Lee District Budget Advisory Group's
Report for Supervisor Jeff C. McKay:

Fairfax County Budget: 2012 and Beyond

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Table of Contents

EXECUTIVE SUMMARY

This is the third year that the budget advisory group for Lee District has examined the Fairfax County budget. When we began our work in late 2010, the projected shortfall was $54.5 million. The choices at hand seemed easy compared to those in the previous years when significantly larger shortfalls were projected ($257 million for 2011 and $650 million in 2010). When the County Executive presented his 2012 Advertised Budget with a positive balance of $30 million instead of a shortfall, the initial reaction was a collective sigh of relief. However, our group recognizes that this "unallocated balance" results from a number of assumptions made for 2012 such as: 1) small across-the-board spending reductions, 2) last year's real estate taxes rate increases, and 3) other major proposed actions by the County Executive which include freezing employee compensation for a third year in a row. Our focus with this report is not on arguing the merits of these assumptions. We hope, rather, to offer our analysis and recommendations in areas which will keep Fairfax County focused on the good government principles which we have espoused in our previous reports: distinguishing clearly between the core and nice-to-have programs, setting clear funding priorities and making sure that our government is operating in a manner that it is efficient, effective, and sustainable. We believe that opportunities still exist for improving our County operations and further reducing costs. We also believe that now is the time to aggressively seek all possible avenues for increasing and diversifying our revenue stream.

Two areas have received our special scrutiny this year because of their impact on our funding: the cost of our schools and our employee compensation and retirement benefits. We firmly endorse the County's strong commitment to the Fairfax County Public Schools (FCPS). However, the FCPS budget documents raise more questions than answers and hamper our analysis to determine whether, in fact, maintaining this excellent system needs to come with the price tag being presented to our residents. The Schools have requested an additional $48.8 million in funding this year which would allow them to give school employees raises and add more positions to address increased enrollment. The Lee District budget group feels strongly that this request cannot and should not be approved. In this report, we offer recommendations which we believe will help address the issues of transparency in the FCPS budget and budgeting process and the low confidence levels it inspires.

Next, we strongly believe that the issue of employee compensation must be addressed. The message to the hard-working employees of Fairfax County must be that we recognize them to be our greatest asset and that they are valued. The budget actions in past years and those proposed for FY 2012 – though understandable – do not send that message. If feasible, we advocate for a one-time bonus for high performing employees. At the same time, there is a continuing burden to the County for funding the employees' retirement system. A retirement system is an important benefit offered to our employees but it should be structured and maintained in a manner which is sustainable. We eagerly await the results of the County Executive's comprehensive study and with our report have also offered our ideas.

Looking to the long term, we believe there are initiatives which could be undertaken to improve the County's financial posture in the future. These involve strategic changes to how we view and accommodate our economic development and transportation needs. Specific recommendations have been presented for consideration. On a smaller scale, we believe a thorough review of the Federal and State unfunded mandates may yield chances to reduce the drain on our county budget.

As always, we are appreciative of the County leadership and staff's tremendous hard work and efforts for keeping our County government fiscally sound. We appreciate the opportunity provided by Supervisor McKay to offer input on the 2012 budget and stand ready to assist in any way.

INTRODUCTION This is the Lee District budget advisory group's third year of examining the Fairfax County budget. When our group convened in December 2010 to begin work on the 2012 budget, there was a projected shortfall of $54.5 million. Compared to the dire projections of the previous years -- shortfalls of $257 million for 2011 and $650 million in 2010, the task before us seemed less daunting. When the County Executive's 2012 Advertised Budget was presented, instead of the smaller anticipated shortfall, the Board of Supervisors was presented with a potential positive balance of $30 million. While the initial reaction may have been a collective sigh of relief, our group recognizes that this "unallocated balance" was generated by a combination of (1) small but across-the-board reductions to the departments; (2) last year's rate increase in real estate taxes to hold revenues level; (3) major assumptions by the County Executive for 2012 to freeze employee compensation, allow no expansion of county funded existing programs, allow no county funded new programs, and allow no restoration of prior reductions. Rather than argue about any of these assumptions, or be distracted by an apparent available balance of budget for 2012, our group worked hard to stay focused on issues that should improve the county's overall financial well being and quality of life while being good stewards of the burdens placed on our taxpayers. We all recognize that the county government's focus must remain on the good government principles which we have been espousing: being clear about what are the core and nice-to-have programs, setting clear funding priorities and making sure that our government is operating in manner that it is efficient, effective and sustainable.

THE BUDGET ADVISORY GROUP At Supervisor McKay's request, the Lee District budget advisory group was reconvened for its third year to provide advice on the Fairfax County budget. Though slightly smaller, the group this year essentially consists of original members representing a broad cross-section of backgrounds, experience and perspectives. Members bring to the table backgrounds in government and private sector fiscal management and experience in county government to include membership on significant boards, panels, and committees. Each member came to work with a willingness to apply reasoned judgments as to the efficacy of all county programs and services. All recommendations put forth in this year's report are made on a consensus basis.

GUIDING PRINCIPLES As it has done in the previous years, the group began its deliberations by identifying a set of principles to guide its work and shape its recommendations.

1. The resulting budget must provide for good government -- a government that is effective, efficient, sustainable, and measurable.

2. As the school system accounts for approximately 53% of the county expenditures, it must be subject to the same good government principles and practices as the County. There must be more transparency in the FCPS budget so that county residents can understand the true cost of the school system and the impact of the decisions made by the FCPS in using County funds.

3. Budget balancing reductions must take into account the value of the County's workforce in bringing the County to the position it enjoys as a top rated place to live. Every effort must be made to mitigate the sacrifices made by employees who are facing a third year of no compensation increases.

4. All avenues of revenue enhancements must be rigorously explored and pursued.

5. The County and the Schools must be able to distinguish between must-have (core) governmental functions and nice-to-have (non-core) functions and then clearly articulate those to the citizenry.

Budget cuts should be prioritized accordingly. Even core functions should be reviewed for appropriate levels of spending compared to basic necessities.

6. Nothing is off-the-table. All aspects of the budget are open for review and critique – there are no "sacred cows" to be avoided and no "off-limits" areas. However, the focus must be more on smart spending rather than across-the-board cuts.

7. Allocation of scarce budget resources should consider value vs. dollars invested.

8. Agencies and/or programs which have experienced a disproportionate rate of growth during past periods of increasing budgets should bear special scrutiny in the present and future budget years.

THE 2012 ADVERTISED BUDGET The FY 2012 budget plan includes a projected 3.1% increase in revenues to the General Fund over last year's Adopted Plan. Spending has risen slightly by 2.6%, but the net effect is that positive balance of $30 million is being projected. This positive balance assumes no tax rate increases, no employee compensation increases and limited infrastructure improvements. We applaud the County for how it has met the fiscal challenges of the Great Recession which began in late 2007. It is a testament to the quality of our County's leadership and staff that we have weathered what we hope is the worst part of a recession which threw virtually all levels of government into a fiscal crisis mode. We appear to be on relatively sound footing for 2012 due primarily to an improving real estate market and reduced government spending over the past two years. The County Executive states in the 2012 Advertised Budget that where we are today reflects our "*new normal*" for County government – that is, no expansion of existing programs, no creation of new programs and no restoration of previous reductions or eliminations. This group, in general, endorses the notion of the new normal, though of course, we believe that there will be exceptions. The group offers no significant disagreements with the specifics of the 2012 Advertised budget though we would like to see some accommodation made for employee compensation increases and a minor restoration to the Police budget. As we have in the past, we believe that the County's quest for seeking ways to make government more efficient, effective and sustainable must continue in 2012 and beyond.

