County of Fairfax, Virginia

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

Chairman and Members of the Board of Supervisors
County of Fairfax
Fairfax, Virginia 22035

February 23, 2009

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 2010 – 2014, with Future Fiscal Years to 2019*. The CIP is an important document which is linked strategically to the Comprehensive Plan and the County's Budget. The CIP will be released concurrently with the FY 2010 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 capacity in order to manage debt service payments within projected General Fund availability;
- Conducted a "next logical stopping point" project by project review to determine if and when some projects might be delayed. The CIP does include a delay in several capital projects based on the limited availability of General Fund revenues to support both debt service and operating costs associated with opening new and expanded facilities;
- Reviewed future bond referendum schedules in light of projected resources available to support identified CIP projects;
- Developed a limited Paydown Program including funding to address only the most critical capital renewal needs at County facilities;
- Developed a strategy to address Stormwater Program requirements by proposing the creation of a service district with an FY 2010 levy of $0.015 per $100 of assessed real estate value, an amount that will support both staff operating requirements and stormwater capital projects; and
- Provided a prioritized project list as a framework for future requirements.

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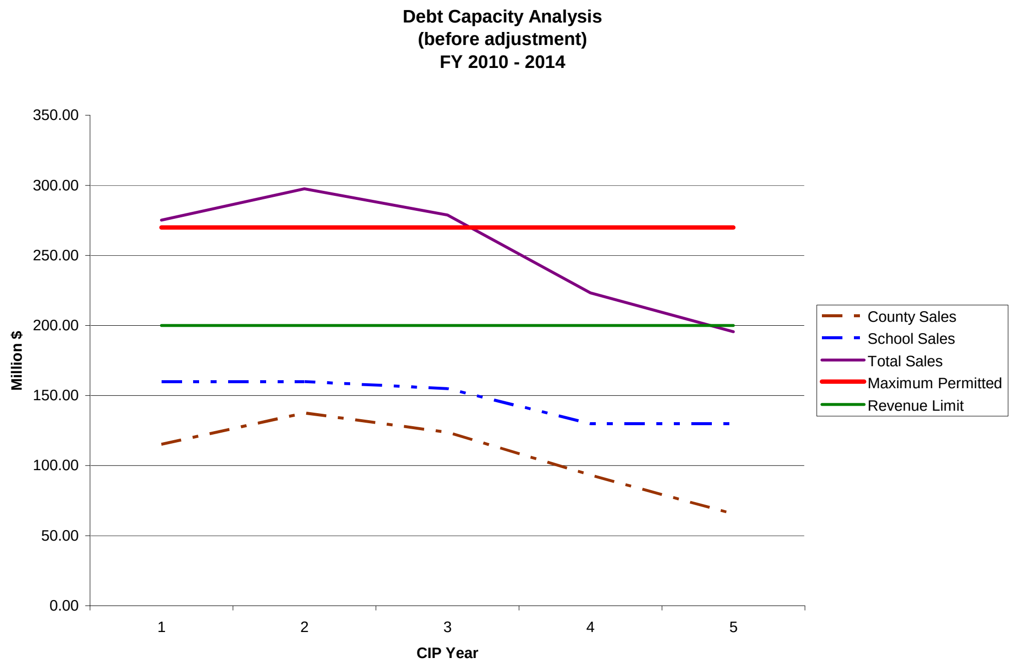
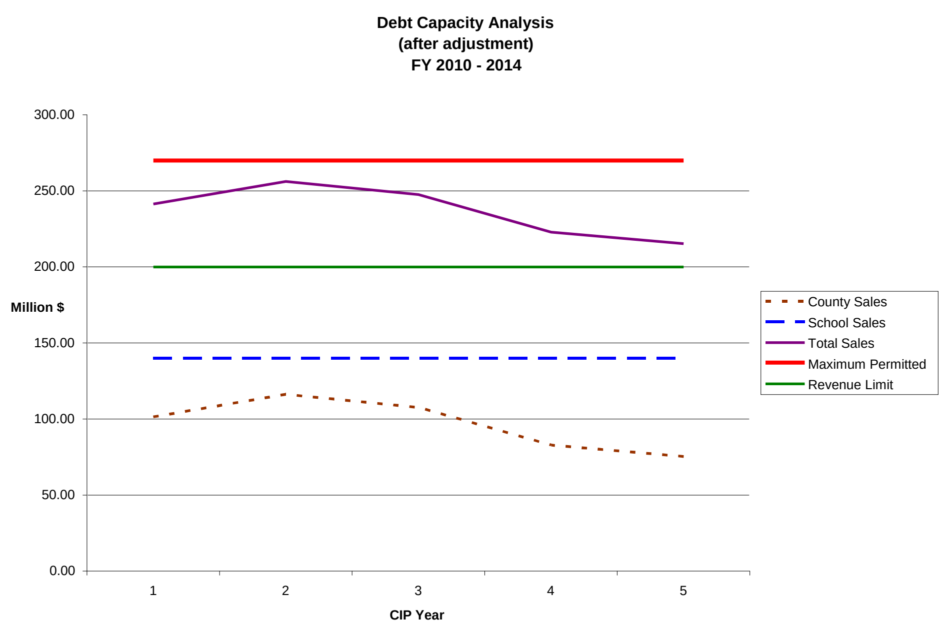
1. **Reviewed the County's Debt Capacity**

