FY 2013

Advertised Budget Plan

Long-Term Financial Policies and Tools

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Long-Term Financial Policies and Tools

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. For the past 27 years, Fairfax County has earned the Government Finance Officer's (GFOA) Distinguished Budget Presentation Award. Also, Fairfax County has been nationally recognized as a leader in performance measurement, garnering awards such as the International City and County Management Association's (ICMA) Center for Performance Measurement Certificate of Distinction for each fiscal year from 2004 through 2008. In addition, the County received ICMA's Certificate of Excellence, its newest and highest level of recognition for excellence in performance measurement, in 2009, 2010, and 2011. In addition, Fairfax County has also received accolades from the Government Finance Officers Association (GFOA) for "Special Performance Measures Recognition" in fiscal years 2004, 2005, 2007, 2008 and 2009.

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 2013, no changes are recommended. In FY 2008, the Board authorized 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. Prior to the

FY 2008 change, 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 1999 through 2009, the County has approved $2.93 billion of new debt at referendum, with $2.06 billion for Schools.

Since 1975, the savings associated with the County having a "triple-A" bond rating is estimated at $377.64 million. Including savings from the various refunding sales, the total benefit to the County equates to $538.09 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* full text is as follows:

Ten Principles of Sound Financial Management
April 21, 2008

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.

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.

Ten Principles of Sound Financial Management
April 21, 2008

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.

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.

Ten Principles of Sound Financial Management
April 21, 2008

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.

Ten Principles of Sound Financial Management
April 21, 2008

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.

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 January 17, 2012, Fairfax County is one of only 39 counties in the country with "triple A" bond ratings from all three rating agencies.

As of January 17, 2012 only a limited number 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 39 of the nation's 3,143 counties
- only 8 of the nation's 50 states
- only 34 of the nation's 19,429 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 GUIDANCE FOR FY 2012 AND FY 2013 – April 12, 2011

At a regular meeting of the Board of Supervisors of Fairfax County, Virginia, held in the Board Auditorium of the Fairfax County Government Center on Tuesday, April 12, 2011, the Board approved the following Budget Guidance for FY 2012 and FY 2013:

FY 2013 Budget Development

Forecast

The Board directs the County Executive to provide a financial forecast for FY 2013 by Fall 2011 to assist Board of Supervisors' decision-making as it relates to guidance to the County and the Schools on the strategic priorities and the budgetary support for programs and services in FY 2013. This forecast shall include revenue projections with a focus on the real estate market and disbursement requirements for FY 2013 and the next several years. Special focus should also be given to the longer term capital requirements of the County.

The Board of Supervisors directs the County Executive to prepare an FY 2013 budget proposal that continues to consider the affordability of taxes for our residents and businesses and attempts to keep taxes steady with FY 2012.

County and School Collaboration

During FY 2012, the Board of Supervisors would like to continue the successful pursuit of opportunities for collaborations that can result in efficiencies, reductions and improvements. Some of the areas that we may want to explore are in the areas of security, transportation and human services.

To build on the increased collaboration between the Schools and County resulting from several recent initiatives, including the Community School Linked Services and Promise Neighborhoods pilot projects, the Board directs County staff to work with School staff to develop a process whereby the BOS and the FCPS School Board adopt a shared vision for an integrated service delivery system that creates greater opportunities for academic success and improved well-being for children, youth and families and creates a policy framework that maximizes resources, minimizes duplication and enhances overall effectiveness.

Budget Process

The Board of Supervisors recognizes the hard work of its various district budget committees in providing analysis and recommendations on the FY 2012 budget and directs staff to continue to support these groups during their work on the FY 2013 process. The work of these groups was extremely valuable in assisting the County navigate the FY 2012 budget process as well as the last several years. Individual supervisors have used a variety of approaches in establishing their committees or identifying key budget advisors within their districts, which has greatly enhanced the public input process. In addition, the ability of committee chairs to share their ideas and research with other groups provided for a robust exchange of ideas in the best tradition of citizen involvement in Fairfax County government and the budget process.

