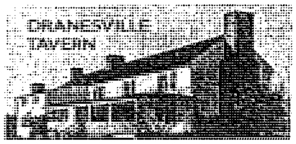

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COMMONWEALTH OF VIRGINIA

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JOHN W. FOUST
DRANESVILLE DISTRICT SUPERVISOR

BOARD MATTER
Supervisor John Foust
April 9, 2012

Report of the Dranesville District FY2014 Budget Task Force

BACKGROUND: Madam Chairman, this year, as I have done for the past five years, I formed the Dranesville District Budget Task Force to assist me in evaluating and providing input on the County's budget. Thirteen residents from across my District worked diligently to examine and discuss issues surrounding the budget. Many of the members have served previously including several who have served all five years. Task Force members have experience in private sector and public sector budgeting, public education, affordable and workforce housing, human services, and taxpayers concerns. John Ulfelder served as the very effective chairman of the group.

Over several months, the Task Force has reviewed, evaluated and discussed the upcoming FY2014 County budget and the community's priorities with respect to revenues and services provided. In addition to presentations from Fairfax County Public Schools and the County Executive, the Task Force heard from staff in the Departments of Transportation, Human Services, Human Resources and the Retirement Administration. The information received helped shape the Task Force's recommendations and conclusions.

A copy of the Dranesville District Budget Task Force report is attached to this Board Matter.

MOTION: Madame Chairman, I ask that a copy of the attached report be included in the public record for consideration as the Board deliberates on the FY 2014 budget and that the County Executive be directed to forward a copy to the Superintendent of Schools, Chairman of the School Board and Chairman of the School Board's Budget Committee.

REPORT OF THE DRANESVILLE BUDGET TASK FORCE
Fiscal 2014

Overview

Our Task Force includes, as former Task Force chairman Rip Sullivan has noted in years past, "...a diverse group in every sense of the word, bringing a wide array of experience and talent to the table. Our goal has always been consensus... upon which we can all agree regardless of position perspective and party." We all understand that we live in a remarkable jurisdiction and enjoy an almost unequaled quality of life, however one chooses to define it. Our recommendations are designed to preserve and enhance that quality, while the County deals with the new economic reality.

In the past, our reports have started with reciting a key principle – no section of the budget should be off-limits to cuts. That remains a core principle.

In preparing the County budget for FY 2014, the Supervisors face a mix of typical and highly unusual challenges. In our report we make some suggestions that are fairly obvious and some that are perhaps both less obvious but also politically difficult. In some cases, issues that might have been addressed in years past have been "kicked down the road." Now is the time to begin dealing with them.

We applaud the new County Executive's decision to present a two-year budget plan. It provides a longer term perspective and forces both managers and the elected officials to stretch their thoughts on evaluating budget choices and challenges.

The issue with the biggest current and long-term impact is the school budget. The Task Force feels that annual percentage increases in the transfer amount to FCPS that exceeds corresponding increases in County revenues are a cause for concern. We are proud that the school system is widely viewed as the County's "crown jewel." But at 52% to 53% of the County budget, it also crowds out other needs that affect citizens' quality of life every bit as much as the schools. With a total transfer contribution of nearly $2 billion from the County, there is more room for reductions than the FCPS budget proposes.

The School Board and the school administration must recognize several new realities. First, commercial real estate tax revenue has fallen significantly as a percent of total real estate tax revenues – from 22-23% down to about 18%, well short of the County's goal of 25%. Continuing shortfalls cannot comfortably be passed on to homeowners. The world of office users and retailers is also changing rapidly. Less space will be needed in the future, putting pressure on occupancy of existing space and slowing the need for new space. That will depress commercial real estate values, assessments and tax revenues. Of course, developers, new residents and new tenants will transform Tysons into the urban center that the County officials have envisioned with a positive effect on tax revenue. But that will be a decades-long process. In the meantime, the School Board and the Board of Supervisors must balance community needs with less than abundant tax revenue.

