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, 2010

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 2011 – 2015, with Future Fiscal Years to 2020*. The CIP is being released concurrently with the FY 2011 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 bond sales and the associated debt service payments within projected General Fund availability;
- Reviewed future bond referendum schedules in light of projected resources;
- Developed a limited Paydown Program including funding to address only the most critical requirements;
- Developed a strategy to address facility capital renewal requirements using both General Fund support and short term borrowing;
- Reviewed the Stormwater Management Program requirements and proposed an increase in the service district tax rate from $0.010 to $0.015 per $100 of assessed real estate value, to support increased regulatory requirements for 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 2011 – FY 2015 CIP continues the annual sales target 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 assuming recommended revenues as projected in the County Executive's Advertised budget. As of June 30, 2009, the ratio of debt to taxable property value was 0.94 percent and debt service to General Fund disbursements was 8.2 percent. 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. Ratings reports for Fairfax County bonds, continue to mention the County's financial and debt management guidelines as strengths in achieving a AAA credit rating.

The County's Triple A rating from all three rating houses, is a distinction shared as of December 2009, by only 24 counties, 7 states and 25 cities nationally. Through diligent fiscal management, Fairfax County is able to borrow at the most competitive rates available. On a combined basis the County achieved a blended rate of 2.75 percent on $400 million of both new and refunded bonds sold in October 2009. This extraordinary result was only achieved through the quick action by the Board and staff to take advantage of historically low interest rates in the municipal bond market as well as taking advantage of a new Federal stimulus program benefiting tax-exempt bond issuers. Bond market interest rates had declined to a 42-year low and the County entered the bond market to take advantage of these favorable market conditions and generate interest rate savings. Since 1978, the Triple AAA rating has resulted in bond sale savings of more than $430 million. Paying less interest on debt for capital projects results in more funding available for public facilities and services for residents.

In addition, the FY 2011 CIP continues the previously made commitment to the Fairfax County Public Schools and recommends sales of $155 million through FY 2012. Beginning in FY 2013, School sales are recommended to return to the previously approved level of $130 million per year.

Given the projected revenue forecasts for the next several years, there will be no organizational growth in County services for the foreseeable future. The 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 FY 2011 CIP projected bond sales support the continuation of the current approved program and existing projects are progressing. However, it should be noted that any additions to the planned debt program must be accompanied by commensurate reductions or deferrals to maintain the approved balance of debt service expenditures in relation to the operating budget. Use of additional pay-as-you go financing could be considered as an option in lieu of debt for selected projects.

2. **Future Bond Referenda**

Given the fiscal climate, I am approaching bond referendum planning with caution. I am recommending a County bond referendum of $120 million in fall 2010 (FY 2011) only. This bond referendum will support the County's continuing commitment to the Metro Matters capital program. Additional County bond referendums previously planned for fall 2012 (FY 2013) and fall 2014 (FY 2015) are on hold. However, I have recommended a steady level of support for FCPS referendums of $240 million for both fall 2011 (FY 2012) and fall 2013 (FY 2014).

3. **<u>Developed a Limited Paydown Program</u>**

Once again a limited Paydown Program was funded in FY 2011. The $15,052,154 million Paydown Program represents a decrease of $5,462,630 from the <u>FY 2010 Adopted Budget Plan</u> level of $20,514,784. General Fund support was reviewed critically on a project by project basis and funding was provided for only the most essential maintenance projects and legally obligated commitments. Funded programs include: Capital Renewal support of $3.00 million, Park Authority Grounds, Building and Equipment Maintenance of $2.18 million, Athletic Field Maintenance of $3.77 million, continued revitalization maintenance and support of $.905 million, funding associated with the County's environmental commitment to the Clean Air Partners of $.025 million, on-going development such as Laurel Hill development, emergency road repairs and developer defaults of $1.96 million and obligations and commitments to the School Aged Child Care (SACC) program, the Northern Virginia Community College, and the annual Salona property payment of $3.21 million.

4. **<u>Strategy to Address County Capital Renewal Requirements</u>**

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. Staff has been reviewing funding options to address both the current capital renewal project backlog and a sustainable and reasonable level of capital renewal project activity annually. For several years staff has identified an estimated requirement of $22 to $26 million in capital renewal investment annually for the current building inventory. This estimate was based on two factors:

- 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 that approximately $13 million per year would be required to repair and meet expected equipment replacement needs for these 92 facilities. The number of facilities evaluated represents approximately 50 percent of the current inventory, indicating a total current level 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 equates to capital renewal requirements of $3.00 per square foot. Budgeted renewal funds in the County have not reached the $3.00 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. Applying a $3.00 per square foot industry standard to the 8.8 million square feet currently maintained would result in approximately $26 million required annually for capital renewal expenses.

Annual capital renewal funding has never reached these projected required levels in the County. It is estimated that approximately $35 million in capital renewal projects are currently backlogged. In order to address this backlog and to plan for a more sustainable and reasonable annual funding level, staff has proposed a 3-year plan of short-term borrowing. Borrowing is anticipated to be accomplished through establishing a variable rate line of credit or a commercial paper program to take advantage of very low short-term interest rates. Principal is expected to be amortized over no more than a 5-year period. The repayment of principal and interest will be subject to annual appropriation by the Board of Supervisors. The plan includes the borrowing of $5 million in FY 2011 and $15 million in both FY 2012 and FY 2013. Eliminating this $35 million backlog will allow for a more preventative and proactive maintenance program and increase the life cycle of all County buildings.

The payback of both principal and interest on the short-term debt will be provided by the General Fund in the County's debt service fund. Staff will maintain an even level of General Fund support by increasing debt service funding and decreasing General Fund transfers during the next 10 years. Short term borrowing for capital renewal is included in the debt capacity estimates in the Capital Improvement Program and can be accommodated within established debt limits for general fund supported debt.