BUDGET GUIDANCE FOR FY 2012 AND FY 2013 – April 12, 2011

Fairfax County Public Schools (FCPS)

The Board of Supervisors acknowledges the continued spirit of cooperation and collaboration demonstrated by the FCPS School Board and staff in working through the significant budget challenges during the last several years.

The Board is extremely supportive of the School Board efforts to fully implement Full Day Kindergarten within existing school resources in FY 2012. As we heard overwhelmingly during our meetings on the budget, Full Day Kindergarten is a community issue and clearly the Board of Supervisors would, if it could, approve the expansion of Full Day Kindergarten to all remaining elementary schools in the County. To assist the School Board with funding and re-prioritizing its resources to accomplish implementation of Full Day Kindergarten countywide, the Board of Supervisors will provide the savings from the elimination of the Kindergarten SACC program ($500,000), which will no longer be necessary if all Fairfax County Public Schools have Full Day Kindergarten. In addition the Board of Supervisors has identified additional Cable funding of $641,904 that can be added to the School Budget. More flexibility is identified in the $1.9 million in funding for the School Nurse Health Program that is being returned from the County to the School Budget. Without this action, this $1.9 million would have reverted to the County to offset its existing School Health expenses in the Health Department. Lastly, as a result of the Board Auditor's work, there may be additional flexibility within the Cable programming funds which go to the Schools. To be available, this would require a reprioritization by Schools of this funding.

The Board of Supervisors endorses the County Executive's recommendation that the increased School Bond program of $155 million a year (or $125 million in increased capacity over the 5 year period of the CIP) be maintained.

In addition, during the current budget process, the Schools approached the County with a proposal for accelerating construction projects in order to take advantage of the favorable construction market by using short-term financing alternatives for energy-related improvements. To accomplish this, County staff is directed to work very closely with the FCPS staff to identify short-term financing alternatives for energy improvements which are anticipated to result in significant energy savings. The savings can be used to pay off the short term debt. As a result it is anticipated that the FCPS capital program will gain additional capacity by as much as $30 million.

The Board of Supervisors encourages the Fairfax County School Board to establish an independent auditor position that would report directly to the School Board. The Board of Supervisors has had an independent auditor since the 1990s and their work has saved millions of taxpayer dollars and resulted in more efficient delivery of services.

Available Balances

The Board of Supervisors directs that remaining balances made available at the Carryover and Third Quarter Reviews that are not required to support critical requirements be held in reserve to address FY 2013 budget challenges and requests that the School Board also reserve available balances for FY 2013 requirements. Recognizing that with the slow economic recovery and the budgetary reductions taken by agencies that have reduced their flexibility it is more important than ever that the County maintain adequate reserve funding for unforeseen requirements.

BUDGET GUIDANCE FOR FY 2012 AND FY 2013 – April 12, 2011

County Staff

The Board of Supervisors has a strong and consistent record of meeting our financial obligations relative to retirement. The Fairfax County Retirement Systems are sufficiently funded to meet all benefit payments into the foreseeable future. Even though our systems, as with all systems nationwide, have experienced significant challenges related to the financial crisis in FY 2009, our systems have had exceptional investment returns, with the Employees' system placing first and the Police Officers system placing second in the nation among all corporate, public and endowment plans.

The Board of Supervisors looks forward to reviewing the study on County retirement benefits once completed which will include a comprehensive understanding of the long term liabilities of the retirement system, recommended options for system affordability and benefits and specific programs. In addition, the Board directs that staff include as part of this discussion a review of the concept of a health insurance opt-back-in for retirees, a review of health savings accounts, i.e. Voluntary Employees Beneficiary Associations (VEBAs), and further changes to the employee contribution to Police retirement.

In conjunction with this analysis, the Board directs the County Executive to include at the *FY 2011 Carryover Review* funding for a reduction in the Social Security offset from 30% to 25% for service-connected disability retirees in the Uniformed and Employees' Retirement Systems. The Board also directs the County Executive to take necessary action to seek amendments to the Fairfax County Code reflecting this change. This will continue the previous commitment to reducing the offset for these retirees which we have been unable to fund during the most recent budget difficulties.

Staff is directed to continue to monitor the impact of the reductions in public safety overtime, especially for Police, and report back to the Board any necessary changes or unanticipated impacts that need to be addressed during FY 2012.