The national economy is recovering. Fairfax has suffered much less than other parts of the country, but only now are our collective incomes seeing some increases. On the other hand, take-home pay has been reduced by the restoration of payroll tax deductions. Virginia sales taxes will increase as a part of the recently-enacted transportation funding bill. Sequestration will cause both furloughs and lay-offs in our still federal-dependent local economy and has already impacted housing support and programs for poor and underserved residents of our County.

So, is it time for the County to raise tax rates as assessments on homes also rise significantly (at approximately 3.5% after four years of average taxes essentially flat)? A less-than-unanimous Task Force thinks an increase of two cents for FY 2014 and FY 2015 is justified given the circumstances. A significant minority believes that the County has adequate resources to meet its needs without an increase in the tax rate.

There are line items that we do not understand, and some suggest a lack of transparency that the Supervisors should address, where they can. The Board of Supervisors should require that independent boards, such as the Park Authority, do the same. There appear to be case reserves and uncommitted funds that could be used now or in the near future to reduce the need for tax increases. Their existence suggests that the boards may be providing too much flexibility to managers. The two-year budget process will permit the Supervisors to identify future revenue or savings opportunities and then seek legal or managerial changes needed to implement them. For example, legislative action by the General Assembly might be needed to permit a specific action, and that could take a while. More on this below.

We have divided this report into sections by budget categories: schools, transportation, human services, personnel costs, cash and budget resources, and other. "Other" includes some very large components of the budget, such as public safety, parks, and libraries, because our recommendations in those categories are limited.

Schools

This section on Fairfax County Public Schools (FCPS) contains recommendations to improve the transparency of how FCPS uses its resources and to improve communication between the County and FCPS during the preparation of future budgets. It also identifies potential areas where our Task Force believes FCPS could reduce expenditures without having an adverse impact on students.

1. Restructure the School Board Audit Committee

Unlike the Board of Supervisors' Audit Committee, the School Board Audit Committee has no voting members with financial expertise meeting the standards of the Government Finance Officers Association's (GFOA) "best practices". Indeed, none of the current twelve School Board members is a certified public accountant, and it would be difficult for a non-CPA to possess the requisite financial expertise recommended by the GFOA.

The Task Force recommends that the School Board restructure its Audit Committee to resemble the structure of the Supervisors' Audit Committee, by appointing two additional voting members from the community who are "qualified financial experts" as defined by the GFOA,. The School Board should also eliminate non-voting Audit Committee members, to enable the Audit Committee to discuss openly issues where there could be a difference of opinion between School Board members and management.

2. Independent Audits and Evaluations

The Task Force commends FCPS for participating in the state's one-time efficiency review of non-instructional areas, known as the Gibson Report. However, the Task Force also believes that additional steps should be taken promptly to increase the independence and scope of audits, analyses, and other reviews of FCPS. (Many of these suggestions are not made unanimously.)

In addition to restructuring its Audit Committee to ensure that its members have adequate financial expertise, the Task Force strongly recommends that the School Board hire its own Independent Auditor and grant the Auditor wide-ranging authority.

The Task Force recommends that a School Board Independent Auditor review the cost-effectiveness of instructional programs as well as issues such as whether there is potential for fraud and/or redundancy in the procurement of materials and supplies and other similar issues that have historically been examined by the FCPS internal auditors.

The Task Force recommends that the Board of Supervisors' Audit Committee ask its own Auditor to review the use of funds by FCPS, to ensure that there are additional independent and regular evaluations of FCPS operations and programs.

The Task Force also notes that the annual financial statement audit letter by KPMG is addressed to both the Supervisors and to the School Board, and we recommend that the Supervisors' Audit Committee meet separately with KPMG to discuss any concerns that have arisen during its audits of the FCPS financial statements. In addition, the Task Force notes that changing financial statement auditors periodically (approximately every five years as recommended by GFOA) could result in new findings regarding programs and numbers.

3. Increased Collaboration and Communication between FCPS and the County

Consistently, the FCPS Superintendent's Proposed Budget assumes a County transfer that is substantially larger than the amount included in the County's Advertised Budget, creating the appearance of a lack of coordination between the County and the school system.

To minimize similar problems in the future, the Task Force recommends that a committee with members from the School Board and Board of Supervisors begin meeting regularly, starting during the summer, to discuss financial constraints and expectations.

