an older age or cannot work due to disability. In addition, professional employees of the Fairfax County School Board participate in a plan sponsored and administered by the Virginia Retirement System. The Board of Supervisors reviews the Police Officers Retirement System, Fairfax County Employees' Retirement System and the Uniformed Retirement System plans annually and takes action to fund the County's obligation based on a corridor approach to employer contributions. The corridor approach requires that the systems funding ratios fall within a minimum funding ratio of 90 percent and a maximum funding ratio of 120 percent. In the corridor method of funding, a fixed contribution rate is assigned to each System and the County contributes at the fixed rate unless the System's funding ratio falls outside of a pre-selected corridor. Once outside the corridor, the County rate is either increased or decreased to accelerate or decelerate the funding until the ratio falls back within the corridor. The only other changes to employer contributions will be if benefit enhancements are approved. The corridor approach adds stability to the employer contribution rates and at the same time provides adequate funding for the Retirement Systems.

The School Board reviews the Educational Employees Supplemental Retirement plan annually and takes action to fund the County's obligation based on actuarial valuations that are usually performed annually. Benefits are defined in each system according to the requirements of an ordinance of the Fairfax County Code. Each retirement system is governed by a Board of Trustees whose function is the general administration and operation of the system. Each Board has full power to invest and reinvest the accumulated monies created by the systems in accordance with the laws of the Commonwealth as they apply to fiduciaries investing such funds. Investment managers are hired by each Board and operate under the direction of the Boards' investment objectives and guidelines. Each Board meets once a month to review the financial management of the funds and to rule on retirement applications.

Other Post-Employment Benefits (OPEB)

Beginning in FY 2008 the County's financial statements will be required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for post-employment benefits including health care, life insurance, and other non-retirement benefits offered to retirees. This new standard addresses how local governments should account for and report their costs related to post-employment healthcare and other non-pension benefits. Currently, the County offers retirees the option of participating in County group health, life insurance, and dental plans. These benefits are offered to retirees at premium rates established using the blended experience of the active and retiree populations. As such, retirees receive an "implicit" benefit, as these premium rates are typically lower than those rates which would be charged by the market. In addition, County retirees receive an explicit benefit through the retiree health benefit subsidy. The County provides monthly subsidy payments to eligible County retirees to help pay for health insurance. The current monthly subsidy, approved in FY 2006, commences at age 55 and varies by length of service. It should be noted that the monthly subsidy is provided to retirees on a discretionary basis, and the Board of Supervisors reserves the right to reduce or eliminate the benefit in the future if the cost of the subsidy becomes prohibitive or an alternative is chosen to aid retirees in meeting their health insurance needs.

GASB 45 requires that the County accrue the cost of post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. The County decided to follow guidance provided by GASB and establish a trust fund in FY 2008 to pre-fund the cost of post-employment healthcare and other non-pension benefits. As part of this process, a separate Board of Trustees will be created and a trust agreement will be adopted. Establishing such a trust fund will allow the County to capture long-term investment returns, make progress towards eliminating the unfunded liability over a 30-year period, and is consistent with the preliminary guidance of the bond rating agencies as relates to a "triple A" rated jurisdictions response to GASB 45. This methodology mirrors the funding approach used for pension/retirement benefits. As a result, the County is required to make an annual contribution towards the long-term liability. This includes the amount the County is currently paying on a pay-as-you-go basis for the explicit and implicit benefits, as well as an additional amount in order to address the unfunded actuarial accrued liability. Progress towards funding the liability will be reported in the County's Comprehensive Annual Financial Report (CAFR) including schedules detailing assets, liabilities and the funding ratio (i.e. how much progress has been made towards funding the outstanding liability).

The actuarial accrued liability will be calculated at each actuarial valuation and will include adjustments due to benefit enhancements, medical trend experience, and normal growth assumptions. If necessary, adjustments will be made to the annual contribution. Before approving additional benefit enhancements, the County will need to carefully consider not only the impact on the current fiscal year budget, but also the long-term impact on the liability and the annual required contribution.

It should be noted that the Fairfax County Public Schools offer similar benefits to their retirees, which results in a separate OPEB liability. The Schools are currently determining their approach to addressing the implementation of GASB 45.

