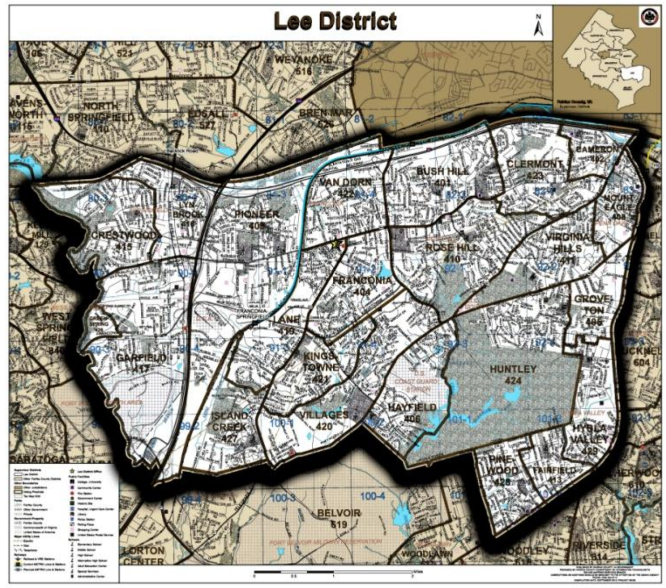
Lee District Budget Advisory Group's
Report for Supervisor Jeff C. McKay:



Fairfax County's 2014 Budget

The Budget Advisory Group:

Ed Batten
Johna Gagnon
Suzette Kern, Chair
Stephen Levenson
Emily McCoy
Craig Mehall
Michele Menapace
Carl Sell
Harry Zimmerman

Staff Advisor: Linda Waller

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EXECUTIVE SUMMARY This is our fifth year providing budget advice to Supervisor McKay and in that time span we have seen the County weather the Great Recession and begin a difficult and slow economic recovery. We are now in a "new normal" – one defined by increased citizen needs, diminished resources and economic uncertainties. As we stated in our first year's report, it is critical to manage citizen expectations and the first step in that process is to develop a long-range sustainable strategy that clearly identifies core programs and services and the most efficient and sustainable ways to deliver those programs and services. We believe that long-term planning – beyond a two-year budget cycle—is needed and recommend that it be undertaken. At the foundation of our analysis and recommendations is the prerequisite that all of our County programs must be affordable and sustainable in the long term.

Though we do not agree with all decisions made by the County Executive in preparing the Advertised Budget, we appreciate the hard choices which had to be made in this economic environment to ensure a balanced budget. We take no position on the recommended real estate tax increase but urge the Board of Supervisors to consider the impact of this tax increase on the County's citizenry who are themselves facing many of the same economic uncertainties and several new taxes that will be felt this year in addition to whatever is included in the final budget. In the budget formulation process this year, each agency was asked to propose five percent budget reductions. The advertised budget includes $13.8 million of those reductions while $27.7 million of the submitted reductions were not taken. Without question, the many years of budget reductions have strained agencies' operational capabilities; but there are still opportunities for savings and urge the Board of Supervisors to revisit the list of reductions-not-taken. We were disheartened to see no employee compensation increases in the FY 2014 budget and we urge the Board of Supervisors to make every effort to resist balancing the budget at the expense of its workforce. To the extent possible, when employee-related budget cuts are made, efforts should be made to identify offsetting non-monetary incentives.

The School transfer is the largest General Fund expenditure; the reality is by funding the Schools at or above the current level, trade-offs are being made in other County services that also contribute to our high quality of life such as public safety, human services, parks, recreation, libraries and maintaining our infrastructure. Again, this year, we are recommending a flat transfer to the Schools. We cannot confidently assess exactly how much our school system should reasonably cost and remain frustrated at our inability to fully understand the FCPS budget as presented. While we are concerned that many of the transparency and accountability issues remain, we are pleased that a dialogue has begun with the School Board's Budget Committee and the FCPS staff and hopeful it will continue. We offer specific recommendations in this report designed to address the accountability and transparency concerns raised.

We are concerned that years of budget reductions have adversely affected our human services and public safety systems. These are both areas we consider core functions of government. We are worried that the funding for our human services network may fall short of what is needed to provide a safety net for our most vulnerable citizens and urge the Board of Supervisors to consider this a top priority for funding. Although we are pleased to see some increased focus on overall public safety in this year's advertised budget we are increasingly troubled by the erosion of our public safety infrastructure especially in these times of highly stressful financial uncertainty. We are recommending the Board of Supervisors consider ways to augment the number of patrol officers for the entire county. We also ask that when the County Executive begins his review of long-term public safety staffing needs he includes citizen representatives who can provide the perspective of those served.

We also examined the financial sustainability of our park system and the appropriate funding mix of public dollars and fees. The question before us now is how do we sustain a first class park system that helps make Fairfax County a great place to live, work and play? Work has already begun in this area with two major planning efforts. We recommend that before the next funding cycle begins, the Board of Supervisors schedule a work session with the Park Authority Board to complete discussions about a sustainability model. In a related area, we note the advertised budget includes a new indirect cost recovery charge of $5 million to certain special revenue and enterprise funds such as the Park Revenue Fund. The Department of Management and Budget states this new charge would not impact service delivery or result in the need to raise fees. However, we are concerned this may not be the case. For example, with the Park Revenue Fund, the proposed cost recovery charge could, in fact, result in the need to raise fees. We recommend the Board of Supervisors postpone such an assessment until further review is undertaken.