A review of the County's debt capacity is conducted annually. The FY 2010 – FY 2014 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, 2008, the ratio of debt to taxable property value was 0.94 percent and debt service to General Fund disbursements was 8.1 percent.

As with the rest of the budget, the revenue shortfall and projected deficits have prompted an in-depth review of bond program expenditures. Any curtailment or slowdown in growth of general fund revenues directly impacts the County's ability to support increasing debt service requirements. In addition, as debt service expenditures grow in relation to the rest of the budget, they consume an increasing percentage of overall disbursements, thereby reducing the amount available to fund essential operating programs. The County's self imposed limit of 10 percent is designed to maintain a balance between essential operating program expenditures and those for capital needs while preserving the County's AAA credit rating. The credit rating is vitally important to reduce the overall costs of borrowing and maintain access to the capital markets in this very uncertain and turbulent economic situation. The County estimates that it has saved over $390 million in debt service costs since 1978 as a result of its superlative credit quality. Access to the market is vital to maintaining a robust capital program. The County's rating helped ensure placement of over $360 million of notes and bonds since October 1, 2008 at a time when many jurisdictions were frozen out of the capital markets due to the credit crisis.

Therefore, it is necessary to annually examine the debt program in order to ensure that the future borrowing plans remain affordable in light of decreasing revenue projections and that the County's debt service support remains below the 10 percent threshold. Several recommended adjustments to the general obligation bond program will accomplish both these goals in the FY 2010 CIP without draconian cuts to major programs. On average, program expenditures have been adjusted to lengthen the time for spending by approximately one year. Program managers will be provided an expenditure target and asked to plan and adjust individual project schedules as necessary. It is important to emphasize that all projects are still authorized; no project has been eliminated. Some projects may experience a completion delay, but all will be funded as revenues become available. The bond program authorized by voters remains intact with a very healthy total of $1.2 billion of expenditures over the next 5 years. As revenue conditions and collections improve, consideration will be given to accelerating the program in line with revenue growth. These adjustments are absolutely necessary to affordability and will position the 5-year plan to respond to further potential revenue loss if necessary. The following two charts graphically depict the debt capacity projections before any proposed adjustments to the bond program and after proposed adjustments. It should be noted that no change to the revenue base was assumed. The impact of the County Executive's recommended tax rate increase is described below.





The debt service ratio for the unadjusted capital program would have exceeded 10 percent of General Fund disbursements beginning in FY 2012, and reached a high of 10.22 percent in FY 2013. Based on sales adjustments, detailed in the proposed project delayed outlined below, this ratio is reduced to 9.93 percent in 2013 and may be further reduced based on the County Executive's proposed tax rate adjustment to 9.24 percent in 2013. The actual decrease in this ratio that may result from any increase in revenues eventually adopted by the Board of Supervisors will allow flexibility in the future to absorb additional potential revenue shortfalls or permit acceleration of selected projects if supported by the additional revenues.

2. <u>"Next Logical Stopping Point" Review of all Bond Projects</u>

Last year, as part of the FY 2009 CIP process, I let natural delays in project construction, slow progress and took action to delay the following projects, not yet under construction.

- Wolftrap Fire Station – delayed 2 years
- Reston Police Station – delayed 2 years
- McLean Police Station – delayed 1 year
- Fire and Rescue Academy – delayed 9 months
- Newington DVS Garage – delayed 6 months

When developing the FY 2010 CIP, I asked staff to conduct a project by project review of all bond projects to determine if and when there was a logical point in which to stop or delay each project (i.e., after land acquisition completion, after design completion). There were several criteria used in which to evaluate each bond project. All of these factors were considered during the review:

- ✓ Good Construction Market Climate: the competition for construction work is strong and favorable bids have been received much lower than the Engineer's original estimates;
- ✓ Commitments: many projects have been approved for several years and commitments have been made to the public to complete these projects;
- ✓ Operating Costs: operating cost increases are anticipated with the opening of many of the new or expanded facilities and General Fund monies may not be available in the next several years to support these additional costs;
- ✓ Costs in Delaying projects: while delaying projects may provide cost avoidance savings in the near term, project costs typically escalate over time due to inflation (material and energy costs) and construction market conditions. Deferring projects typically results in higher costs at completion due to market escalation; and
- ✓ Workload: staff is currently working at maximum capacity and the Lines of Business review may result in substantial reductions to all agency budgets, resulting in delays in implementing projects.