Grants

County policy requires that the initial application and acceptance of all grants over $100,000 be approved by the Board of Supervisors. Each grant application is reviewed for the appropriateness and desirability of the program or service. Upon completion of the grant, programs are reviewed on a case-by-case basis to determine whether the program should be continued utilizing County funds. The County has no obligation to continue either grant-funded positions or grant-funded programs, if continued grant funding is not available.

Effective September 1, 2004, the Board of Supervisors established new County policy for grant applications and awards that meet certain requirements. If a grant is $100,000 or less, with a required Local Cash Match of $25,000 or less, with no significant policy implications, and if the grantor does not require Board of Supervisors' approval, the agency can work directly with the Department of Management and Budget to receive the award and reallocate funding from the anticipated/unanticipated reserve directly to the agency. If an award exceeds these limitations but was listed in the Anticipated Grant Awards table in the Adopted Budget for the current fiscal year, Board of Supervisors' approval is not required unless the actual funding received differs significantly from the projected funding listed in the budget. For any grant that does not meet all of the specified criteria, the agency must obtain Board of Supervisors' approval in order to apply for or accept the grant award.

Contributory Policies

To improve the general health and welfare of the community, as well as leverage scarce resources, it is the policy of the Board of Supervisors to make General Fund appropriations of specified amounts to various nonsectarian, nonprofit or quasi-government entities. Because public funds are being appropriated, funds provided to designated contributory agencies are currently made available contingent upon submission and review of financial reports. This oversight activity includes program reporting requirements that require designated contributories to describe accurately, in a manner prescribed by the County Executive, the level and quality of services provided to County residents.

Information Technology

The following ten strategic directions are fundamental principles upon which Fairfax County will base its Information Technology (IT) decisions in the upcoming years. These are intended to serve as guidelines to assist County managers in applying information technology to achieve business goals.

Ten Fundamental Principles of Information Technology

In addition to the Department of Information Technology's Mission and Goals, Fairfax County Information Technology (IT) projects and processes are guided by ten fundamental principles approved by the Board of Supervisors in 1996, and updated in 2003.

1. Our ultimate goal is to provide citizens, the business community, and County employees with timely, convenient access to appropriate information and services through the use of technology.

2. Business needs drive information technology solutions. Strategic partnerships will be established between the stakeholders and County so that the benefits of IT are leveraged to maximize the productivity of County employees and improve customer services.

3. Evaluate business processes for redesign opportunities before automating them. Use new technologies to make new business methods a reality. Exploit functional commonality across organizational boundaries.

4. Manage Information Technology as an investment.

   - Annually allocate funds sufficient to cover depreciation to replace systems and equipment before life-cycle end. Address project and infrastructure requirements through a multi-year planning and funding strategy.
   - Manage use of funds at the macro level in a manner that provides for optimal spending across the investment portfolio aligned to actualized project progress.
   - Look for cost-effective approaches to improving "legacy systems". Designate systems as "classic" and plan their modernization. This approach will help extend investments and system utility.
   - Invest in education and training to ensure the technical staffs in central IT and user agencies understand and can apply current and future technologies.

5. Implement contemporary, but proven, technologies. Fairfax County will stay abreast of emerging trends through an ongoing program of technology evaluation. New technologies often will be introduced through pilot projects where both the automation and its business benefits and costs can be evaluated prior to any full-scale adoption.

6. Hardware and software shall adhere to open (vendor-independent) standards and minimize proprietary solutions. This approach will promote flexibility, inter-operability, cost effectiveness, and mitigate the risk of dependence on individual vendors.

7. Provide a solid technology infrastructure as the fundamental building block of the County's IT architecture to support reliability, performance and security of the County's information assets. Manage and maintain the enterprise network as an essential communications channel connecting people to information and process via contemporary server platforms and workstations. It will provide access for both internal and external connectivity; will be flexible, expandable, and maintainable; be fully integrated using open standards and capable of providing for the unimpeded movement of data, graphics, image, video, and voice.

8. Approach IT undertakings as a partnership of central management and agencies providing for a combination of centralized and distributed implementation. Combine the responsibility and knowledge of central management, agency staff, as well as outside contract support, within a consistent framework of County IT architecture and standards. Establish strategic cooperative arrangements with public and private enterprises to extend limited resources.