We also understand that the rising cost of funding the employee pension system contributes to the strain on the County's budget. To better manage this area, we recommend a minor modification to how retirees' cost-of-living adjustments are determined.

We close our report with some longer-term strategic initiatives which focus on the County's economic development efforts. We understand the strong nexus between quality of life and economic development in this region and firmly believe much more can be done to promote both. Several recommendations are proposed to establish long-range visionary planning initiatives to attract economic development and improve quality of life.

Many of the concerns raised and recommendations offered in our report are not new but they are still appropriate. We see headlines in the media about economic failures and struggles of other local governments throughout the country and we remain proud of the exemplary fiscal stewardship provided by our County Executive and the Board of Supervisors. The decisions that need to be made are not easy and we are deeply thankful for this opportunity to participate in this very important public dialogue.

INTRODUCTION When the Lee District Budget Advisory Group was first convened five years ago to provide budget advice to Supervisor Jeff McKay, the County was facing a projected budget shortfall of a least $650 million. This group's primary message then was that the County's focus must be on a government that is effective, sustainable and measurable in the context of diminished resources. In the intervening years, the economy improved, albeit at a slow pace. The total General Fund budget annual growth has averaged 1.4% between FY 2009 and FY 2013. During that same time period, in order to balance the budget, more than $150 million in cuts were made to agency budgets and over 500 positions eliminated. Employee compensation increases were eliminated in FY 2010 and FY 2011 and curtailed in FY 2012. As the County took these measures to meet tighter budget constraints, the message to its citizens was to expect a "new normal." This year, as we complete our fifth review of the County's budget, revenue is expected to increase a moderate 2.8 percent in FY 2014 and 2.9 percent in FY 2015. We are struck by the fact that the "new normal" is indeed the reality. We should not be thinking in terms of "riding out the downturn" but rather fully adjusting our expectations about what we can afford with our public dollars. At the core of our expectations must be a solid commitment that all County programs and services must be affordable and sustainable in the long term. It is with this view of County government that our group provides its comments and recommendations on the FY 2014 advertised budget.

Our detailed discussion on the budget is presented below, including the group's general reaction to the budget and specific recommendations for the Board of Supervisors' consideration. We commend the County Executive for tackling the difficult funding decisions and while we agree in general with the approach taken, we hope that the budget adopted by the Board of Supervisors addresses some of the concerns raised. Again, this year, we are recommending a flat transfer to the Schools. We provide a more detailed discussion for our position later in this report but at the heart of this recommendation is our inability to confidently assess how much our first-rate school system should cost because of the opaqueness of the school budget. The School transfer is the largest General Fund expenditure and by funding the Schools at or above the current level, trade-offs are being made in other County services that also contribute to our high quality of life such as public safety, human services, parks, recreation, libraries and maintaining our infrastructure.

The County Executive asserts that every rock has been turned over in the budget balancing process. This has involved myriad on-going reviews – lines-of-business, organizational and special workgroups reviews. In our first year's report we recommended that the County develop an overarching strategic plan that would clearly identify core programs and services, the optimum organizational structures needed, and the most efficient and sustainable ways to deliver those programs and services. We believe that long-term planning – beyond a two-year budget cycle—is still needed and recommend that it be undertaken.

GUIDING PRINCIPLES This year, as we have done each year, we began our deliberations by reviewing and affirming a set of guiding principles. These principles provide the framework for our deliberations of the 2014 Advertised Budget.

1. The budget must provide for good government—a government that is effective, efficient, sustainable, affordable, measurable and responsive to the needs of its residents.

2. The "new normal" for our sustainable County government means***, generally***, no expansion of existing programs, no creation of new programs and no restoration of previous reductions or eliminations.

3. As the Fairfax County Public School (FCPS) system accounts for more than 52 percent of the County expenditures, it must be subject to the same good government principles and practices as the County. There must be more accountability and 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 FCPS and the School Board in using County funds.

4. 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 and do business.

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

THE 2014 ADVERTISED BUDGET In the advertised budget, FY 2014 General Fund revenues are projected to be $3,570,191,999, an increase of $96.4 million or 2.77 percent over FY 2013. Included in the $96.4 million is an increase of $41.3 million generated by a recommended two cent increase in the real estate tax rate from $1.075 per $100 of assessed value to $1.095. FY 2014 General Fund disbursements are $3,588,955,648, an increase of $51.2 million or 1.45 percent over the FY 2013 Adopted Budget Plan. The increase over the Adopted budget is based on FY 2014 increased requirements of $41.3 million for Fairfax County Public Schools for both operating and debt service. Net increases for all non-School disbursements total $9.9 million. Total County increases have been reduced by savings of $20.5 million from agency budget cuts and reorganizations. The proposed budget leaves a $2.4 million balance for the Board of Supervisors' consideration.