The Schools The County's funding to the Fairfax County Public Schools (FCPS) remains the single largest expenditure at 52.5% of the General Fund. The 2012 budget recommends a funding level to the Schools which is equal to the amount provided in the FY 2011 Adopted budget. In February, the FCPS Board approved their own budget which would give school employees raises and add more positions to address increased enrollment. To fund their budget, they are asking that the County increase the amount of the Schools transfer by $48.8 million. There is no provision in the County's 2012 budget for this increase and the County Executive has stated that such an increase would require nearly a 3 cent real estate tax rate increase to fund. As we have in our previous reports, we believe that the School Transfer requires special scrutiny; our concerns and recommendations are outlined in detail later in this report. The Lee District budget group feels strongly that the Schools request for an additional $48.8 million cannot and should not be approved.

$30 Million Balance The County Executive presented several options to the Board of Supervisors for using the projected available balance of $30 million. Given the uncertainties of the fiscal environment, we are not confident that this balance will indeed be available. The group does not wish to prescribe how to parse the $30 million, nor does it wish for this to become a focal point of our report. However, as guidance, we offer below our priority ranking for use of any positive balance in the 2012 budget.

1. *Employee compensation*. We agree with the County Executive's simple, yet powerful statement: our County government's greatest asset is its employees. This budget proposes freezing employee compensation for a third year in a row. If compensation increases could be considered, we advocate for a one-time bonus for high performing employees.

2. *Public safety.* This option was not included in the County Executive's list but we believe that public safety is a key component of the high quality of life that our residents enjoy. That quality of life also drives the economic development efforts which build our local economy. In this report, we recommend a very moderate restoration of a cut proposed in 2012 in this area.

3. *Save for future budget years.* This is the time to continue our belt-tightening. During the crisis years, critical infrastructure investments were put on hold. This, combined with the fragile nature of our economic recovery, argues for saving for future budget years.

4. *Reduce tax rate.* The same negative fiscal environment which has affected the county budget with this recession has also directly affected individual county residents. We recognize that the opportunity exists to reduce the real estate tax rate. We place this option at the bottom of our priorities.

Short and Long-Term Recommendations As in the past, we offer both short and long term recommendations for the Board of Supervisor's consideration. Our long term recommendations speak to strategic issues which we believe will benefit Fairfax County's future financial situation. Our short term recommendations are those which we believe will yield benefits if implemented over the coming year. We endorse our recommendations from prior years, but for lack of space they are not repeated in this document. Additionally, we note that one of our previous years' recommendations to establish a GAO-type audit function has been realized in a small way. The Office of Audits staff was increased by one staff year. We appreciate the time taken by staff to meet with us on this office's current efforts and future plans. Though not of the scale we had recommended, we are encouraged by the effort. For ease of reference, a summary of all recommendations is attached.

RECOMMENDATIONS SECTION

1. Long-Term Strategic Recommendations to Improve the County's Future Financial Posture.

Discussion: The group understands the strong nexus between quality of life and economic development in this region but firmly believes much more can be done to promote both. We endorse the strategies proposed in the Economic Advisory Commission's recent report "*Fairfax County: Preserving our Quality of Life Requires Maintaining a Strong Economy,"* and would like to offer some specific examples and imperatives for timely action in Fairfax County.

The group recommends that the Board of Supervisors consider some specific steps to improve the County's long-term financial health and transportation issues in addition to whatever tweaks are being made to the annual budget this year. We also recommend the Board consider taking some of those steps in southeast Fairfax County in the near-term as a test bed for greater applicability. The concepts in this report are offered for consideration based on the observations and professional experience of the group members. We have focused on two primary areas of attention with ideas that should attract economic development and improve quality of life by addressing transportation issues while also helping to diversify revenue streams for the County.

At the conceptual level, the group believes there is merit in promoting "live-work" communities across the County where office and other commercial space are made available for higher density development (including higher density residential) in pockets adjacent to major arteries and residential neighborhoods. Such mini-communities would create more opportunities across the County with the potential for employees to live close to where they work. Not only would this improve quality of life by reducing commuting distances, it reduces congestion on the roads, improves environmental conditions, reduces dependence on vehicle transportation, and builds a sense of community. There are examples across the country where live-work communities are thriving.

Fairfax County's current Comprehensive Plan guidance and existing zoning limitations do not support such development as stand-alone communities and, in fact, tend to perpetuate the concepts of separation of residential neighborhoods from business centers. Such thinking fundamentally results in everyone becoming a commuter – whether on transit or private vehicles, the result is the same, lost time commuting and increased congestion across the County.

This would be a fundamental shift in planning guidance and would need to be accompanied by new thinking about transportation issues and incentives. The group suggests that the County reexamine the Comprehensive Plan's transportation section and make necessary changes to better facilitate public sector development. More importantly, we need a discussion of incentives such as investment of future taxes produced by new development into infrastructure enhancements concurrent with development and financed by revenue set aside for this purpose or bonds. This would only be triggered by an agreement (proffer) by a developer to provide additional transportation improvements not already mandated by the zoning ordinance. That, more than anything, will help get things moving in areas where the County is ripe for economic development such as along Richmond Highway.

The County also needs to reach out to its citizens to make them aware of the benefits of such changes in approach to planning and zoning.

<u>Economic Development</u>**:** Fairfax County is seeing an infusion of about 22,000 prime government jobs in the area through the BRAC process. This is a unique and time-sensitive opportunity that represents a discontinuity in normal economic growth patterns for developing areas. Such events call for special response mechanisms because normal local governmental processes cannot respond appropriately. While these decisions were made by the Department of Defense in 2005, the County has not been able to respond to the increased demand for commercial development except for a few isolated cases in that whole area of the County. Without some way to accommodate this new demand for office and other commercial space, Fairfax will likely see those companies moving to locations outside the County further increasing traffic congestion as the private sector employees travel to meet with and support their government clients. In the not too distant future this will become an 'opportunity lost' for Fairfax County economic development.

The group endorses the Economic Advisory Commission's Strategic Plan recommendation which was stated as follows:

"Fairfax County should engage in an ongoing review of its ***regulatory processes****. Efforts should focus on facilitating and providing a customer service-oriented process; expediting the process; making the process more predictable; increasing flexibility where appropriate; making timeframes more predictable; and making costs feasible and more predictable (proffers, fees, time is money, costs of complying with regulations, such as storm water management)."*

Recommendations: Overall the group recommends the following actions be considered by the Board of Supervisors to help promote economic development in the County:

- Increase efforts to ensure timely Zoning and Building permitting for near-term commercial construction.

- Streamline Comprehensive Plan Amendment and Zoning processes to keep pace with changing requirement.

- Revamp and update Comprehensive Plan guidelines to promote live-work communities.

- Seek legislative efforts to create an emphasis with financial incentives for attracting businesses. (Business uses generally create a net positive financial impact sooner compared to residential which is generally net negative for many years to come.)

- Re-calibrate guidelines, goals and financial incentives to achieve desired commercial percentages.

- Create alternatives to Personal Property Taxes for business assets (computers and furniture). (Potentially create exemptions for offices in the home and possibly provide offsets for businesses that promote telework.)

- Build partnerships with business community for targeted funding/grants.

- Prioritize "quality of life" initiatives which further promote economic development and growth for the County, such as:

    - increase emphasis on multi-modal solutions including transit, bikes, and pedestrian routes in local areas,
    - focus on completing sidewalks infrastructure for access to schools and new business areas,
    - promote Arts and Cultural centers/Community theaters to enhance the live-work environment in Fairfax County.

- Continue to aggressively pursue GSA site redevelopment for office/commercial uses. Seek Federal legislation, State subsidies, and offer County land as new site, *(Ask Congress to force GSA to sell the property for office/commercial uses. Revenues from the sale would help to offset relocation costs and, in exchange for County providing a free site for the relocation, County would benefit from appropriate commercial development near the transit center and proximate to BRAC sites, Fairfax County Parkway, and the Interstates.)*

<u>Transportation:</u> There are at least six key concepts at work here: (1) we not only need funding for roads and transportation improvements but (2) we need incentives for people to drive less. (3) Small fuel

efficient and alternative fuel vehicles, while environmentally more friendly than other vehicles, still clog our roads and contribute to the demand for transportation and roadway investments. (4) Gas tax has been frozen for years and will become even less relevant as vehicles move away from fossil fuels. (5) Alternative fuels reduce dependence on oil but many bio-fuels have profound and negative impacts on cost and supply of food. (6) Personal property taxes create an incentive for people to drive older and often less efficient and less safe vehicles rather buying new vehicles and paying higher annual taxes.