Staff is directed to complete its work on changes to the Pay for Performance program for Board approval at an upcoming Personnel Committee meeting so that any funding implications can be included in the FY 2013 budget. The changes already approved by the Board for FY 2013 include the implementation of a single anniversary date for performance reviews for non-public safety employees and endorsement of a revised pay for performance system that will include a market rate adjustment increase and a variable rate increase based on performance. Both of the increases would be dependent on funding availability.

Human Services

In its testimony on the FY 2012 budget, the Human Services Council commended the budget's support of the safety net we have worked so hard to establish and maintain. There were a number of recommendations made by the Council, many of which have been resolved through adjustments to County revenues or included in the Board's budget proposal. In addition, staff has identified FY 2012 resources to continue the homeless youth initiative which was begun using ARRA funding, and the Board directs that this service be considered within the County's homelessness and housing planning processes as well as the funding pool process in the future. Staff is also encouraged to continue working on leveraging County funds with the private sector to maximize the ability of the community to combat homelessness. Finally, in light of potential federal budget reductions to key services to County residents including Head Start and CDBG, staff is directed to monitor and quantify the impacts and identify options for potential offset of these service reductions.

BUDGET GUIDANCE FOR FY 2012 AND FY 2013 – April 12, 2011

Staff is also directed to review funding requirements for the Housing Blueprint for FY 2012 and identify flexibility in Fund 319 generated from program income, savings from the Crescent refinancing and grant opportunities, and report to the Housing Committee at an upcoming meeting so that any necessary funding adjustments may be made at Carryover.

Direct staff to work with our community stakeholders to review the Ending Homelessness Strategic Plan and develop a framework for providing a full continuum of supports that address the root causes of homelessness. The Housing Blueprint and the Preventing and Ending Homelessness Strategic plan are excellent foundations for addressing homelessness and the availability of adequate affordable housing resources, but to ensure positive and sustainable outcomes, we must work to enhance the capacity of our system to provide support services for those most in need. Our strategy must include new housing resources but also the full continuum of housing supports including customized employment services, affordable health care and childcare in an effort to prevent homelessness and end the cycle of chronic homelessness.

SAFER Grant

The Fire Chief is directed to evaluate SAFER Grant funding opportunities to enhance the local fire departments' abilities to comply with staffing, response and operational standards

A Copy Teste:

Nancy Vehrs

Nancy Vehrs,
Clerk to the Board of Supervisors

Reserve Policies

The reserve policies adopted by the County are complimentary to the requirement for balanced budgets. Among the long standing policies are:

- that annual budgets be balanced between projected total funds available and total disbursements including funding for established reserves; and
- that it is imperative that positive cash balances exist in the General Fund at the end of each fiscal year; and
- that 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.

There are two primary General Fund reserves:

- Managed Reserve - 2 percent of General Fund Disbursements or $69.2 million as of the *FY 2011 Carryover Review*
- Revenue Stabilization Fund Reserve - 3 percent of General Fund Disbursements or $104.6 million as of the *FY 2011 Carryover Review*

A Managed Reserve (MR) 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. The MR has been maintained since 1983 and a withdrawal has never been made from it.

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. 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. The RSF was created in FY 2000 and fully funded in FY 2006. 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.

The Revenue Stabilization Fund was used for the first/only time in FY 2009. A withdrawal of $18.7 million was a small part of the total plan approved by the Board with included significant reductions, a furlough for employees and application of other balances to address a $64.7 million shortfall at the *FY 2009 Third Quarter Review*. As a result of available balances at FY 2009 year end, the full reserve has been replenished.

In addition to the Managed Reserve and the Revenue Stabilization Fund, the County has many reserves maintained within various funds. Among these reserves are those designated for replacement of equipment and facilities, identified for long term liabilities, to meet debt service requirements and as operating / rate stabilization reserves. As part of the annual budget process staff identifies potential changes to funding levels and brings to the Board policy decisions which need to be made in relation to Reserve Policies. In addition, at yearend, during the Carryover process, reserve balances are often reset as a result of actual fund balances and/or actuarial analyses. More detail about the size of reserves and the specific use for them is available in each agency narrative but the Board policies concerning reserves are summarized below.