We endorse the new County Executive's multi-year planning effort and agree it facilitates a longer-term focus by providing not only the detailed budget proposal for FY 2014 but also specific spending and resource parameters for the FY 2015 budget strategy. The County is commended for its continued robust efforts to engage the public in a very transparent budget process. Last year, at Supervisor McKay's request we looked at ways to make the budget more understandable to citizens and provided some specific recommendations. We are pleased to see that our thoughts were heard. The on-line *County Budget Primer* is well designed and provides the much needed information and context to help citizens better understand the budget process. Though we do not agree with all decisions made by the County Executive in preparing this budget, we appreciate the hard choices which had to be made to ensure a balanced budget. Our specific reactions and recommendations are presented below.

PROPOSED REAL ESTATE TAX INCREASE: The County Executive proposes a tax rate increase of $0.02 per $100 of assessed valuation, stating that the "typical" household would see an increase of $262.45. This tax increase accounts for $41.3 million in revenues to the General Fund. However, the reality is most of the lower-priced housing stock has had the highest assessment increases and is already seeing an increase in property tax. Thus, the proposed increase would disproportionately impact those homeowners. While our group neither opposes nor supports the proposed tax increase, we urge the Board of Supervisors to consider the impact of this real estate tax increase on its citizenry. The economic reality for citizens is that most workers have seen their take home pay reduced by two percent because of the expiration of the Social Security payroll tax break that expired in January of this year. In addition, the sales tax will rise to six percent (a one cent increase) on July 1. Adding to that, many Fairfax residents who either work for the federal government or for companies that do business with the federal government will feel the impacts of the federal sequestration. Finally, residents and commercial entities in the Tysons area will pay an additional service district tax starting on July 1 and anyone selling a house will pay a higher grantor's tax (estimated at an additional $1-$3,000).

AGENCY REDUCTIONS: In the FY 2014 budget formulation process, each agency was asked to propose 5% budget reductions. The County Executive's Advertised Budget includes $13.8 million of those reductions submitted by agencies; $27.7 million of the submitted reductions were not taken. While we recognize that six years of budget reductions have strained agencies' operational capabilities, there are still opportunities for savings. Some submitted-but-not-taken reductions may not be acceptable as presented but a modified version may be acceptable. For example, the Office of the Sheriff proposed a $1,670,000 reduction by eliminating deputy presence from all civil court proceedings. Potential savings could be realized by reducing rather than eliminating the deputy presence in court. The Office of the Sheriff could consider a pool arrangement for court security. Many courts require the court to identify any exceptional security requirements and use a duress alarm system to provide adequate court security at a fraction of the current staffing. Perhaps first year savings could be used for a closed circuit TV system allowing for the monitoring of many courtrooms. We urge the Board of Supervisors to revisit the list of reductions-not-taken with the notion that some reductions can or should be modified and implemented.

EMPLOYEE COMPENSATION: We were disheartened to see no employee compensation increases in the FY 2014 budget. Employee compensation increases were eliminated in FY 2010 and 2011 and curtailed in FY 2012. While the County's public statement is that the greatest asset it has is its employees, the budget again sends a different message. In the past five years, over 500 positions have been eliminated and we have been asking the County employees to simply work harder. The average vacancy rate for General Fund agencies in the past was 3.4 percent. Last year, most agencies were forced to hold open a higher percent of their vacancies in a "managed vacancy" process in order to generate savings. The FY 2014 budget assumes an eight percent managed vacancy rate which in effect serves as a "shadow cut" to the workforce and places a further burden on employees. We note the County Executive has proposed a modest amount ($250,000) for the STRIVE initiative to develop a new compensation proposal which would include a sustainable compensation model, a new performance management system and succession planning. We reserve judgment on this initiative until a concrete proposal emerges. In the meantime, we again urge the Board of Supervisors to make every effort to resist balancing the budget at the expense of its workforce. To the extent possible, when employee-related budget cuts are made, efforts should be made to identify offsetting non-monetary incentives.

HUMAN SERVICES SAFETY NET: The County Executive contends that for the most part, despite reductions made to balance the budget in recent years, the impact on the County's core programs has been minimized and the community is comfortable with current service levels. We respectfully disagree with this assessment, particularly as it pertains to our human services safety net. Providing an adequate safety net for its most vulnerable citizens is considered a core function of government. We appreciate that the Board of Supervisors has always supported the human services programs. Having said that, General Fund support of human services has remained relatively flat since FY 2008 and the cumulative impact of years of tight budgets has taken a toll. We fully endorse the Human Services Council's assessment that the County has reached a critical point where it must try to balance meeting the basic needs of its most vulnerable citizens against available resources. At the same time the County's available resources are diminishing, the community needs have increased. The looming federal and state reductions will only further add to the strain as they have a disproportionate effect on human services. Federal funds comprise about one percent of the total County General Fund, but are nearly 20 percent of human services revenues. Anticipated state funding shortfalls exacerbate this effect on human services revenue. The cumulative negative impact of budget constraints within the last several years is being felt throughout the system. For example:

- Between FY 2008- 2014, the net cost for the Department of Family Services rose by only one percent ($81.0 million to $81.8 million), a mere 0.2 percent per year. At the same time, caseloads and workload increased rapidly: Adult Protective Services Investigations were up 21.8 percent, Public Assistance caseloads increased 50.7 percent, Child Protective Services Assessments or Investigations rose 29.3 percent and Comprehensive Services Act clients increased 16.2 percent.