A miles-driven user fee is an alternative to increasing the gas tax and would also provide an opportunity to do away with unpopular personal property tax. We recognize and do not minimize the tremendous coordination efforts needed with surrounding local governments as well as the federal government to implement such a fee. A miles-driven fee would address all six dimensions simultaneously. It would provide revenues for investments in transportation and be calibrated to how much any individual vehicle is driven each year. It would create incentives for people to move closer to where they work and to think twice about making unnecessary trips during the day. And, it could also help to promote telework and work from home solutions. All of the foregoing would have long-term positive impacts on transportation in the region. Another benefit in trading personal property tax for miles driven user fee is that people would have an incentive to buy new, safer, fuel efficient, and less polluting vehicles which also promotes the national economy.

To help offset impacts of commercial development, Fairfax County could make better deals with developers when planning and zoning variances are being sought by participating financially in some of those mitigation measures. We suggest that in the future the County identify and set aside some funding for this purpose. This, coupled with voluntary proffers would help to promote a joint approach to infrastructure improvements so the total burden does not fall to individual business interests or to the State or County.

Recommendations:

- Direct staff to study the feasibility of implementing a miles-driven user fee which also takes into consideration impacts to existing taxes, the considerable coordination efforts needed with surrounding jurisdictions and the federal government, and legislative requirements.

- Continue to actively identify and pursue Federal and State grants for transportation across the board.

- Continue to seek legislative authority to balance growth with planning and developer contributions to better manage hidden and indirect costs and impacts.

- Identify or generate funding that would be made available to participate in infrastructure improvements where infrastructure investments are contributed by the private sector to support economic development initiatives.

<u>Unfunded Mandates:</u> Unfunded Federal and State mandates continue to strain the County's budget. For the past two years, this group has recommended that the County examine existing mandates with the goal of lessening their impact on the County budget. This issue remains unaddressed and is included again in our report this year.

For our analysis of unfunded mandates, we examined the FY 2008 Federal and State Mandates annual report and also met with Mike Long, Deputy County Attorney. The FY 2008 report includes all federal and state mandates and the cost for implementing each mandate. The Department of Management and Budget discontinued producing the report as a result of the recent budget cuts and the last annual report available was for FY 2008. In the FY 2008 report, the net cost of the unfunded federal and state mandates to the County, after adjusting for federal and state revenue and other fees, is shown at $751 million. Of this figure, approximately $313 million is attributed to federal mandates and $438 million to state mandates.

However, this $751 million unfunded mandate figure must be viewed with skepticism. The report included many "mandated" costs more appropriately categorized as general administrative or operational costs that are part of the business of day-to-day government. For example, State and Federal guidelines cited in the report concerning staffing, procurement, taxation, and other administrative areas are not mandates but rather the enabling regulations which ensure that government functions equitably. The report also includes mandates that only require the establishment of a function with no specific language as to the number of people needed to perform the function. For example the report lists the direct cost (over $4 million and 70 staff years) for the Board of Supervisors as an unfunded mandate. Unfunded mandates continue to place a strain on the county's budget and should be addressed, however, it is unlikely that the impact is even close to the $751 million identified in the last annual report.

Recommendation:

- County thoroughly, and realistically, review all Federal and State unfunded mandates. Such review should:
  - Begin with a realistic definition an unfunded mandate (i.e. what is required by the legislative/regulatory language and what would we not do if it wasn't mandated) and identify the true impact of unfunded mandates to the County.
  - Identify those mandates which are being funded at levels beyond the minimum required by the mandate. If there is no good rationale for doing so, funding levels should be reduced.
  - Identify obsolete mandates which no longer serve any operational or mission-related purpose and begin legislative efforts to modify, eliminate or seek relief from those mandates.

2. The Fairfax County Public Schools

Discussion: The County Executive is recommending a General Fund transfer to the FCPS of $1,773.8 million in FY 2012. Within this amount, the transfer for School operations remains at the FY 2011 level of $1,610.3 million and the transfer in support of School debt service is $163.5 million. The County also provides additional support, separate from the General Fund transfer, to the Schools in the amount of $58.9 million for school-related programs. On February 3, 2011, the FCPS Board approved a $2.2 billion advertised budget for FY 2012 that would give school employees raises, add more positions to address increased enrollment, maintain class sizes and necessitate a $48.8 million, or 3 percent, increase in the General Fund Transfer from the County. This is not an insignificant request from the FCPS. As the County Executive points out, this request would require nearly a 3 cent Real Estate Tax rate increase to fund and has not been included in County's 2012 Advertised Budget. We also note that almost 73% of the 2011 FCPS budget came from the county. When compared to other school divisions in Virginia, the county funds a much larger portion of its school budget with local funds. This is due in part to a complex and changing formula called the "local composite index" (LCI) which assesses the State's payments back to localities looking at true values of real estate and public service corporations, adjusted gross income and taxable retail sales numbers.

Fairfax County and its citizenry are united on the fact that the school system provides a necessary and first rate education for the children of Fairfax County. Many believe that the county's top performing schools contribute to the overall high quality of life in the county. Numerous businesses cite the school system as a reason their companies did, or may, relocate to this area. But reports also indicate that the citizenry is divided as to how much the schools can be funded given the county's slow economic recovery. Many feel that by funding the schools at or above the current level, other county services—public safety, parks, recreation and libraries—that also contribute to the quality of life in our county, will be compromised. It is our intent to assist the public debate about funding priorities while avoiding programmatic cuts many would view as harmful to our schools and community. With this in mind we submit the following issues and recommendations for consideration.

<u>Issue 1: Transparency and Accountability</u> The administration of the FCPS system has come under scrutiny by various groups for lack of transparency in their budgetary process. Some of this comes from the "average parent" who finds it very difficult to synthesize and compare 200 plus-page documents from year to year, difficult to understand why successful programs are slated for cuts, difficult to follow the funding stream from proposed budgets to county and state funds and difficult to make educated and logical decisions in streamlining administrative costs vs. critical student services and reasonable class sizes. Our group's concern for transparency and accountability was reinforced by the difficulties we experienced in getting forthright and timely responses to our budget questions.

The Lee District budget group recognizes the emotional responses related to issues involving children. We also realize that some issues we raise will have valid, reasonable explanations. However, our overwhelming consensus this year remains that the school budget process and documents lack the transparency necessary to reach reasoned conclusions about an appropriate funding level. Given the foregoing, there is a growing lack of confidence in the FCPS presentation of what is truly "needed" in order for the County to maintain its superior school system. The School Superintendent often claims that FCPS is an efficiently managed system by citing that the system ranks 4th when comparing average cost per pupil to other local districts. This claim is misleading. In addition to the General Fund transfer, the County also funds a host of other school-related activities. In 2012, this additional support for the Schools totals $58.9 million for programs such as School Health, School Resource Officers, School Crossing Guards, after-school programming, field maintenance and recreational programs, among others. These costs are not factored into the "cost-per-pupil" formula or the transfer amount. Thus, the cost-per-pupil, as presented, is a poor indicator of the overall efficiency of the FCPS. We believe there are significant opportunities within FCPS to improve efficiency in operations and reduce costs. Absent a truly accurate measure of costs, it is impossible to say with any degree of certainty whether the FCPS is or is not efficient. There is ample anecdotal evidence to suggest that significant opportunities exist within the FCPS to improve efficiencies in operations and reduce costs.