Specifically in FY 2011, short-term borrowing of $5 million, combined with a General Fund transfer of $3 million will provide a total of $8 million in new capital renewal project funding. This level of funding will help to maximize the life of the facilities, retard their obsolescence and provide for a planned program of building subsystem replacements to continue to fulfill organizational needs. In addition, staff continues to look for opportunities to supplement the General Fund supported capital renewal program 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. This practice is expected to continue where appropriate.

5**. Increase in Stormwater Service District Rate**

As part of the FY 2010 Adopted Budget Plan, a new service district was created to support the Stormwater Management Program, as authorized by Va. Code Ann. Sections 15.2-2400. The service district levy is currently $0.010 per $100 of assessed real estate value; however, I have proposed an increase in the levy to $0.015 per $100 of assessed real estate value for FY 2011. 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 began to be charged to the stormwater penny fund, resulting in an approximate 50 percent reduction in funding for capital project support. The service district was created in FY 2010 to provide a dedicated funding source for both operating and capital project requirements. The proposed increase in the service district tax rate to $0.015 is based on increased enforcement by the Environmental Protection Agency (EPA) and the state to ensure that stormwater programs advance and do not backslide in implementation and provide funding to begin reinvestment for existing storm drainage systems. The County is currently operating under an extension of the existing Municipal Separate Storm Sewer System (MS4) discharge permit that expired in FY 2007. Negotiations between the Commonwealth of Virginia and Fairfax County, as well as negotiations between the state and many surrounding local communities, continue as several issues related to permit compliance are defined and established. It is anticipated that Fairfax County will soon be under new and increased regulatory requirements as a result of these negotiations, and the Chesapeake Bay requirements. Increasing the rate ½ penny at this time will result in total funding of $28 million, supporting $11.4 million for staff and operational costs and $16.6 million for regulatory requirements and capital projects.

An increase in dedicated capital support will allow the County to begin to ramp up capital project efforts in a more efficient manner and demonstrate to the state and EPA that the County is moving forward with much needed infrastructure renewals and improvements. Approximately 30 percent of the County infrastructure is over 40 years old, with the remaining infrastructure averaging 30 years old. Based on the condition of the portion of the existing system that has been inspected to date, Stormwater staff recommends a program that provides for inspection on a 10-15 year cycle and reinvestment or renewal of the infrastructure on a 100 year cycle. Additional capital support will enable Stormwater staff to rehabilitate more of the existing system, and begin to approach the targeted reinvestment cycle.

6. **Prioritized Project List as a Framework for Future Requirements**
Although the FY 2011 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. Looking ahead to the future, the County's capital program will be challenged by several future developments, some of which include:

- The County's public safety headquarters is currently located in the 166,777 square foot Massey Building, which was constructed in 1967. The building has many inefficiencies such as: aged lighting fixtures; overloaded electrical systems with no spare capacity for new equipment and constant tripping of breakers; aged HVAC components with repair parts often not available; aged plumbing fixtures that cause leaking behind the building walls; roof deficiencies causing continuous leaks; obsolete fire alarm systems and no sprinkler system; and asbestos fireproofing throughout the building restricting or prohibiting access to equipment in order to make needed repairs. The building experienced two failures in 2009 due to chiller and associated components that required staff in the building to vacate and relocate. Staff is working on strategies to replace the Massey building and provide a suitable replacement for the public safety headquarters.

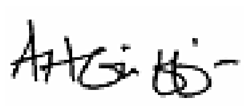
- As the Board is aware, the Tyson's Corner redevelopment plan includes proposals for mixed-use development clustered around the four Metro stations with infrastructure connections such as a network of trolleys, sidewalks and bike paths. The redevelopment plan will result in infrastructure requirements including transportation networks, stormwater management facilities, public safety support and a variety of other support structures. Staff continues to evaluate and develop both capital infrastructure and operating requirements associated with this proposed development in the Tysons area. Additional revitalization areas such as Springfield, Bailey's and Annandale may also result in additional capital infrastructure requirements. Funding these requirements will present an extraordinary challenge in the coming decades. A certain amount of investment in public infrastructure will be necessary both up front and in concert with private sector investment to create an environment that will encourage development at a reasonable pace.

- Funding for the Dulles Rail project is moving forward in two phases. Fairfax County's share of Phase I, in the amount of $400 million, will be funded through a special transportation improvement district established in 2004. The current tax rate for the Phase I district is 22 cents per $100 of assessed value. For Phase II, landowners in the western part of the rail line petitioned the County to form a special district to provide up to $330 million. A special tax will be assessed to provide financing for construction at an initial tax rate of 5 cents per $100 of assessed value for FY 2011, with annual increases of $0.05 to a $0.20 per $100 of assessed valuation. The balance of the funds owed by the County, approximately $120 million for both phases of the project, are expected to be paid from future special commercial & industrial tax revenues or another source as determined by the Board of Supervisors.

In addition, approximately 125 capital projects (i.e., fire stations, libraries, human service facilities) and capital programs (i.e., athletic field maintenance, dam safety programs) have also 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 60 percent or 75 projects and programs. For planning purposes, these preliminary estimates indicate a projected requirement of over $953 million. Concept design for the remaining 40 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.

<u>Conclusion</u>
I believe the County's proposed FY 2011 – FY 2015 CIP reflects a constrained program which fulfils the County's commitments to the FCPS, addresses increased requirements for capital renewal and stormwater management, identifies future challenges such as the public safety headquarters and Tysons Corner infrastructure support and continues efforts on the current program. The CIP provides 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