Replacement Reserve Policies: The Board of Supervisor's has repeatedly reaffirmed the policy that the County 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. These reserves are necessary to provide a source of funding for planned replacement of major equipment or infrastructure over several years. 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.

Outstanding Liability Policies: The Board of Supervisor's has also consistently funded reserve requirements for outstanding liabilities as they are identified and in conformance with accounting standards and practices. It is important to note that contributions to these liability reserves have been sustained even as reductions in services have been made demonstrating the commitment of the Board to meet its fiduciary responsibilities. An example of a liability reserve is the County's Self Insurance program which is evaluated each year by an actuary and the liability for all self-insured programs is identified. The accrued liability reserve identified as of year-end each year is funded during the Carryover Review. An additional reserve is also currently identified by County policy for catastrophic loss above and beyond the identified accrued liability. Beginning in FY 2008 the County's financial statements were 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. As a result an annual required contribution (ARC) to meet the long term liability is funded by both the County and Schools.

Debt Service Reserve Policies: The majority of debt service reserves are maintained by a trustee as stipulated by the terms of the bond documents for the bonds which are being supported. However, as an Enterprise System of the County, Sewer Bond Debt Reserves were established in Funds 400, Sewer Revenue, 406, Sewer Bond Debt Reserve and 407, Sewer Bond Subordinate Debt Reserve to provide one year of principle and interest for the outstanding bond series as required by the Sewer System's General Bond Resolution.

Operating and Rate Stabilization Reserve Policies: The County has also identified reserves for potential operating adjustments that may be required and/or to help mitigate the need for significant shifts in tax rates or charges for services. The Boards of both the County and Schools have often approved set aside reserves to assist in budget development for the next year. These reserves have been established as the result of balances accumulated through expenditure savings and conservative revenue projections consistent with the policy that positive cash balances are available at year end.

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 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 15.2-2507 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 1.0 percent of expenditures. 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 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 1.0 percent of expenditures.

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.

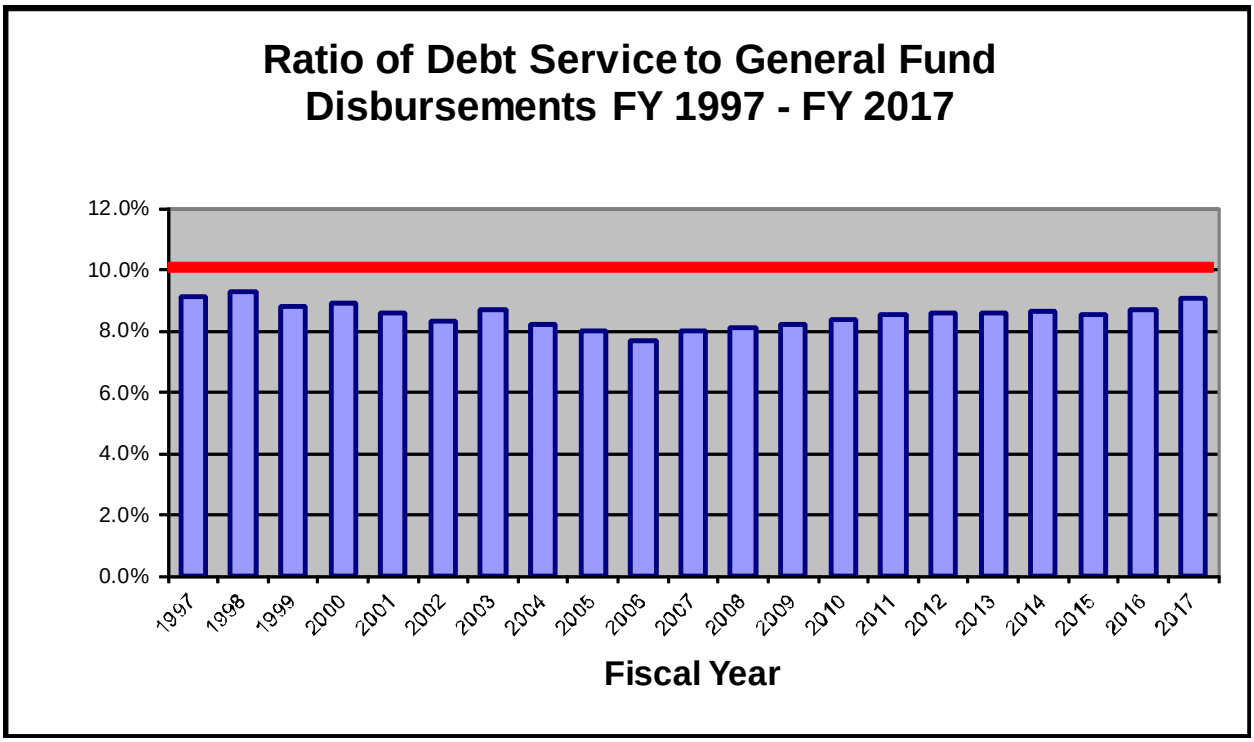
Debt Management/Capital Improvement Planning