Neither is the true cost of our schools to the taxpayer accurately captured in the County or the School budgeting processes. When factoring in the additional support for schools cited above, the percent of the General Fund allocated to the FCPS becomes 54.3% rather than 52.5%. We also question whether there is a better financial model for how these services should be funded. For example, if the full cost of all services was included with the transfer, arguably there would be better incentives for stronger accountability in the use of those funds.

Recommendations:

- Establish a joint County and FCPS committee to address the budget transparency issues which have been raised. This is critical to building confidence in our ability to understand and endorse the "needs-based" budget which the FCPS presents each year and to assess overall efficiencies in the School program.

<u>Issue 2: FCPS Operating Fund Year-end Balances, Reserves, Contingency Funds, Needs-Based Budget</u>

An analysis of FCPS financial documents from FY2003 to the present (Proposed and Approved Budgets; Annual Financial Reports; and Annual Reports of Expenditures) shows:

- FCPS estimates expenditures significantly above its approved/adopted budget; for the current year, FY2011, estimates are $108 million above the approved budget.
- FCPS, annually since 2003, has expended far less than its approved budget by a minimum of $22.5 million and a maximum of $105.7 million.
- FCPS' actual starting balances have exceeded $102 million annually since FY 2004.
- FCPS' year-end balances have exceeded adopted budgets by a minimum of $98.7 million and as much as $136.2 million.
- FY2012 Proposed Budget (School Operating Fund Statement) shows "Reserve Available" of $47,993,007 and a dedicated starting balance of $53,818,854 from FY2011 School Board actions for a total of $101,811,861.
- Automatic Carryover[1] funds have doubled in two years—from $15.7 to $31.5 million.

The FCPS Superintendent has referenced the recommendations of financial advisors that the schools maintain a 3% reserve, approximately $66 million of recent years' budgets. The reported year-end balances far exceed the recommended $66 million. Budget estimates in 2004 through 2007 included a School Board Reserve of $8 million, 2008's estimate reserved $6.818 million. Other years' budget estimates provided for no School Board Reserve. It remains difficult to determine where these ending year balances are applied. If it is the intent of the Superintendent to maintain a contingency or reserve fund it should be defined as such. Any transfers from such funds should be clearly articulated. Beginning balance funds, such as this year's $189.7 million, demand greater accountability without the need for a question-and-answer process that can take months.

Analysis of financial data showed FCPS reserves and carryover funds rising during extremely lean economic times, which appear contrary to the schools' constitutional obligation to prepare needs-based budgets. Evidence shows FCPS maintaining high levels of student achievement while growing annual

[1] Unobligated funding from the current year that is moved forward to the next year. This form of carryover is reserved for schools and primarily covers their supply and hourly accounts. It allows schools the flexibility of multi-year planning for a portion of their funding and has been especially helpful during the economic downturn.

savings. We applaud these efficiencies and encourage FCPS to prepare true needs-based budgets based on these achievements.

Recommendations:

- Board of Supervisors request that the FCPS include in the School Budget clear definitions for year-end balance, school board reserve and the contingency fund; their purpose; restrictions; how they are used and some historical trend data.

- Board of Supervisors request FCPS to modify accounting of their desired School Board Reserve. Advertised and Adopted Budget documents, which support FCPS' request for their County Transfer amount, should reflect the desired Reserve amount along with its intended purpose defined in the budget documents. The School Board Reserve should include triggers that would prompt a draw-down. (Triggers might include revenue shortfalls of established amounts, student population increases above estimates, and/or emergency situations like the fire that destroyed Dogwood Elementary.)

- Board of Supervisors ask the FCPS to:

    - Clearly document transfers from any FCPS account established as a reserve or contingency. These would include staffing/flexibility, school materials, and school board reserve, and

    - Clearly identify receivables accrued to prior fiscal years

<u>Issue 3: School Operating Fund Fiscal-Year Estimates</u> Lee District group members reviewed FCPS financial documents from FY2003 to the present: Proposed and Approved Budgets; Annual Financial Reports; and Annual Report of Expenditures (ARE) 2009, 2010. The analysis shows that FCPS:

- annually estimates expenditures significantly above its approved budget,

- annually estimates available funds significantly less than its approved budget,

- annually since 2003, has expended far less than its approved budget by a minimum of $22.5 million and a maximum of $105.7 million,

- actual starting balances have exceeded their adopted budgets by a minimum of $52 million and as much as $136 million annually, and

- actual year-end balances have exceeded the adopted-budget amounts by a minimum of $98.7 million and as much as $136.2 million annually

Providing information from the Approved Budget alongside budget estimates puts information in better context. It affords FCPS staff the opportunity to explain both necessary expenditure increases and cost containments. With explanations of variances contained in the budget documents, staff can avoid time spent answering questions.

Recommendation:

- Board of Supervisors request that the Operating Revenue & Expenditure Details in the FCPS Proposed Budget be modified. Currently, the details display Actual amounts from the three prior fiscal years, the current fiscal year's estimates, and the coming year's proposed budget. We recommend the details reflect two previous fiscal year's actual, the current year's approved budget and estimates, and the coming year's proposed.

Issue 4: Compare & contrast Virginia Department of Education and FCPS categorical reports The Code of Virginia §22.1-81 now requires school divisions to complete the Annual Report of Expenditures. The information contained in this sheet is derived from the Annual School Report (ASR) submitted every September by school divisions to the Virginia Department of Education. The report can be found at *http://www.fcps.edu/fs/comptroller/reports/index.htm* . Our group reviewed this document and noticed significant variations between VDOE's defined categorical expenditures and FCPS' allocations (see "School Expenditure Categories FCPS-Defined vs. VA Dept. of Education Reporting" on page 8):

	FCPS % of Operating Expenditures 2012 Proposed*	**VDOE % of Total Expenditures (posted 11/23/10)**
Instruction	85.2%	68.70%
Admin, Attendance, Health	4.9%	3.08
Pupil Transportation	5.5%	4.48
Operation & Maintenance Service		7.99
Food Services & Other Non-Instructional		2.81
Facilities	4.3%	4.81
Debt Service & Fund Transfers		2.59
Technology		5.53
Contingency Reserve		0.00

* FCPS budget documents provide a breakdown of the Proposed Operating Expenditures, which do not include Food Services or Debt Service. FCPS categories are Instruction (costs associated with providing instructional programs), Facilities Management (costs related to operation & maintenance of school buildings & equipment), Transportation (bus driver salaries, replacement buses, bus operations & maintenance), and General Support (support services for finance, HR, IT, purchasing & leadership team).

Recommendation:

- Board of Supervisors request that FCPS include these comparisons in their Advertised/Proposed Budget, along with VDOE definitions of the expenses in each category and where FCPS' classifications vary.

Issue 5: It is difficult to assess how positions are allocated between instructional and all other In reviewing budget documents, it was difficult to define what positions actually are, with titles like "business specialist" and "functional supervisor." Last year, while FCPS did put out an informative document to reflect the impact of their department budget cuts (5%) there was no tandem document to reflect what positions remained in central administration with their titles or compensation. While it is acknowledged that a document of this type may take time to create and maintain, it would be most helpful to quell the rumors of distrust that the school system is heavy in administration. This excerpt from a recent Washington Post article (2/22/2011 "Study: Manassas Park and Calvert County have most efficient schools in D.C. area") illustrates our group's sentiment:

> "Calvert Superintendent Jack Smith said the county has a lean central office and requires nearly all teachers to have full classroom duties. In other systems, Smith said, schools often employ numerous teaching specialists and other personnel who are not assigned to particular classes. *'We don't have a lot of other people doing a lot of other work outside the classroom,' Smith said. 'Our only purpose here is for students to learn. That helps us make decisions about how to spend our money.'*"

Recommendation:

- Encourage FCPS to add an appendix to budget documents with position descriptions and categorized as instructional or administrative, school-based or not. Further, that FCPS develop a document that clearly shows what jobs remain in central administration after any reductions, with titles, salaries and benefits. Have this available for School Board and citizen review. Once developed, keep it current with hires/fires/attrition. This will go a long way to help define whether or not the centrally-administered budget could withstand additional reductions and allow for a more open dialogue between all concerned parties. For the purpose of this report, we consider central staff to include the leadership team, centrally-administered staffing and support services--essentially, all non-school based positions and services.