- The demand for services such as speech therapy, physical therapy, occupational therapy and family education for Infants with Developmental Delays has grown by over 46.0 percent in the past two years. The County now provides services to over 1,500 families annually.

- The six-person adult case management team of the Community Services Board (CSB) Springfield office is currently assisting 295 individuals who have serious mental illness. This means staff members are handling an average of 49 cases, which is far in excess of best practice standards for community-based care (20-30 cases).

- Daytime operations of the CSB mobile crisis unit are being suspended intermittently because of insufficient staff coverage. This leaves dozens of persons without needed intervention services and shifts costs to many other County agencies, including police and Adult Protective Services.

- Last month, the CSB had to cut the capacity of its Crisis Care facility by 25 percent (from 16 to 12 beds) due to lack of staff. People who might have been admitted to Crisis Care will now have to be hospitalized. This magnifies the current shortage of psychiatric treatment beds in our region.

We remain concerned that the funding for our human services network may fall short of what is needed to provide a safety net for our most vulnerable citizens and urge the Board of Supervisors to consider this one of the top priorities areas for funding.

PUBLIC SAFETY: While we are pleased to see some increased focus on overall public safety in this year's proposed budget we are increasingly troubled by the erosion of our public safety infrastructure. That infrastructure is one of the most important functions of government. We support the nine new police positions for Tyson's Corner and the Silver Line, two new animal caretaker positions, and the expenditure for fire and rescue vehicle replacement but we note that no new police positions are proposed for the rest of the County. Since Fiscal Year 2009, cuts to the Patrol Bureau have resulted in the reduction of 66 full-time positions, 24 of which were patrol officers. The economic reality has required tightening of the budget from all County agencies, but we are concerned that further cuts in public safety may adversely affect essential County functions and the safety of our residents.

We face the unknown and unintended consequences of Sequestration and other funding cuts at the federal and state levels. Experience shows that crime rises in periods of economic stress, especially those crimes that most affect and destabilize our neighborhoods—property crimes and domestic violence. Fairfax County now has the smallest police force in the region per capita and it is already stretched to its limits.

It would be extremely shortsighted to count on luck to protect our residents and we recommend a proactive rebuild of our public safety forces. We are especially concerned with the actual number of officers on patrol. The current trend of specialization into task forces is a good and effective way to organize existing resources, but it degrades the ability to maintain patrol. An adequate and visible patrol force is a first line of deterrence and citizen perception of effective policing.

The group believes that the directive for "the Deputy County Executive for Public Safety to work with all of the public safety agencies to conduct a 5-year analysis of staffing requirements based on projected growth and other metrics" is a positive step in ensuring the essential public safety functions in Fairfax County are not understaffed. We understand this directive to mean that the Deputy County Executive for Public Safety will convene a Public Safety Task Force to look at staffing needs based upon certain growth and other metrics yet to be defined.

<u>Recommendation:</u> We ask that the Board consider ways to augment the number of patrol officers for the entire County in the current budget proposal. We applaud the commitment to analyze the County's public safety needs over a five-year period and suggest that the review include representatives to provide the perspective of the citizens who are served.

PARKS: The FY 2014 budget recommends a small decrease in funding for our parks while also imposing a new indirect cost charge for central administrative services provided by the County to the Park Authority.

Our group focused this year on the financial sustainability of our park system. Last year, we raised the issue of the Park Authority's funding mix. Prior to the 2008 economic downturn, the overall annual funding mix was approximately 50 percent from the General Fund and 50 percent from fees for programs, services and facilities. The FY2014 budget presents a ratio of 42 percent General Fund and 58 percent fee-based sources. We fully support the concept of fee-based services, however some critical questions are emerging: is the trending shift in the funding mix viable and does it allow for adequate maintenance of our parks and facilities? These are fundamental questions in the broader issue of long term sustainability. To help us better understand the Park Authority's funding structure and challenges, we met this year with the Park Authority staff.

The primary question the County faces is how do we sustain a first class park system that helps make Fairfax County a great place to live, work and play? At the center of this issue is the need to clarify which programs and services should be funded in full or in part with public funds. Two significant Park Authority planning efforts target this question. First, in December 2011, the Park Authority completed a comprehensive Financial Sustainability Plan defining core programs and services and a sustainability model. Second, the Park Authority is developing a FY 2014-2018 Strategic Plan that has as two of its primary objectives stabilizing funding and expanding alternative resources. This strategic plan is tentatively scheduled for public comment in the next couple of months and then will be presented to the Board of Supervisors. At last year's annual summer meeting between the Board of Supervisors and the Park Authority Board, the discussion of the 2013 - 2015 Financial Sustainability Plan began and a decision made to continue with a work session to address several foundational issues. The follow-on work session has not yet happened. A work session would be timely given that the FY 2014 budget proposal includes a new tariff against the Park's Revenue Fund to capture indirect overhead costs in other County departments; a proposition that makes little sense to this group as the charge reduces the amount available for capital repairs and may result in the need to raise fees. Additionally, serious questions need to be asked about long-term sustainability of the Parks system in difficult financial times as the Comprehensive Plan continues to require the creation of additional park facilities as part of new development in the County. The long-term funding for those new facilities often becomes an additional burden on the Park Authority.