Lastly, the Task Force recommends that the County Executive, with input from the Supervisors, issue projected budget guidelines for the Superintendent and FCPS to use in developing the FCPS Proposed Budget.

4. FCPS Expenses

The school system is the County's top priority, and teachers who work full-time with students are the linchpins in our school system. The Task Force commends the School Board for including a 1% cost of living raise for teachers in its FY 2014 Advertised Budget, and for increasing teacher take-home pay by shifting 1% of the employee ERFC contribution, which combines to almost a 2% increase in take-home pay. However, the Task Force urges the School Board to explore ways to instead provide instructional employees with a FY 2014 raise that qualifies for state matching funds, as provided in recently-enacted state legislation. If it wanted to avoid de-coupling compensation for instructional and other employees, FCPS could use local funds to provide the same compensation increases to non-instructional employees.

This section of the Task Force Report suggests some ways for FCPS to balance its FY 2014 budget with a County transfer that is less than the amount assumed in the FCPS FY 2014 Advertised Budget. The Task Force looked at three sources of funds. The first is one-time funds from reserves and other uncommitted funds. The second is not spending money on some program expansions or other items highlighted in the FY 2014 Advertised Budget. The third is to eliminate costs from its baseline expenditures.

The Task Force also notes that under Virginia law, the Board of Supervisors may make separate allocations to state-defined categories of school division expenses. The Task Force recommends that the Supervisors explore the possible use of that authority in the future.

a. Draw Down FCPS Reserves and Uncommitted Funds

According to the FCPS FY 2012 Comprehensive Annual Financial Report ("CAFR"), FCPS had over $100 million in end-of-year balances not committed to specific purposes by School Board vote, restricted by third parties, or set aside to pay for items ordered at the end of the fiscal year. Although most of these funds were informally earmarked for future uses, the School Board as a whole has not voted on those uses.

The Task Force recommends that FCPS use these one-time funds to pay FCPS expenses in FY 2014. Given that the County holds reserves to cover unexpected costs for the County and FCPS, additional FCPS reserves are arguably redundant. Moreover, they reduce transparency, by providing the Superintendent with the ability to initiate and expand projects without asking the entire School Board to vote to fund the program.

These are areas that the Independent Auditor and the County's Auditor should examine with care.

b. Eliminate Selected Incremental Costs Highlighted in the FCPS FY 2014 Advertised Budget

The FCPS FY 2014 Advertised Budget highlights certain expenses selected by the Superintendent. The Task Force recommends that several of those expenses be eliminated, such as the $3.5 million for extended teacher contracts, $2 million for more "advanced academic" resource teachers, and $1 million for expanding elementary school foreign language programs.

In addition, the Task Force recommends that the School Board choose to reduce expenditures in FY2014 by $11 million by shifting 1%, rather than 3%, of VRS contributions in FY 2014. The Superintendent should provide a detailed analysis of the costs and benefits of this deferral over the remaining three-year horizon for this option.

c. Reduce Funding for Baseline Expenditures in the FCPS Advertised Budget

The Task Force is concerned that the FCPS Advertised Budget for FY 2014 fails to identify any significant savings from eliminating or reducing existing programs. Clearly such savings could be found.

For example, we found several options that would have little or no direct adverse impact on students and, in some cases, also could benefit students by reducing unnecessary administrative burdens on teachers. The Task Force recommends that FCPS consider these cost-savings, which include the possible elimination of the administrative intern program ($1 million), the locally-funded portion of the video production group ($3.8 million), expenses related to eCART (over $10 million) and consulting and other expenses for professional training, facilitators, and speakers (over $10 million).

Further, we note that some program expansions were not identified as such in the FCPS Budget documents, such as the apparent action to expand the IB Middle Years Program to additional middle schools starting in FY 2014. The Task Force recommends that the cost of this program expansion, and any others that were not highlighted in the Proposed and Advertised Budgets, be brought to the immediate attention of the School Board, and considered for elimination.