<u>Issue 6: Program Reviews</u> FCPS' Strategic Governance Initiative serves as the primary means by which the School Board assesses school system performance via its Operational Expectations (goals) and Monitoring Reports. We strongly support the use of measurable, meaningful targets and their accompanying reports to maintain transparency and accountability to the community. Some school expenditures are easily tracked to operational expectations and accountability reports; many, however, are not. Program evaluations have been done for a number of programs, such as FLES. FCPS has developed and utilized quality standards templates for this purpose. Our group is concerned only about the number of evaluations that are possible with existing staff.

Recommendation:

- Strongly encourage the FCPS to add an inspector general, ombudsman or independent auditor, reporting directly to the school board, to oversee FCPS program evaluations and financial reviews. The Board of Supervisors should direct detailed program reviews for all school services currently funded outside the schools transfer.

Additional Questions/Issues to Consider About the FCPS Budget & County Transfer

The Lee District budget group offers no specific recommendations on the items enumerated below. They are offered as additional areas which the Board of Supervisors may wish explore in their deliberations for the FY 2012 budget.

The Foreign Language in Elementary Schools (FLES) and Partial-Language Immersion programs These were designed to bring the benefits of learning a second language to the county's youngest students. The Immersion program offers daily instruction in the second language while the FLES program offers 2 hours per week in a language instruction. In reviewing these two languages models, no supporting data is available to compare and contrast success with these programs as compared to beginning a language in middle school. While it is recognized and supported that these programs indeed enhance the overall educational experience the FLES program has not expanded as initially proposed. In the current budget climate it would be prudent to look at other options to bring foreign language instruction to all students. We are encouraged by recent statements from the Superintendent acknowledging his intention to review and evaluate the FLES program for its intended outcomes.

Food & Nutrition Services The number of students qualifying for Free- or Reduced-Priced Meals increases annually-- now up to 1 in 4 FCPS students-- yet the fund's ending balance also rises annually [$8.45 million in FY08, $10.87 million in FY09, and $16.04 million in FY10…and projected to be $15.37 million in FY12]. This apparent inconsistency may warrant further examination.

COLA & Step Increases According to the Superintendent, these will cost $76 million in FY2012. FCPS has requested an increase of $48.8 million in the county transfer to cover a portion of these expenditures. The balance would come from current-year savings or reserves and $21 million from the federal education jobs bill. Given that the federal aid is one-time only, it would be helpful to understand the FCPS strategy for how the salary increases will be accommodated in future years.

Carryover and Starting Balances For FY 2011, the FCPS is estimating expenditures to exceed its approved budget by $108.9 million, including $57.5 in 2010 accruals, $8 million for a flexibility reserve and another $100K in audit adjustments. The remaining $42.9 million in overruns is unexplained in budget documents. Is the correct assumption that all of the $31.5 million in automatic carryover and $5.3 in unencumbered carryover will be expended this year? If so, that still leaves $7.1 million undesignated. At the same time, the School Board has set aside $53.8 million for the 2012 starting balance and there is $42.99 reserve available. This means a total designated carryover from 2011 to 2012 of $108.5 million. An explanation of these circumstances, including school-by-school details of automatic carryovers and plans for expending those carryovers, would be helpful.

3. Public Safety

Discussion: According to Council of Governments data, Fairfax has one of the lowest police-officer to population ratios in the Washington, D.C. metropolitan area. Fortunately, it also has one of the lowest crime rates. Gang activity, however, continues to be a growing concern and the percentage of burglary cases solved hovers at the 35 percent mark. The latter is of great concern in residential communities. As the County's population has increased, particularly in the Southeastern section served by the Mount

Vernon, Franconia and West Springfield stations, the total number of officers county-wide has decreased by 18 over the last two years. At the same time, because of the increased number of communities to protect, stations have had to cover more neighborhoods without additional personnel. Added to that, the 2012 budget now proposes a decrease of $1million in unscheduled overtime which would further reduce the police presence in needed communities.

The priority the County places on public safety contributes to its high quality of life for residents. We understand that realities of the current economic times require reductions but believe that the strategy to cut overtime is short-sighted. We believe that continued decreases in police presence emboldens criminals. When more police presence is needed in our communities, using overtime to meet those needs is a less expensive alternative to hiring. At the same time we advocate for not reducing police overtime, we also believe that budget-neutral opportunities exist within the Police Department to shift resources in order to increase patrol presence in our communities.

Recommendation:

- The Police Department develop a strategy, using existing staff, to deploy more patrol officers on the streets. Further, we recommend that the County restore the $1million proposed cut to the overtime budget. We have cited public safety as the Lee Budget Group's second highest priority for use of any available balances for FY 2012.

4. User Fees

Discussion: For the past two years, we have recommended that the County conduct a rigorous revenue enhancements review which includes existing fee structures and new fees. The most recent staff review of user fees was conducted during the fall of 2010 and though a formal report was not issued, we were provided with a summary analysis. The summary analysis covered the three revenue sources below representing $110.5 million in estimated revenues for FY 2011. Of this amount, approximately 20% or $22.4 million represent fees/charges which cannot be changed by the County.

- $65.9 million Charges for Services
- $27.7 million Permits, Fees and Regulatory Licenses
- $16.9 million Fines and Forfeitures

The matrix below captures the information provided by the staff.

Summary of Staff 2011 User Fees Study		
Type	**Comment**	**Revenue Estimate**
Charges for Services		
Clerk Fees and some fees for Health Department services	**Set by the State and cannot be adjusted.**	$8.1 million
Includes School Aged and Employee Child Care fees (adjusted in 2011), Park Authority fees (set for full cost recovery), Police Reimbursement fee, copying charges. *Note:* statement in staff summary "since no compensation increases are anticipated in FY 2012, there is no increase planned for fees based on salary increases."	Fees are reviewed for annually for adjustment	$36.2 million
Fees raised include Library Overdue Penalties, Police Reports Fees and Elderly Day Care Fees. In addition, new participant fees were implemented at Senior Centers	Fee adjusted in FY 2010	$4.8 million

Summary of Staff 2011 User Fees Study		
Type	**Comment**	**Revenue Estimate**
EMS, Parking Garage, Animal Shelter, Recreation Fee charged by Dpt Neighborhood & Community Services, Health Dpt Lab Service Fee, Library Copy plus 14 other misc. fees. *Note:* statement in staff summary "No increases are recommended at this time; however, these fees should be reviewed when compensation increases resume."	Fee increased prior to FY 2010	$16.8 million
Permits, Fees and Regulatory Licenses		
Fees primarily those associated with environmental health. Also includes Concealed Weapon Permits, Dog Licenses, Mixed Drink Establishment Licenses, and Election Filing Fees.	**Set by the State and cannot be adjusted.**	$1.5 million
Majority in this category is generated from Land Development Services ($18.0 million) and Zoning Fees ($2.9 million), others: Fire Marshal, Fire Prevention Code Permits, Environmental Health Fees controlled by the County, Alarm Registration. *Note:* statement in staff summary "fees will be reviewed once compensation increases resume."	Fees adjusted in FY 2010	$26.0 million
Taxicab Licenses, Home Child Care Permits, Massage Therapist, and misc. other fees. *Note:* statement in staff summary "fees will be reviewed once compensation increases resume."	Increased prior to FY 2010	$ .2 million
Fines and Forfeitures		
Fines and penalties assessed by the General District Court, Circuit Court and Juvenile, Domestic Relations Court	**Set by the State and cannot be adjusted.**	$12.8 million
Alarm Ordinance Violations, Parking Violation.	Fees Adjusted in FY 2010	$4.1 million

We noted several instances where the staff stated that since no compensation increases are anticipated in FY 2012, there is no increase planned for fees based on salary. However, the Advertised Budget for 2012 includes $35 million in increased employee benefits costs. Based on this, we are assuming that in some cases, the methodology used for establishing the fee or charge does not include all associated direct and indirect costs. User fees, charges for services and permits, fees and regulatory licenses should be based on real costs to the County.