<u>Recommendation:</u> The County must decide on how best to ensure a sustainable park system; this long-term sustainability model must have as its core a clear understanding of how public funds will be spent on the park system. We recommend that before the next funding cycle begins, the Board of Supervisors schedule a work session with the Park Authority to complete discussions about a sustainability model using as a starting point the 2013 - 2015 Financial Sustainability Plan options and any strategies proposed in the Park Authority's 2014-2018 Strategic Plan. The discussion should also include whether the County Comprehensive Plan's current requirements provide adequate solutions to meet existing and projected needs and expectations for our park system.

INDIRECT COST RECOVERY CHARGE: The Advertised Budget includes a new indirect cost recovery charge of $5 million to certain special revenue and enterprise funds. The idea behind this charge is that funding to pay for centralized support services provided by the County, such as human resources, purchasing, budget and other administrative services, could be transferred to the General Fund. Eight different funds are currently targeted as shown below. It appears an indirect cost charge of 11 percent was initially recommended, though it is not clear that it is being applied uniformly. In recommending this new charge, the Department of Management and Budget stated that with this new charge, there would be: 1) no impact on service delivery requirements of affected funds, and 2) no need to increase rates specifically to fund the transfer. However, we are concerned this may not be the case. For example, funds remaining in the Park Revenue Fund after covering service obligations are applied to capital repairs at the revenue producing facilities or revenue generating programs or services. An indirect cost recovery charge reduces the amount available for those capital repairs potentially impacting service delivery and/or the need to raise fees.

Indirect Cost Recovery Charge to Special Revenue and Enterprise Funds		
Fund 40080	Integrated Pest Management	$ 138,000
Fund 40100	Stormwater Services	$1,000,000
Fund 40140	Refuse Collection and Recycling	$ 535,000
Fund 40150	Refuse Disposal	$ 535,000
Fund 40160	Energy Resource Recovery Facility	$ 42,000
Fund 40170	I-95 Refuse Disposal	$ 175,000
Fund 69010	Sewer Operation & Maintenance	$1,800,000
Fund 80000	Park Revenue	$ 775,000
TOTAL		$5,000,000

Recommendation: We are concerned about the basis for developing this charge, how it is being applied and the unintended consequences of this type of charge. We strongly urge the Board of Supervisors to revisit the wisdom of instituting such an assessment without further review.

PENSION SYSTEM MODIFICATIONS: Fairfax County employee retirement systems include the Fairfax County Employees' Retirement System, the Uniformed Retirement System and the Police Officers Retirement System. Each of these systems is funded from employees' contributions based on a fixed percentage of pay, County contributions based on a variable percentage of employee pay as determined by actuarial analysis and return on investments. To ensure the continued soundness of each fund, an actuarial valuation is conducted annually and, if appropriate, an adjustment is made to the employer contribution rate. A study of the pension systems in 2011 determined the systems were sound and suggested minor adjustments. e.g., related to age of eligibility.

Retirees are eligible to receive a Cost-of-Living Adjustment (COLA) composed of a base COLA that is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year's March 31, or four percent. If certain conditions are met related to the health of the system, an additional up to one percent COLA can be awarded at the discretion of each retirement system's Board of Trustees.

The chart below is provided to illustrate the budget impact of pension payments in FY 2012 and projected for FY 2013.

Pension System	2012 Actual*	Revised 2013 Revised Budget
Police	$49,087,112	$56,164,000
Uniformed	66,621,257	80,844,000
Employees	195,335,182	219,849,000
Total	$311,043,551	$356,857,000
* Payment to retiree, does not include payments to beneficiaries, which is between 1-4% of payments to retirees		

By the current method the County contribution is determined by salary levels, the CPI, return on investment (ROI), and longevity of retirees and spouses. Only the current salary levels are controllable, but even they are reliant on prevailing comparable salary levels. Given our analysis in past reports showing County contributions to the pension systems are increasing out of proportion to increase in the budget as a whole, we believe at least modest measures should be taken to control that expenditure. One idea is to tie the COLA to ROI, but cap it at the CPI with the current maximum of four percent.

The County could use the following method: The COLA is never allowed to be greater than the ROI. If the CPI is less than the ROI, then the COLA is the CPI with the current four percent maximum. However, in such case, the Board of Trustees' may at their discretion add up to another one percent as long as the total COLA does not exceed ROI.

Recommendation: We recommend the County consider changing the method for determining the COLA to make the COLA dependent on ROI.

FAIRFAX COUNTY PUBLIC SCHOOLS: The proposed combined transfer for School operating and School debt service is $1.89 billion with the County support to Schools representing 52.6 percent of total County disbursements. The FY 2014 budget proposes an increase of $33.7 million or two percent over the FY 2013 level. The School Board's request was for an increase of $95.4 million or 5.7 percent over the FY 2013 level. We note that the School budget proposes an employee compensation increase while the County's budget includes none for its employees. The County also provides additional support to the Schools in the amount of $69.8 million for programs such as Head Start, School Health, School Resource Officers, School Crossing Guards, after-school programming, field maintenance and recreational programs, among others. We are recommending a flat transfer – no increase over the FY 2013 level -- to the Schools.