Again, these recommendations do not have unanimous support on the Task Force.

d. Explore Creative Uses of Existing Resources

Recently, the Supervisors were asked to provide additional funds to enable FCPS to hire more mental health professionals. That request was followed by a strongly supportive article in the Washington Post. There was no mention that FCPS principals could already "trade" positions if they wanted more counselors or other mental health professionals in their schools. The Task Force recommends that before approaching the Supervisors with a request to provide additional funds to enable FCPS to hire more mental health professionals, FCPS should provide clear and accurate information on the rules that govern the ability of principals to exercise their discretion in establishing jobs in their schools, and the extent to which principals have made use of that option in recent years.

Transportation

1. We think that funding for road construction and repairs and for the many important public transit projects in northern Virginia is almost as important as education as a policy priority. As a matter of policy, we urge the BOS to support measures in the GA that direct transportation funds to Fairfax or give voters in Fairfax the chance to tax themselves to pay for upgrades, when the increments are certain to stay here.

2. We urge the BOS to consider committing an income stream to a fund dedicated to transportation (road and transit) improvements. (See item #1 under Revenues below.)

Human Services

1. The County faces increasing pressure for a greater allocation of resources for human services, as demonstrated by the following:
   - Poverty is increasing in Fairfax County and nationally according to U.S. Census results. Requests for help with housing, shelter, food, medical care, employment and other needs increased by more than 78% since the economic recession hit our region, and yet funding for human services has suffered greater cuts during the recession than other areas of the County's budget.
   - The strategies employed in the County's homelessness-prevention initiative are working, but have been under-funded and, as a result, we are running behind in our Ten-Year Plan.
   - Sequestration has landed a tough blow as cuts in two major federal housing programs forced the County's Redevelopment and Housing Authority to halt the issuance of housing vouchers on March 31st, leaving hundreds of individuals and families literally homeless and without options and without a local reserve or backup plan, despite some claims that federal cuts would exempt poverty programs or would not have an immediate impact.
   - The effect of the increasing needs have pushed the caseloads for the County staff and its non-profit partners far above acceptable levels.
   - There are over 1,500 individuals who are homeless in Fairfax County-hundreds of chronically homeless men, women and children who are living on the County's streets, woods or in cars.
   - The cost of quality daycare and developmental preschool programs puts it out of reach for thousands of low-income working families in the County.
   - There are more citizens turning 65 each year than entering kindergarten. The 2007 "50+ Action Plan" has been neglected (though the "village movement" is a major step that costs the County little).
   - State law changes and court rulings are forcing the County to close institutions and place more disabled citizens in the community.
   - Autism is more prevalent than ever among both children and adults, and the adults in particular have not received adequate attention.

2. To address these issues, the Task Force recommends that we consider the following investments:
   - Dedicate a specific funding source-comparable to the successful Penny for Housing Fund that preserved more than 2200 homes from 2006-2010 in the County to ensure the development of safe, affordable housing identified in the County's Housing Blueprint.
   - Prioritize the development of a Services Blueprint, to include employment and job development, to address the specialized support needs of Fairfax County citizens. As noted above in the discussion of mental health personnel in the schools, the number of caseworkers for our most vulnerable residents, both employed by the County and by outside organizations serving this vulnerable population, is too low. Department managers outside FCPS do not have the ability to trade other positions for caseworkers.

With no increase in funding since 2008, caseloads across categories have increased from 16% to over 50%.

- Similarly, caseloads for speech, physical and occupational therapies for needy individuals have grown by over 40%.
- The Task Force discussed a number of strategies that could be considered to increase funding in the human services area, including revisiting allocation for other key areas of the budget and increasing fee-based services for programs such as the School Aged child Care (SACC) for households earning above AMI.

Personnel Costs

1. Approximately 25% of the County staff will be eligible to retire within the next several years, which will result in the loss of many highly skilled and experienced personnel. It presents an opportunity in that their replacements will reduce personnel costs, but they will also be in need of seasoning. We urge the BOS to ask the County Executive to establish a hiring and training regime that will: (a) bring new hires to high productivity quickly; and (b) select employees that offer skills and creativity in technology so that more can be done with less. Again, this goal blends nicely with the move to a multi-year approach to the budget.