Recommendation:

- Staff develop a comprehensive policy and uniform methodology for establishing fees which include as a minimum all costs for salary and benefits and any other indirect costs deemed appropriate (supplies and materials, capital facilities and equipment, depreciation in equipment value, and any other costs attributable to the production and delivery of a service.) Because the costs of providing a service may vary from year to year, all fees should be evaluated on an annual basis.

- Explore areas for new user fees. If feasible, where authority exists – implement, where it does not, seek appropriate legislative authority.

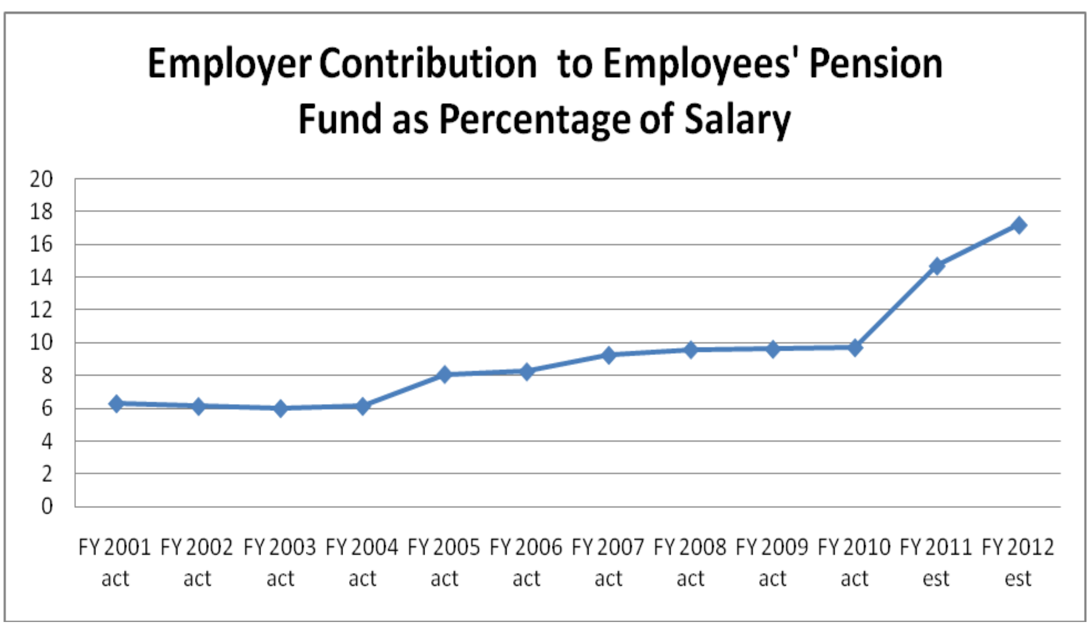
5. The Pension System

Discussion: The current defined benefit pension program, although operated soundly, has experienced an upward trend in cost to the County for some years. With generally better health and improved life expectancy, one would expect this trend to continue causing even greater costs to the County to support this program in the future. The amount of the County contribution to the retirement systems in 2010, the latest year for which actual costs are available, was $110,677,159. If that number could be reduced, it could mean significant savings.

The County supports three pension systems or trust funds operated by one office under the Office of the County Executive. They are: Fairfax County Employees', Uniformed, and Police Officers. The Police fund, the oldest, was established by state statute and the Employees' and Uniformed by County statute. The trust funds' sources are employer contribution, employee contribution, and return on investments in equities, etc. The employees' contributions as a percentage of salary has remained steady since 2001. The FY 2012 contribution rates and the numbers of employees by plan are shown in the chart below. Unlike the other two groups the police do not participate in Social Security. The employer contributions based on percentage of salary has been rising for the past ten years due to changes in investment results, pension COLAs, number of retirees, and other factors. The three trust funds are maintained at levels within 90-120% of actuarial-based obligations, and the Board of Supervisors has recently set a goal to have the funds maintained at levels within 95-105% of actuarial-based obligations. The total amount in all three funds was $3,612,860,902 (Uniformed: $867,187,220; Employees': $2,039,051,396; Police: $706,622,286) as of the beginning of FY 2010.

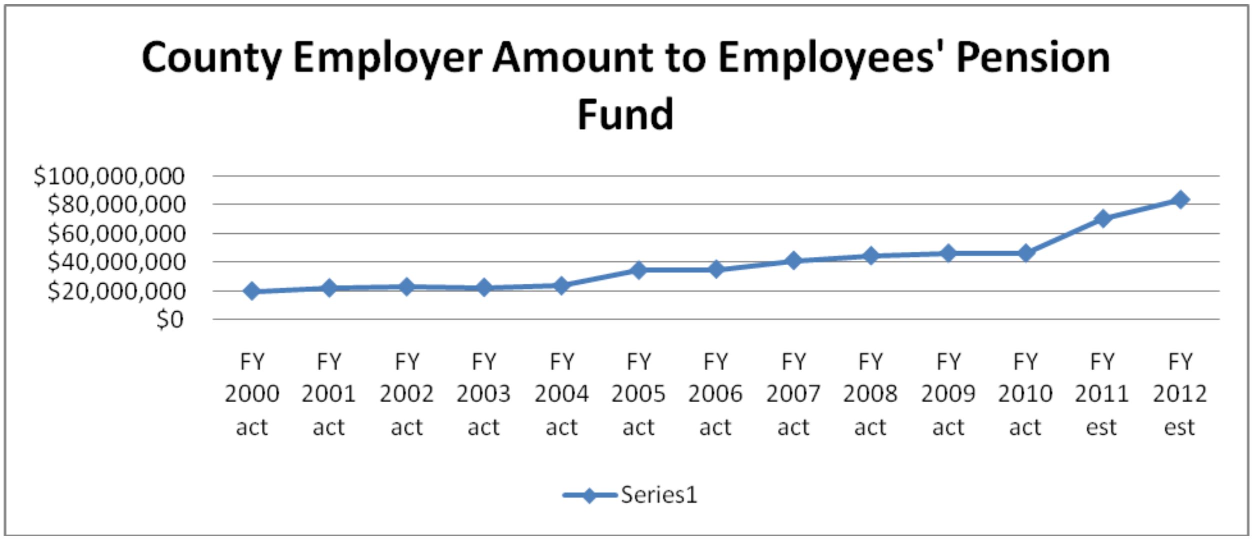
FY 2012 Contribution Rates – Percent of Salary			
Fund	Number of Members	Employee(depending on plan)	Employer
Uniformed	3,145	4.00% to 8.83%	33.81%
Employees	21,313	4.00% to 5.33%	17.20%
Police	2,229	10.00%	31.30%

As expected, the number of active employees and retired employees receiving a pension has grown over time based on figures from 2000 to present despite several reductions in workforce size. Also County salaries, based on pay-for-performance and Market Rate adjustments, have grown modestly over time as well. Therefore, one might expect the employer contribution to also increase modestly and to fluctuate as investment returns fluctuate. However, we observe a persistent upward trend in the County contribution as a percentage of salary. The Employees' pension fund is used here because it is the largest of the three (several times the size of each of the other two funds).



As seen by the 2011 and 2012 higher projections, the investment results experienced significant negative impact as a result of the global financial crisis during FY 2009. The County plans to recover within a few years. However the 10–year trend is undeniable. For the Employees' Fund, the percentage of salary contributed in 2001 was 6.29 %, and by 2010[2] it was 9.71%, an increase of 54%. For FY 2012, it is projected to rise yet again to 17.20%.

The figure below shows the growth in the employers' contribution to the Employees' Fund in terms of the amount of contribution.