As previously stated, the General Fund transfer to the Schools represents the County's single largest expenditure. This fact alone should single the FCPS out for special scrutiny—an observation we have made several times in past reports. We affirm that education is a top priority for our citizens and we take great pride in our first-rate school system. We remain frustrated, however, at our inability to fully understand the FCPS budget as presented and for a fifth consecutive year, we cannot confidently assess exactly how much our school system should reasonably cost. Many of the transparency and accountability issues remain; however, we are pleased that the School Board's Budget Committee has initiated efforts to address concerns. On March 22, members of our group and others were invited by the School Board's budget chair and vice-chair to participate in a small group budget discussion along with FCPS staff. The meeting was a positive first step and we hope it has set the stage for continuing discussions. We look forward to working with both the School Board's Budget Committee and FCPS staff to resolve our longstanding concerns.

We also note that the School Board will soon be acting on a proposed policy for "Accountability for Instructional Programs and Services" which would require two levels of accountability: basic accountability (program profile) and comprehensive accountability (program evaluation). Our group supports any measure designed to increase accountability, hopes this or future policies like this are adopted and that responsibility for these reviews fall under an independent auditor accountable only to the School Board.

All of the recommendations presented below are designed to help improve the accountability and transparency concerns raised. *Strategic governance* lays the foundation for accountability by linking school system programs to clearly defined goals. *Stakeholder input* is also a key factor and we recommend encouraging community participation throughout the budget process. Finally, the "*mechanics"* of the budget process are important – here we offer recommendations that will add clarity by improving the organization and content of budget documents and providing appropriate linkages and explanations.

Issue 1 -- Correlating Budget to Strategic Governance: The FCPS budget sets forth a connection between spending plans and the School Board's Strategic Governance Initiative. The budget includes FCPS beliefs and broad goals for the school system. What is lacking, however, is a multi-year plan that details the specific programs and projects that are necessary to reach the goals. The Proposed 2014 budget states "FCPS' budget is a spending plan for the future and a record of past decisions. It reflects FCPS' priorities and is a communications document to inform stakeholders about FCPS' values and goals."

The student achievement goals stated in the budget are so broad as to be meaningless to stakeholders in determining the value of school expenditures in achieving those goals. Example: Academics Goal is: *All students will be literate, able to obtain, understand, analyze, integrate, communicate and apply knowledge and skills to achieve success in school and in life. Academic progress in the core disciplines will be measured to ensure that all students, regardless of race, poverty, language or disability, will graduate with the knowledge and skills necessary for college and/ or employment, effectively eliminating achievement gaps.* Within this goal, the School Board has established an objective to "*Develop and implement K-12 language programs to ensure that students can communicate in at least two languages*." According to the status report on projects designed to achieve academic objectives, this target is set to be re-opened in FY2013, having been closed in 2009. A stakeholder cannot readily locate **any** report that details all K-12 language programs, assessments of their effectiveness, or long-range plans of how components of the programs will be implemented. Monitoring reports provide some aspects of this, but not all. The monitoring reports assess one monitoring period and the tasks to be completed. The reports may present future challenges (often these challenges are financial), but do not clarify the necessity of a monitored project toward achieving student goals. They rarely afford the community a chance to comment on whether the project should be continued or whether other options may be preferable. And the budget document does not actively link to the various assessment and accountability tools used by school staff in budget development.

Recommendation: Board of Supervisors ask FCPS to develop a budget that strengthens the connection between expenditures, specific objectives and projects, detailed multi-year planning, and clear assessments of progress. An excellent example can be found in the Montgomery County Public Schools budget which is presented in the Baldrige accountability model. (http://www.montgomeryschoolsmd.org/departments/budget/fy2014/superintendent/)

Issue 2 -- Budget Preparation and Community Input: The existing budget development process allows for public input via hearings after a budget is proposed by the superintendent to the School Board, after a budget is presented by the School Board to the Board of Supervisors, and after the amount of the County fund transfer is adopted by the Supervisors for School Board consideration. Additionally, some supervisors engage citizen advisory groups to offer budget guidance; town hall meetings and other public engagement efforts are conducted by both Supervisors and School Board members. School and County budget staff members make presentations to community groups and organizations as requested.

What is consistent about current practice is community input occurs **after** budgets are proposed by staff. We believe, strongly, that budget development would be better informed and best reflect community priorities if citizens were able to comment prior to budget proposal. We also believe that community engagement must be a more interactive and iterative process.

Recommendation: County and school leaders and staff begin the budget development process earlier. The process will include a give-and-take capability to allow citizens to understand fiscal implications and prioritize spending. Such activity would reassure leaders that spending trends still comply with community values. It would offer a regular assessment and accountability mechanism for citizens, staff, budget decision makers, and County leaders. In other words, it would provide a financial gut-check. Sessions would include both County and school budget proposals.

Issue 3 -- Budget Organization and Content: The FCPS budget documents are generally well organized with the information included easily accessible via the hyperlink in the table of contents. But we believe improvements can be made. Some narrative can be reduced through use of tables or charts from the Strategic Governance status reports or with hard data. The Expenditure Details include line items without description or definition. At the present time, the School Board reviews Operational Expectations and regular Monitoring Reports of these goals and objectives for FCPS departments. The FCPS budget documents, however, do not clearly link these specifically to budget proposals and the County transfer request.