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	Percentage
2009	276,105,000	3,354,860,267	8.23%
2010	277,370,000	3,309,904,535	8.38%
2011	285,551,000	3,343,688,525	8.54%
2012 (est.)	297,973,182	3,462,096,250	8.61%
2013 (est.)	302,705,781	3,521,348,574	8.60%

[1] The amount includes total principal and interest payments on the County's outstanding tax supported debt obligations, including general obligation bonds and other tax supported debt obligations. Source: Fairfax County 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
2009	2,131,273,000	245,145,594,000	0.87%
2010	2,318,699,000	222,671,526,000	1.04%
2011	2,554,051,000	203,621,876,000	1.25%
2012 (est.)	2,604,429,353	205,949,000,000	1.26%
2013 (est.)	2,698,936,070	212,662,937,400	1.27%

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

[2] Source: 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.

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. On March 18, 2002 the Board of Supervisors adopted a corridor approach to employer contributions. 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 the pre-selected corridor of 90-120 percent. 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. Additional changes to employer contribution rates may occur 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. It should be noted that, in their budget guidance approved with the adoption of the FY 2010 budget, the Board of Supervisors directed staff to review the requirements placed on the County's retirement systems as a result of the economic downturn. As the County continues to address increasing benefit costs, the volatility of the financial markets and uncertainty about future funding flexibility, the Board felt it was an opportune time to examine and refine a number of policies related to the County's retirement systems, including the corridor funding approach. Staff conducted a comprehensive examination of the current corridor policy and concluded that the corridor approach should be maintained, as it has cushioned the County from dramatic rate increases in the past and is currently providing insulation from the global financial crisis. However, recognizing the difficult economic environment and the impact on investment returns, it is unlikely that the funding ratios for the three systems will increase significantly over the next few years based on the current corridor parameters. Consequently, the corridor will remain at 90-120 percent, as codified in the Fairfax County Code, but every effort will be made to gradually move towards a narrower corridor of 95-105 percent. This solution will allow the County to maintain the flexibility afforded by the current policy with the understanding that increasing contributions to the retirement systems, when feasible from a budgetary perspective, will improve the systems' financial position. At a future date, when the funding ratios of the systems have risen above 95 percent, consideration will be given to formally revising the corridor to 95-105 percent.

As directed by the Board of Supervisors, and with funding designated at the *FY 2010 Carryover Review*, the Department of Human Resources contracted with a benefits consultant to conduct a comprehensive retirement study. The preliminary results of this study were presented to the Board on January 17, 2012, and will be considered by the Board during their deliberations on the FY 2013 Adopted Budget Plan.

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 were 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 established an OPEB Trust Fund in FY 2008 to pre-fund the cost of post-employment healthcare and other non-pension benefits. 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 it 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 an amount for benefits accrued by active employees during the fiscal year, 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 annually as part of the 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 also created an OPEB Trust Fund, in accordance with guidance provided by GASB, in FY 2008 to begin to address their unfunded liability and pre-fund the cost of other post-employment benefits.

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.

Ten Fundamental Principles of Information Technology (Continued)

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.