The employer contribution amount shows a 110% rise from 2001 to 2010[3] and another projected rise of 81% from 2010 to 2012. The 2011 and 2012 projections show an increase equivalent to 100% of the 2004 total contribution amount each year.[4]

The number of retired employees receiving a pension is slowly getting closer to the number of active employees. For example, in the Employees' fund the active to inactive ratio has decreased from 4.1 to 1 in 1995 to 1.9 to 1 in 2010. A pool of invested assets has been established in anticipation of this development.[5] However, the relative number of retirees is growing, which presents additional pressure on the County contribution. There are a number of uncertainties, e.g., improved life expectancy, change in size of workforce due to restructuring, and people working longer before retirement.

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[2] The 2011 and 2012 figures are estimates, and they may be unusual since the County is recovering from 2009 market conditions.

[3] Twice the rise in percentage of salary over the same period.

[4] Again, this reflects the County's efforts to recover from the FY 2009 economic situation.

[5] CAFR 2010, Employees' Retirement System, page 43.

Issue 1: How to address the County's increasing cost of its retirement system. Most companies[6], the federal government, and some states have opted for a defined contribution retirement system. While employee salaries should increase over time, due to inflation and other factors, a defined contribution retirement plan (401(k)) would limit employer obligations to a defined maximum[7] percentage of salary. Such a move would require a detailed study of two methods and the best way to transition. The County has a retirement study underway due in the summer of 2011 that will address issues of defined benefit and defined contribution systems.

Under such a change in retirement plan, new employees would be given only the 401(k) option. However the transition for current employees is more complicated and could take many different forms. For example, (1) the transition to 401(k) could have incentives for current employees to accept the new plan and to cut over immediately taking their pension contribution and investment earnings into the 402 (k) plan, (2) current employees who have a number of years of service could stay in the current pension system, (3) there could be a combination of a small pension and 401(k) for current employees, or other combinations. It should be noted the County already provides a deferred income investment option similar to 401(k) that does not include a County contribution.

Such a major change would not be without its risks but there is much experience in the federal government and private sector to draw from. The greater risk may be staying with the current system with its trend of rising costs and burden on the taxpayer. This change would require time to engage with employees to determine the most prudent way forward. There would be one-time additional costs to set up such a program—not an initiative for this year. Therefore any implementation plan may need to be delayed for a year or two.

Recommendation:

- We understand that the County is currently in the midst of a comprehensive study of the retirement system and plans to present its results to the Board of Supervisors in the summer of 2011. If not already included, we recommend that the study include:
  - Short and long-term cost comparisons between the current and proposed new system,
  - The impact that changes to the current retirement system would have on hiring and retention (e.g., a bonus for reaching a certain number of years of service), and
  - What, if any, incentives could be offered to employees in the new plan (e.g., matching funds).

Issue 2: Management of the current pension systems. While the current pension systems are managed soundly and include strategies to limit investment risk, the budget impact is significant, for example the Uniformed fund employer contributions as a percentage of salary (the highest of the three in terms of percentage) has ranged from 20.11% in 2001 to 26.46% in 2010, and projected to be 30.56% in 2011 and

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[6] http://www.whitneybank.com/businessbanking/bb_sb_retirementplans.asp, viewed on 3/12/2011.

[7] Assuming the plan would have employee and employer contribution as a percentage of salary and that there would addition voluntary employee contribution that would be matched by the employer

33.81% in 2012. The percentages for the Employees' fund are shown in the chart above. Pending any changes to the current system, reduction in the cost of the pensions should be explored.

Looking at Employees' fund (the largest), in the last 10 years the service costs have ranged from $6,883,000 (FY 2002) to $32,686,115 (FY 2008). The Board of Trustees of each fund determines the mix of investment types for its fund and works with a number of investment services firms to carry out the investments. The 2012 budget shows 49 investment companies being used. Of those, five are used by all three funds and an additional ten are used by two of the funds. The rate structures for these services are typically based on the amount to be invested--the higher the amount, the lower the rate. In cases where the same firm is used by multiple funds, consolidation of the investment amounts across those funds should yield a lower rate, thus savings for the County. We understand the County may already be taking advantage of this opportunity.

Recommendation:

- We urge initiation or continuation of the consolidation of investments with the same service company to obtain a better fee structure when the same company is used by multiple funds.

Issue 3: Retirement eligibility requirements. Whether or not the County moves entirely or partially to a 401 (k) retirement program, the current structure of the pension plans should be reviewed since it is highly likely that some form of defined benefit system will continue at least for several years. The Police system may have to continue indefinitely because of its link to state statute.

The three funds have different rules for the benefit which have remained unchanged throughout the period of review. The Uniformed fund allows retirement at 55 with 6 years of service (YOS), or after 25 YOS. The Employees' fund allows retirement at age 65 with 5 YOS or earlier when age and YOS combined equal 80 or, for reduced "early retirement" benefits, 75. In all cases the minimum age to retire is 50 years. The Police Officer fund allows retirement at age 55 or after 20 years of police service if hired before 7/1/81; or 25 years of service if hired on or after 7/1/81. It should be noted that the police do not participate in Social Security. Based on data from the last 5 years provided by County staff, there were only from one to six early retirements each year looking at all funds. As expected for the Police group the average retirement age ranged from 45 to 51 with slightly more than 25 years of service. For the Uniformed group, which offers four slightly different plans, the normal retirement age was between 51 and 59. Normal retirements have varied slightly for Employees' as shown on the table below.

	Lower Plan (employee contribution of 4.0% - 5.33%)			**Higher Plan (employee contribution of 5.33%)**		
Year	**Av Age**	**Av Yrs of Service**	**No. Retired**	**Av Age**	**Av Yrs of Service**	**No. Retired**
FY06	60.45	18.64	99	60.85	19.72	81
FY07	60.05	21.25	89	61.48	19.35	74
FY08	60.35	22.25	105	61.00	19.52	68
FY09	61.58	22.93	151	61.28	23.30	115
FY10	61.84	20.87	110	62.10	20.56	97

Because of the general improvement in health and improved life expectancy, it would seem reasonable to delay incrementally the retirement age at least those in Employees' fund. For example, incrementally adjust the early retirement age to 62 and the normal retirement to a minimum age of 65 and beyond, over a number of years. This is in keeping with recent changes in the Social Security Code.

To remain competitive with the other employers in the area, the County would need to ensure that any changes would be done in a way as not to jeopardize the County's competitiveness. Comparative market rate studies should continue on a regular schedule.[8]

Recommendation: If not already included in the County's current retirement study, request the County Executive review the current retirement programs and legal liabilities and consider the impacts and how each of the following might be implemented. Any needed legislation should be identified.

- In the Employees' fund, consider incrementally increasing the eligibility age and years of service criteria for "early retirement." The earliest age for retirement would ultimately be raised from 50 to 62.

- For the Employees' fund consider incrementally raising the normal retirement age to 65 to bring it in line with the current Social Security schedule Comparable adjustments would be made to the formula that combines age and years of service.

CONCLUSION

The Lee District Budget Advisory Group is grateful to Supervisor Jeff McKay for the opportunity to provide advice on the Fairfax County budget. This year, our analysis and recommendations focus more on the larger picture of remaining true to good government principles and doing what is best to improve our financial well being both now and into the future. We provide a summary of our recommendations as an attachment for quick reference.

As always, we express our deep appreciation to the County's leadership and staff. We are well served by their hard work and dedication.

[8] The last such study was conducted in the 2006.

FINALLY, ON THE LIGHTER SIDE….

In the preparation of this report:

- 8 gallons of coffee were consumed
- 5 pizzas died
- 5 dozen donuts caused major sugar rushes
- untold neutrons died
- 2 pairs of socks, 5 sets of wristwarmers and 4 scarves were made
- one coffee cake, several loaves of banana bread & 4 pounds of grapes kept meetings going
- at least one ream of paper was used
- the weather went from record-setting cold & snow to near-record warmth and wind
- 8 blocks of water mains were laid and one water-main break was suffered
- a recipe exchange was implemented
- friendships were solidified.