Recommendation: The Board of Supervisors ask FCPS to simplify the budget with: improved readability; clear accountability to a long-term plan linked to strategic goals, achievements, and benchmarks to be met; and more understandable language and definitions that are used throughout FCPS financial documents. Some specific suggestions include:

- Improve transparency and accountability by incorporating the budget-goal connection (above) into the main body of the document.
- Suggest that the schools budget be made available as multiple documents or as a whole. See the Montgomery County Schools budget for an example.
- Suggest that the schools create an ongoing budget work group. The group could include appropriate school administrative staff, teachers and interested citizens (especially members of the Lee District Budget Group). It will help to funnel community feedback on the budget document itself and budget priorities.
- Suggest that all line items in the budget, particularly in the detail sheets, must have definitions within the document. Further suggest that links to program budget be available.

Issue 4 - Carryover Funds: Since the 2008 economic downturn, it appears that the FCPS has been effective in fiscal oversight and conservation resulting in large carryovers. School-allocated (automatic) carryover has grown to more than $26 million and has been as high as $31 million. Central department (unencumbered or critical needs) carryover hovers around $5 million annually. And FCPS has been able to direct roughly $40 million annually to future years' operations. These figures might suggest positive financial stewardship, except that these amounts are not planned in the budget. Unbudgeted carryovers and balances totaling $70 million or more undermine the school system's request for higher and higher funding levels tied to student needs.

One small contributor to overall balances is the established reserve funds. The Automatic Carryover levels indicate sufficient allocations of materials and supplies funding to the schools. At the same time, however, several reserve funds exist within the operating budget, described this way: "Funding for unanticipated school requirements is budgeted in two accounts. The Department of Special Services and Cluster Offices have a formula-driven reserve based on the total amount budgeted in textbooks and supplies for the schools and centers in each cluster. A second reserve account is included in central management and is used primarily for school needs that arise due to student membership adjustments."

It is not clear how school administrators (principals) plan to use the $26 million under their current control in the automatic carryover. An analysis of this fund from FY2011 shows the bulk of the money was allocated for materials and supplies, while descriptions of automatic carryovers describe it as logistics and hourly accounts. There are schools that have accumulated carryover funds of $500,000 or more, the largest being Glasgow Middle School with $710,000 in the bank after FY2011.

Recommendations: That the Board of Supervisors:

1. Suggest that the School Board analyze and regularly review the effectiveness of its staffing and other funding formulas. The funding formulas are driving the $26 million carryover at the school level. These formulas might be adjusted to transfer materials and supplies funding especially to areas where student needs are greater.

2. Suggest that the School Board present budgets which more accurately reflect anticipated funding balances and carryover. Actual FCPS carryovers and starting balances are in the tens of millions of dollars, while the budgets are zero. At the same time, real-time adjustments are not factored into budget plans. For example, the FY2013 Third-Quarter Budget Review projects $14.4 million to be set aside for the FY2014 starting balance on top of the $51.3 million reflected in the FY2014 Proposed Budget and set aside during the FY2012 Year-End Budget Review.

Issue 5 --Undelivered Orders: An analysis of FY 2011 undelivered orders has already generated follow-up questions that have not yet been asked due to time constraints. The information provided to our group included a significant number of obligations designated as "No Vendor" rather than a vendor's name. Several types of transaction prefix codes were used (PO, MO, SO, CE, IR, PR), the definitions of which were not given, but are necessary to better understand the types of obligations. We have further concerns related to transparency and accountability of this significant expenditure area. For example, the analysis has revealed in one instance, what can best be called a "blanket" contract for "multimedia products & supplies," covering numerous vendors. The Invitation for Bid for the contract was issued May 8, 2011, with a pre-bid conference scheduled on May 23 and bid opening on June 6. The Notice of Award was issued August 2011. One of the contract awardees was obligated to its bid submitted on May 18. The financial obligations under this contract were made in the FY 2011 budget, which ended June 2011.

Recommendations: The Board of Supervisors:

1. Suggest that the School Board adopt the independent auditor position reporting solely to the School Board.

2. Urge the School Board to make a thorough public accounting of all year-end obligations that result in undelivered orders. Such a report might reflect details of both purchases for which payment has not yet been made and for obligations intended to be received and paid for in the coming fiscal year.

3. Urge the School Board to review fourth-quarter purchasing and contracting practices and consider greater scrutiny and stricter guidelines for same, in line with controls commonly used by federal government agencies.

Issue 6 -- Program Budget: We are pleased that the Program Budget is, once again, part of the FCPS budget process. Each program lists, where applicable, the mandates addressed. But the reader cannot figure out how much of the program costs specifically address the mandates mentioned.

Terminology used in the Program Budget should match those used in the Proposed/Approved Budgets. Example: Middle School After-School Program -- in the Program Budget, it is referred to as "After-School Initiatives" and comprised $1.6 million in school operating funds during 2012-2013. In the Proposed Budget, there are three references to the Middle School After-School Program: the glossary; that FNS provides snacks to the Middle School After-School Program; and the only reference that can be found in the expenditure detail is for hourly salaries with total cost of $269,117. There are mentions of After-School Specialists in tables of staffing standards and costs of opening a new Middle School. This particular topic also ties with carryover funding expenditures. After FY2011, more than $200,000 was carried over for "increasing costs associated with after-school programs." This amount represents about 17 percent of FCPS FY 2013 net cost to the School Operating Fund (2012 figures were not available; no program budget was prepared).