2. We observe that the County staff does not take full advantage of already-existing tech tools. For example, more meetings should be done via video conference calls using Skype or other providers of voice over IP technology. This will reduce staff travel time and mileage charges.

3. Health insurance costs continue to burden all employers. Even with a federal focus on changing our health-care-delivery systems, more can be done locally to constrain cost increases and specifically the County's costs. As a major purchaser of health care for its staff, both through its self-insurance agent and other providers, the County is in a position to bargain hard to bring down the prices it pays for hospital and other care to levels similar to what Medicare pays. The County Auditor should explore this further.

Cash and Resources in the Budget

1. We applaud Supervisor Foust's efforts to focus the County's investment advisors on increasing the return they achieve on the investment of the County's short-term liquid investment pools. When the County has $3 billion+ in cash, very small improvements can have a very significant financial benefit. A tenth of one percent is $3 million. The County's practice of investing all this working capital for a term that extends only thru the current fiscal year is much more conservative than most other local jurisdictions, and it greatly limits the interest that the investments can earn. An increase in these earnings could be used to fund County services without additional tax revenue.

2. The County has millions of dollars in proffer funds that are simply sitting in various agency accounts, and which could be used to meet important goals. (The estimate is $51 million overall, of which $40 million is for transportation improvements. This amount does not include escrowed funds.) Over the decades developers and land-owners have paid tens of millions of dollars in proffers negotiated with the County. In Dranesville alone, the Supervisor's staff has identified numerous unspent proffers, some dating back 30 years or more. The money has

contractual strings in some cases, but the County should vigorously pursue releasing these funds and use them for projects that are related to the original one that might not have been built. The County should consider seeking statutory authority so that obtaining use of the funds would be easier after some extended period. We understand that the County Auditor has been working diligently to identify all the funds and to reconcile the completed projects with the original source of the funds.

3. With so much money tied up for such long periods, it is apparent that the language of future proffers needs to leave the County with more flexibility as to the use of unspent proffer funds.
4. The Board of Supervisors should instruct its Auditor to review the independent boards, such as the Park Authority, that have caches of cash as well.

Revenues

1. A meals tax as a source of additional revenue could be dedicated to fund a mix of transportation and school transfer needs. A 4% tax on meals could be put before the voters in November 2014 in time to generate additional revenue for the FY2015 budget.

2. Depending on the terms of the final state budget and the transportation funding bill, sales tax revenue would support Fairfax projects. We urge the BOS to take whatever steps are available to boost revenues for transportation projects as soon as possible.

3. Increased user fees for parks and recreation centers should be considered, with waivers or reductions for those unable to afford them.

Other

1. As population increases and budget capacity is limited, the County should explore options for collaboration and coordination in facilities and operations. For example, is it possible for school and public libraries to be linked more effectively? We recognize that there are administrative and jurisdictional issues to such coordination, but they needn't prohibit well-coordinated and appropriate joint efforts to maximize the use of current facilities and gain economies of scale. We applaud the creation of the joint Capital Facilities and Debt Management Committee of the BOS and the School Board.

2. The Task Force notes that some proposed budget cuts made by the departments in response to the County Executive's requested across the board percentage reduction exercise seem to be intended to raise community concerns about any budget reductions rather than a valid managerial attempt to gain fiscal efficiencies. For example, closing the Mt. Vernon community swimming pool, where recreational alternatives are few, seems a poor choice that only stirs up community opposition to any budget reductions.

3. Similarly, the Park Authority's decision to eliminate all funding to maintain tennis and basketball courts and then to decommission the facilities when they deteriorate is shortsighted.

4. We believe there should be no further delay by the Park Authority in complying fully with ADA requirements for various facilities in the Dranesville District, such as the Grange in Great Falls, as well as for facilities throughout the County.

April 5, 2013

John Ulfelder, Chairman	Jim Edmondson	Armand Weiss
Steven Bloom	Louise Epstein	Kerrie Wilson
Sue Boucher	Al Rosier	
Wes Callender	Rick Sargent	
Eileen Duggan	Gary Soverow	