<u>Details of Proposed FY 2010 Project Delays</u>

- *Fair Oaks Police Station Renovation: delay construction bid from Winter 2009 to Winter 2010*
- *McLean Police Station Renovation: delay design start from Winter 2009 to Winter 2010*
- *Wolftrap Fire Station: delay construction bid from Winter 2009 to Winter 2011*
- *Herndon Fire Station Replacement: delay design start from Fall 2008 to Fall 2009*
- *Concept studies on five of the oldest libraries which were anticipated to be completed prior to a future Library Bond Referendum: delay studies from Fall 2008 to Fall 2009*

In addition to these specific project delays several programs have been capped at a certain spending level in order to accommodate lower debt service requirements. The total impact to the County program is a reduction of $52 million over the 5-year period or approximately 10 percent. The total impact to the School Program is a reduction of $35 million or 4.8 percent.

- Transportation Improvements: Planning cap of $20 million per year, or $100 million for 5 years
- Metro: Planning cap of $20 million per year, or $100 million for 5 years
- County Parks: Planning cap of $13.25 million per year through FY 2014
- Schools: Planning cap of $140 million per year, or $700 million for 5 years
- Commercial Revitalization: Included $5.29 million for North Hill (successor to Woodley Nightingale) only; no other projects are funded. Upon completion of North Hill, any remaining funds are recommended to be de-authorized due to extreme age of the authorizing referendum.

3. Future Bond Referenda

In order to better plan for the future, I have identified a reduction in both County and School planned bond referenda during the 5-year period. I am recommending a technical adjustment to the school referendum in fall 2009 (FY 2010) and fall 2011 (FY 2012). These referendum were originally estimated at $280 million each; however based on debt service limitations, a proposed planning target of $140 million for each referendum will provide better alignment with the sales limits of $140 million per year, or $700 million for the 5 year period. For planning purposes, this bond referendum amount is proposed to be restored to the previous level of $280 million per year beginning in fall 2013 (FY 2014). Furthermore, reducing the amount of total School bonds authorized but not yet issued will allow the Schools to better manage the amount authorized so as not to exceed the amount they can reasonably expect to expend within a 5-year period.

In addition, I am recommending County bond referendum of $120 million in fall 2010 (FY 2011) for the County's continuing commitment to the Metro capital program, and $200 million in fall 2012 (FY 2013) for Parks ($38 million), the Northern Virginia Regional Park Authority capital contribution ($12 million) and all other public facilities ($150 million). These levels of County bond referendum will provide for the necessary County commitment to Metro and enable the County to move forward with those projects deferred from the 2008 Public Safety bond referendum as well as a growing list of public facility project requirements.

4. **Developed a Limited Paydown Program**

Both the FY 2009 and FY 2010 Paydown Programs were developed by conducting a project by project review. FY 2010 paydown funding of $20.02 million has been provided for only the most critical capital renewal projects ($6.79 million), continued support of the County's park and school athletic field maintenance programs ($4.02 million), level funding for on-going park maintenance projects ($2.18 million), as well as revitalization, environmental projects, Laurel Hill maintenance and other annual payments and obligations ($7.03 million).

Capital Renewal

As you know, the County infrastructure is aging and the renewal of the County's building subsystems such as roof replacement, plumbing, and HVAC/electrical systems require increasing attention. The County currently owns and manages 180 buildings with approximately 8 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. It is essential that Capital Renewal funding provide for the necessary reinvestment in facility infrastructure to ensure buildings continue to operate efficiently and satisfy their functional requirements.

At the end of 2008, approximately 57 percent of County facilities or 104 buildings were over 20 years old. Based on the inventory age, an estimated $22-25 million is required annually for reinvestment in building sub-systems. This estimate is based on: 1) a facility condition assessment conducted in 2004; 2) the industry standard for capital renewal investment; and 3) the growing list of maintenance projects developed annually. In 2004, a comprehensive facilities condition assessment was conducted on 92 selected Fairfax County facilities (approximately 4.2 million square feet of space), representative of older facilities anticipated to have the most immediate capital renewal requirements. The assessment included a complete visual inspection of roofs and all mechanical and electrical components for each facility. Maintenance and repair deficiencies were identified and funding requirements estimated. Results from the survey indicated an estimated nearly $13 million per year to repair and meet expected repair and equipment replacement needs for those 92 facilities. The number of facilities evaluated represented approximately 50 percent of the current inventory. Therefore, a fully funded capital renewal program would require an investment of approximately $25 million annually.