SUMMARY OF RECOMMENDATIONS

1. *Long-Term Strategic Recommendations to Improve the County's Future Financial Posture.*

Economic development   Overall the group recommends the following actions be considered by the Board of Supervisors to help promote economic development in the County:

- Increase efforts to ensure timely Zoning and Building permitting for near-term commercial construction.
- Streamline Comprehensive Plan Amendment and Zoning processes to keep pace with changing requirement.
- Revamp and update Comprehensive Plan guidelines to promote live-work communities.
- Seek legislative efforts to create an emphasis with financial incentives for attracting businesses. (Business uses generally create a net positive financial impact sooner compared to residential which is generally net negative for many years to come.)
- Re-calibrate guidelines, goals and financial incentives to achieve desired commercial percentages.
- Create alternatives to Personal Property Taxes for business assets (computers and furniture). (Potentially create exemptions for offices in the home and possibly provide offsets for businesses that promote telework.)
- Build partnerships with business community for targeted funding/grants.
- Prioritize "quality of life" initiatives which further promote economic development and growth for the County, such as:
    - increase emphasis on multi-modal solutions including transit, bikes, and pedestrian routes in local areas,
    - focus on completing sidewalks infrastructure for access to schools and new business areas,
    - promote Arts and Cultural centers/Community theaters to enhance the live-work environment in Fairfax County.
- Continue to aggressively pursue GSA site redevelopment for office/commercial uses. Seek Federal legislation, State subsidies, and offer County land as new site, *(Ask Congress to force GSA to sell the property for office/commercial uses. Revenues from the sale would help to offset relocation costs and, in exchange for County providing a free site for the relocation, County would benefit from appropriate commercial development near the transit center and proximate to BRAC sites, Fairfax County Parkway, and the Interstates.)*

<u>Transportation</u> We recommend that the Board of Supervisors:

- Direct staff to study the feasibility of implementing a miles-driven user fee which also takes into consideration impacts to existing taxes, the considerable coordination efforts needed with surrounding jurisdictions and the federal government, and legislative requirements.

- Continue to actively identify and pursue Federal and State grants for transportation across the board.

- Continue to seek legislative authority to balance growth with planning and developer contributions to better manage hidden and indirect costs and impacts.

- Identify or generate funding that would be made available to participate in infrastructure improvements where infrastructure investments are contributed by the private sector to support economic development initiatives.

<u>Unfunded Mandates</u> We recommend,

- County thoroughly, and realistically, review all Federal and State unfunded mandates. Such review should:

    - Begin with a realistic definition an unfunded mandate (i.e. what is required by the legislative/regulatory language and what would we not do if it wasn't mandated) and identify the true impact of unfunded mandates to the County.

    - Identify those mandates which are being funded at levels beyond the minimum required by the mandate. If there is no good rational for doing so, funding levels should be reduced.

    - Identify obsolete mandates which no longer serve any operational or mission-related purpose and begin legislative efforts to modify, eliminate or seek relief from those mandates.

2. The Fairfax County Public Schools

<u>Issue 1: Transparency and Accountability</u>

- Establish a joint County and FCPS committee to address the budget transparency issues which have been raised. This is critical to building confidence in our ability to understand and endorse the "needs-based" budget which the FCPS presents each year and to assess overall efficiencies in the School program.

Issue 2: FCPS Operating Fund Year-end Balances, Reserves, Contingency Funds, Needs-Based Budget

- Board of Supervisors request that the FCPS include in the School Budget clear definitions for year-end balance, school board reserve and the contingency fund; their purpose; restrictions; how they are used and some historical trend data.

- Board of Supervisors request FCPS to modify accounting of their desired School Board Reserve. Advertised and Adopted Budget documents, which support FCPS' request for their County Transfer amount, should reflect the desired Reserve amount along with its intended purpose defined in the budget documents. The School Board Reserve should include triggers that would prompt a draw-down. (Triggers might include revenue shortfalls of established amounts, student population increases above estimates, and/or emergency situations like the fire that destroyed Dogwood Elementary.)

- Board of Supervisors ask the FCPS to:

    - Clearly document transfers from any FCPS account established as a reserve or contingency. These would include staffing/flexibility, school materials, and school board reserve, and

    - Clearly identify receivables accrued to prior fiscal years

Issue 3: School Operating Fund Fiscal-Year Estimates

- Board of Supervisors request that the Operating Revenue & Expenditure Details in the FCPS Proposed Budget be modified. Currently, the details display Actual amounts from the three prior fiscal years, the current fiscal year's estimates, and the coming year's proposed budget. We recommend the details reflect two previous fiscal year's actual, the current year's approved budget and estimates, and the coming year's proposed.

Issue 4: Compare & contrast Virginia Department of Education categorical reports with those of FCPS

- Board of Supervisors request that FCPS include these comparisons in their Advertised/Proposed Budget, along with VDOE definitions of the expenses in each category and where FCPS' classifications vary.

Issue 5: It is difficult to assess how positions are allocated between instructional and all other

- Encourage FCPS to add an appendix to budget documents with position descriptions and categorized as instructional or administrative, school-based or not. Further, that FCPS develop a document that clearly shows what jobs remain in central administration after any reductions, with titles, salaries and benefits. Have this available for School Board and citizen review. Once developed, keep it current with hires/fires/attrition. This will go a long way to help define whether or not the centrally-administered budget could withstand additional reductions and allow for a more open dialogue between all concerned parties. For the purpose of this report, we consider central staff to include the leadership team, centrally-administered staffing and support services--essentially, all non-school based positions and services

Issue 6: Program Reviews

- Strongly encourage the FCPS to add an inspector general, ombudsman or independent auditor, reporting directly to the school board, to oversee FCPS program evaluations and financial reviews. The Board of Supervisors should direct detailed program reviews for all school services currently funded outside the schools transfer.

3. *Public Safety*

- The Police Department develop a strategy, using existing staff, to deploy more patrol officers on the streets. Further, we recommend that the County restore the $1million proposed cut to the overtime budget. We have cited public safety as the Lee Budget Group's second highest priority for use of any available balances for FY 2012.

4. *User Fees*

- Staff develop a comprehensive policy and uniform methodology for establishing fees which include as a minimum all costs for salary and benefits and any other indirect costs deemed appropriate (supplies and materials, capital facilities and equipment, depreciation in equipment value, and any other costs attributable to the production and delivery of a service.) Because the costs of providing a service may vary from year to year, all fees should be evaluated on an annual basis.

- Explore areas for new user fees. If feasible, where authority exists – implement, where it does not, seek appropriate legislative authority.

5. *The Pension System*

Issue 1: How to address the County's increasing cost of its retirement system.

- We understand that the County is currently in the midst of a comprehensive study of the retirement system and plans to present its results to the Board of Supervisors in the summer of 2011. If not already included, we recommend that the study include:

  - Short and long-term cost comparisons between the current and proposed new system,

  - The impact that changes to the current retirement system would have on hiring and retention (e.g., a bonus for reaching a certain number of years of service), and

  - What, if any, incentives could be offered to employees in the new plan (e.g., matching funds).

Issue 2: Management of the current pension systems.

- Urge initiation or continuation of the consolidation of investments with the same service company to obtain a better fee structure when the same company is used by multiple funds.

Issue 3: Retirement eligibility requirements.

If not already included in the County's current retirement study, request the County Executive review the current retirement programs and legal liabilities and consider the impacts and how each of the following might be implemented. Any needed legislation should be identified.

- In the Employees' fund, consider incrementally increasing the eligibility age and years of service criteria for "early retirement." The earliest age for retirement would ultimately be raised from 50 to 62.

- For the Employees' fund consider incrementally raising the normal retirement age to 65 to bring it in line with the current Social Security schedule Comparable adjustments would be made to the formula that combines age and years of service.