Ten Fundamental Principles of Information Technology (Continued)

9. Consider the purchase and integration of top quality, commercial-off-the-shelf (COTS) software requiring minimal customization as the first choice to speed the delivery of new business applications. This may require redesigning some existing work processes to be compatible with beneficial common practice capabilities inherent in many off-the-shelf software packages, and, achieves business goals. In consideration of this, it is recognized that certain County agencies operate under business practices that have in established in response to specific local interpretations and constraints and that in these instances, the institutionalization of these business practices may make the acquisition of COTS software not feasible. Develop applications using modern, efficient methods and laborsaving tools in a collaborative application development environment following the architectural framework and standards. An information architecture supported by a repository for common information objects (e.g., databases, files, records, methods, application inventories); repeatable processes and infrastructures will be created, shared and reused.

10. Capture data once in order to avoid cost, duplication of effort and potential for error and share the data whenever possible. Establish and use common data and common databases to the fullest extent. A data administration function will be responsible for establishing and enforcing data policy, data sharing and access, data standardization, data quality, identification and consistent use of key corporate identifiers.

Financial Management Tools and Planning Documents

This section is intended to provide a brief description of some of the financial management tools and long-range planning documents used by the County.

Budget

The primary financial management tool used by the County is the annual budget process. This involves a comprehensive examination of all expenditure and revenue programs of the County, complete with public hearings and approval by the Board of Supervisors.

Capital Improvement Program (CIP)

The Board of Supervisors annually considers and adopts a five-year Capital Improvement Program (CIP) which supports and implements the Comprehensive Plan. The CIP includes five years of project planning and forecasts project requirements for an additional five-year period. The CIP helps to balance the need for public facilities identified by the Comprehensive Plan with the County's fiscal resources and serves as a planning guide for the construction of general County facilities, schools, and public utilities. The CIP process provides a framework for development of reliable capital expenditure and revenue estimates, as well as the timely scheduling of bond referenda.

The CIP is an integral element of the County's budgeting process. The Capital Budget is the foundation for the first year of the adopted five-year CIP. The remaining four years in the CIP serve as a general planning guide. Future planning requirements five years beyond the CIP period are also included. The CIP is supported largely through long-term borrowing, which is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.

The Board of Supervisors has approved Principles of Sound Capital Improvement Planning and Criteria for Recommending Capital Projects which are applied every year in the development of the CIP. The principles establish the County's Comprehensive Plan as the basis for capital planning requirements and emphasize the principle of life-cycle planning for capital facilities. The CIP is released at the same time as an integral part of the Adopted Budget Plan and is included on the Budget CD-ROM and on the County's Web site.

In October 2005, Fairfax County adopted revised guidelines for review of unsolicited Public Private Educational Facilities and Infrastructure Act (PPEA) proposals. Since that time, the County staff has gained experience with the procedures and is now recommending that further guidance be given to the Core Team, the initial reviewers of the unsolicited PPEA proposals. 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 Capital Improvement Program (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 as presented in 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.

Revenue Forecast

Revenue estimates are monitored on a monthly basis to identify any potential trends that would significantly impact the revenue sources. A Revenue Task Force meets regularly to review current construction trends, the number of authorized building permits, housing sales, mortgage rates, and other economic data which impact Real Estate Tax revenue collections. In addition, the Revenue Task Force uses statistical models to estimate such revenue categories as: the Personal Property Tax; Local Sales Tax; Business, Professional, and Occupational License Tax; Consumer Utility Tax; and Recordation Tax.

Financial Forecast

A forecast of Combined General Fund receipts and disbursements is developed as part of each year's budget process and is updated periodically. Individual and aggregate revenue categories, as well as expenditures, are projected by revenue and/or expenditure type. Historical growth rates, economic assumptions, and County expenditure priorities are all used in developing the forecast. This tool is used as a planning document for developing the budget guidelines and for evaluating the future impact of current year decisions.

Fiscal Impact Review

It is County policy that all items having potential fiscal impact be presented to the Board of Supervisors for review. Effective management dictates that the Board of Supervisors and County citizens be presented with the direct and indirect costs of all items as part of the decision making process. In addition to its preliminary review of items presented to the Board of Supervisors, County staff also review state and federal legislative items, which might result in a fiscal or policy impact on the County.