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 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. In FY 2008, project screening criteria as presented in the CIP was approved for determining when an unsolicited 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. As of January 28, 2008, the County will only pursue an unsolicited PPEA project if, based on minimal analysis; the project offers a significant contribution to near term CIP goals, it offers significant savings to the General Fund or a significant positive effect on our debt capacity.

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.

Long-Term Financial Policies and Tools

Financial Forecast

A forecast of 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:

Strategic Planning – The Balanced Scorecard Approach: The focal point for the framework of the County's current strategic planning process is the Balanced Scorecard initiative. The strategy map and the balanced scorecard comprise the principal elements of the County's "Balanced Scorecard Approach." The focus on the countywide strategic planning process in 2008 centered on the creation by each agency of a "Strategy Map" and a "Balanced Scorecard." The strategy maps are a graphical, cause-and-effect diagram which shows the interdependency of an agency's strategic objectives. It is a framework that helps County agencies translate strategy into operational objectives which drives both organizational behavior and performance. It is an extremely effective management tool that will help agencies align strategy and performance throughout their organizations. The balanced scorecard enables agencies to measure and report on measures in both the financial and non-financial arenas as well as from an internal and external perspective in these four categories: (1) *financial* perspective; (2) *customer* perspective; (3) *internal* processes; and (4) *learning and growth*. By December 2008, most agencies completed both their strategy maps and balanced scorecards. There are also plans for the County to develop both a high-level, countywide strategy map and a balanced scorecard to enable cascading from the broad perspective down to the agency level, thus strengthening the alignment of strategy activities throughout the County.

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. From 2004 through 2008, Fairfax County received the Certificate of Distinction from the International

City/County Management Association (ICMA). In 2009, 2010, and 2011 Fairfax County received ICMA's newest and highest recognition for performance measurement, the Certificate of Excellence. In September 2009, Fairfax County also received Special Performance Measures Recognition from the Government Finance Officers Association (GFOA). In addition, Fairfax County has also received accolades from the Government Finance Officers Association (GFOA) for "Special Performance Measures Recognition" in fiscal years 2004, 2005, 2007, 2008 and 2009.

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.

Consistent with the County's ongoing assessment of its compensation philosophy and policy, staff undertook a review of the pay for performance system during FY 2004, the fourth year of the program. As part of this analysis, other jurisdictions with pay for performance systems were surveyed for best practices. As a result, the County Executive recommended changes to the system for FY 2005, to better align the pay for performance system with the County's goals and competitive marketplace practices. Efforts will continue to update employee performance elements and assure their linkage to departmental strategic plans and performance measures. Countywide training for employees and managers will continue to be a priority, as will the expansion of options for multi-rater feedback as part of the performance management process.

During FY 2007 a further review of County compensation practices, including the pay for performance system, was undertaken. The Board of Supervisors approved changes during their deliberations on the FY 2008 budget. These changes targeted the disconnect between an employee rated as "fully proficient" who received a 1.7 percent pay raise. The previous five rating levels were expanded to seven rating levels in response to focus group feedback that greater rating flexibility was needed in the rating process. The rating labels were also 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.

Pay for Performance is being continued; however, in FY 2010, FY 2011, FY 2012 and FY 2013 the program has not been funded given the fiscal environment. Changes to the pay for performance system will be put in place when funding is again available for compensation increases. The revised program will include both a market rate adjustment component and a performance based component. The performance based component is still under development but the existing practice of performance reviews on individual employee anniversary dates will be replaced with a single anniversary date countywide in the fall with all employees receiving the appropriate performance increase at the beginning of the calendar year. The market rate adjustment will continue to be calculated based on an approved formula, but will be applied to all employee groups and pay scales, will be implemented at the beginning of each fiscal year; and be complemented by a pay scale review every 3-5 years to maintain market competitiveness.

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.

In FY 2008, Fairfax County added a Succession Planning component to workforce planning. The Succession Planning process provides managers and supervisors with a framework for effective human resources planning in the face of the dramatic changes anticipated in the workforce over the next five to ten years. It is a method for management to identify and develop key employee competencies, encourage professional development and contribute to employee retention.

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 the Overview Volume.