The industry standard for capital renewal investment is currently 2 percent of replacement value. Based on average replacement values of $150 per square foot, 2 percent would equate to capital renewal requirements of $3.00 per square foot. At $3.00 per square foot and 8 million square feet, capital renewal funding levels should reach $24 million annually. In addition, a growing list of building renewal requirements is developed annually and requirements range from $25-30 million. Budgeted renewal funds in the County have not reached this level. This may be due to the fact that much of the square footage added in the early 1990s was in the form of new facilities and thus has not yet required major capital renewal and subsystem replacement. However, this infrastructure is now aging and appropriate action must be taken to avoid system failures leading to potential disruptions in County services.

Due to budget constraints, the FY 2010 budget for the capital renewal program is $6.79 million. Additional funding must be identified to avoid system failures that disrupt County services. Staff is currently working to supplement the General Fund supported or Paydown capital renewal program by developing alternative financing mechanisms to provide for a more sufficient level of funding. Capital Renewal funding has been supplemented in recent years by increasing bond referendum amounts associated with specific purposes. For example, the voters approved $5 million in the fall 2004 bond referendum for library and human service facility capital renewal requirements and another $5 million in the fall 2006 bond referendum associated with public safety facility capital renewal requirements. In addition, capital renewal components are upgraded, as part of any major renovation/expansion project. These practices are expected to continue where appropriate. In addition, staff is developing the concept of a revolving fund, supported by $15 million annually through the sale of Economic Development Authority (EDA) bonds. This concept is expected to be further developed for implementation in FY 2011 or FY 2012.

5**. <u>Strategy for Stormwater Program Requirements</u>**

As part of the <u>FY 2010 Baseline Budget</u>, I am proposing a new service district to support the stormwater management program, as authorized by Va. Code Ann. Sections 15.2-2400. The proposed FY 2010 levy is $0.015 per $100 of assessed real estate value, an amount that will support both staff operating requirements and stormwater capital projects. Since FY 2006, the Board of Supervisors had dedicated the value of one penny of the real estate tax, or approximately $20 million annually to stormwater capital projects. In FY 2009, due to budget constraints, staff and operating costs were charged to the stormwater penny fund, resulting in approximately $15 million remaining for capital project support. The proposed levy of $0.015 per $100 will provide approximately $18 to $20 million in a typical budget year for program implementation of capital projects, an amount roughly equal to the value of the original dedicated penny. The proposed effective date of the service district and tax rate is July 1, 2009. Therefore, during the service district's first year, taxpayers will be billed for the second half of calendar year 2009, generating approximately $15 million for both operating and project support in FY 2010. It is anticipated that approximately $5 million will remain unexpended within the current stormwater program in FY 2009 based on project timelines and completion schedules. This funding will be transferred at year-end to the new service district, in order to support a total stormwater program of approximately $20 million in FY 2010. It is estimated that beginning in FY 2011, the service district will be fully supported by a projected $30 million annually, enabling much needed capital projects to move forward.

Research has indicated that most jurisdictions have, or are proposing, Stormwater fees or taxes to ensure a dedicated funding source to address both operation and capital project stormwater requirements. The proposed $0.015 per $100 of assessed value results in approximately $69 annually to the typical homeowner. The service district tax is much less costly for the County to establish, administer and maintain than a stormwater utility fee. In addition, the service district tax may be deductible from state and federal income tax, offsetting its impact to property owners.

6. **Provided prioritized project list as a framework for future requirements**
Although the FY 2010 CIP is constrained by the current fiscal environment in the County, it continues to be a strong planning tool, providing a list of prioritized projects for future consideration. Overall, approximately 125 capital projects (i.e., fire stations, libraries, human service facilities) and capital programs (i.e., athletic field maintenance, dam safety programs) have been identified for future requirements beyond the 5-year CIP period. Of this amount, preliminary order of magnitude cost estimates have been developed for approximately 61 percent or 76 projects and programs. For planning purposes, these preliminary estimates indicate a projected requirement of over $970 million. Concept design for the remaining 39 percent of the projects and programs is required and if possible, cost estimates are being developed. Cost estimates for long-term CIP projects are based on preliminary project descriptions provided by the requesting agency and assumed site locations, and include 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.

Conclusion

I believe the County's proposed FY 2010 – FY 2014 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 5-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,

Anthony H. Griffin
County Executive

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