Management Initiatives

In the spring of 2002, Fairfax County implemented a countywide strategic planning effort. Strategic planning furthers the County's commitment to high performance and strategic thinking by helping agencies to focus resources on services that are the most needed in the County.

The strategic planning efforts in Fairfax County have been bolstered by four on-going efforts - performance measurement, pay for performance, workforce planning, and technology enhancements-- which help the County maintain a top quality workforce and fund County programs and technology improvements, despite budget reductions:

Performance Measurement: Since 1997, Fairfax County has used performance measurement to gain insight into, and make judgments about, the effectiveness and efficiency of its programs, processes and employees. While performance measures do not in and of themselves produce higher levels of effectiveness, efficiency and quality, they do provide data that can help to reallocate resources or realign strategic objectives to improve services, processes and priorities. Each Fairfax County agency decides which indicators will be used to measure progress toward strategic goals and objectives, gathers and analyzes performance measurement data, and uses the results to drive improvements in the agency.

Fairfax County's performance measurement efforts were recognized again by the International City/County Management Association (ICMA) with its Certificate of Distinction, for continuing efforts in measuring and improving performance. Only 16 of more than 150 jurisdictions participating in ICMA's Center for Performance Measurement earned the prestigious Certificate of Distinction this year.

Pay for Performance: In FY 2001, Fairfax County implemented a new performance management system for non-public safety employees. Based on ongoing dialogue between employees and supervisors regarding performance and expectations, the system focuses on using countywide behaviors and performance elements for each job class to link employees' performance with variable pay increases. FY 2002 was the last year for automatic step increases and cost-of-living adjustment for over 8,000 non-public safety employees. Annual compensation adjustments are now based solely on performance.

As an integral part of the transition to pay for performance, and in order to ensure that pay scales remain competitive with the market, non-public safety pay scales are increased in accordance with the annual market index, which is calculated based on data from the Consumer Price Index; the Employment Cost Index, which includes private sector, state and local government salaries; and the Federal Wage adjustment. This is designed to keep County pay scales from falling below the marketplace, requiring a large-scale catch-up every few years. It is important to note that employees do not receive this adjustment as they did in the past through a cost-of-living increase. Pay increases can only be earned through performance. By adjusting the pay scales, however, employees' long-term earning potential remains competitive with the market. Pay for performance changes as a result of the consultant study undertaken during FY 2007 will be implemented on June 23, 2007. These changes are intended to maintain the current distribution of ratings while correcting the disconnect between an employee rated as "fully proficient" receiving a 1.7 percent pay raise. The current five rating levels are being expanded to seven rating levels in response to focus group feedback that greater rating flexibility was needed in the rating process. The rating labels (Unsatisfactory, In Development, Fully Proficient, Superior, and Exceptional) are also being removed. With the exception of the disconnect between "fully proficient" and the 1.7 percent pay increase, the consultant found the County's rating distribution (a basic bell curve but leaning to the higher end of ratings) to be consistent with that of a high performing workforce.

Workforce Planning: The County's workforce planning effort began in FY 2002 to anticipate and integrate the human resources response to agency strategic objectives. Changes in agency priorities such as the opening of a new facility, increased demand for services by the public, the receipt of grant funding, or budget reductions can greatly affect personnel needs. Given these varying situations, workforce planning helps agency leadership to retain employees and improve employee skill sets needed to accomplish the strategic objectives of the agency. Effective workforce planning is a necessary component of an organization's strategic plan, to provide a flexible and proficient workforce able to adapt to the changing needs of the organization.

Information Technology Initiatives: The County is committed to providing the necessary investment in information technology, realizing the critical role it plays in improving business processes and customer service. Fund 104, Information Technology, was established to accelerate the redesign of business processes to achieve large-scale improvements in service quality and to provide adequate enterprise-wide technological infrastructure. Consequently, the County is consolidating its investments to accommodate and leverage technological advancements and growth well into the 21st century. Management continues to explore and monitor all areas of County government as potential candidates for further information technology enhancements and/or modifications.

More detailed information about the strategic efforts of the County may be found in the Strategic Linkages section of this volume.