Recommendation: Board of Supervisors request that FCPS include in its annual Program Budget the previous year's actual expenditures, detailing those associated with the mandates covered and/or the budgeted expenditures for mandate requirements.

Issue 7 -- Definitions of Expenditures: We continue to be stymied trying to understand how FCPS defines its expenditures, based on the Commonwealth's definition of education costs. The most significant departure from state guidelines occurs in expenses for instruction. FCPS defines instruction expenses comprising 85.4 percent of the proposed 2014 budget. Meanwhile, the schools' Annual Report of Expenditures for FY2012 shows 67.6 percent of expenditures going to instruction as defined by the Virginia Department of Education.

Recommendation: We again recommend that the Board of Supervisors require full and detailed accounting of the differences between the state and County definitions of instructional costs. Either these differences should be included in the budget and transfer request, or the FCPS budget use state definitions and accountability standards.

Issue 8 -- Clear Linkages Between Budgets - Approved, Estimates, Actual: An analysis of line item expenditures demonstrates little to no connection between approved budgets, projected expenditures (FCPS calls this Estimated; County budget uses the term "Revised") and actual outlays. This evaluation is not easily done via FCPS budget documents. To compare these three items for one fiscal year, one is required to look at three years' budgets. Our comparison of the figures shown for FY 2009-2013 between the budget which is approved in May, the estimates or revised budget done in July and the actual expenditures show large fluctuations. In some cases actual expenditures have exceeded approved budgets by millions of dollars. It would also appear that projected expenditures (estimates) are both hiding from public view over-spending in line items while, at the same time, allowing FCPS to maintain undefined, growing, and undocumented reserves/carryovers. The charts and graphs provided in Attachment Two show the large fluctuations in a sampling of areas between the approved budget, the estimate (revised budget) and the actual expenditures.

Recommendation: Board of Supervisors should require FCPS to provide, in the Expenditure Details of the School Operating Fund, new columns showing the current fiscal year's Approved

Budget and Actual Year-to-Date Expenditures in addition to the existing Estimate (projected current-year expenditures).

Note: At the March 22 meeting cited earlier that included Lee District Budget Group representatives, the School Board Budget Committee chair and vice chair, and FCPS Financial Services staff, this issue was briefly discussed. The staff agreed to explore the spending area samples offered here. Preliminarily, they suggested the variances could be the result of school budgets encompassing spending groups (like materials and supplies) while the actual expenditures are more detailed in line items (such as equipment or fixed assets).

LONG TERM STRATEGIC INITIATIVES: As we have done each year, we include longer-term strategic initiatives for the Board of Supervisors' consideration. Our recommendations in this section are primary geared toward improving the County economic development efforts. The group understands the strong nexus between quality of life and economic development in this region and firmly believes much more can be done to promote both. As expanded further in this section, we continue to endorse the strategies proposed in the Economic Advisory Commission's 2011 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.

PROTOTYPE/TEST BED: The group believes that the Board of Supervisors should consider some specific steps to improve the County's long-term financial health and transportation issues besides whatever changes are being made to the annual budget this year. The concepts in this report are offered for consideration based on the observations and professional experience of the group members. This year we propose some discrete actionable recommendations that could establish long-range visionary planning initiatives to attract economic development and improve quality of life by addressing development and business incentives.

Recommendation: The Board of Supervisors considers trying some specific steps of our recommended strategic initiatives in one or more discrete areas of the County as a test bed for greater applicability in the future.

MICRO LIVE-WORK COMMUNITIES: At the conceptual level, the group continues to believe there is significant merit in promoting more live-work communities across the County where office and other commercial space are provided 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, or closer, to where they work. Not only would this improve quality of life by reducing commuting distances, wasted time, and environmental pollution, it reduces congestion and wear and tear on the roads, and builds a sense of community.

Major corporate entities in Fairfax County have already downsized their headquarters facilities in favor of leasing or owning smaller office spaces distributed across the region.

This allows their employees to work closer to where they live and often positions those employees in closer proximity to their clients. When people work close to where they live, they also have new opportunities to use alternative modes of transportation such as bicycles or walking. The other aspect of dispersing such micro communities in, or near, traditional residential communities like southeast Fairfax County is it can create reverse commuting patterns. For people who must still commute to work (when they work in such mini communities located proximate to formerly all residential areas), they can often do so by traveling in the opposite direction of the normal rush hour congestion. This greatly reduces their travel time and allows us to realize additional capacity from our transportation infrastructure. Imagine increased ridership on Metro outbound in the mornings and inbound in the evenings.

While Fairfax County's current Comprehensive Plan guidance and existing zoning applications support such development, recent trends in Fairfax County development perpetuate a predominance of residential units. Developers insist in their proposals their preference for residential development is predicated on market demand. It is irrefutable; however, there has also been a steady influx of new businesses, both large and small, into Fairfax County. It is also generally true that developers are able to plan, develop and generate a profit on the residential components of a development much sooner than on the commercial components of a development. Longer lead times for commercial development do increase risk that developers and investors incur but this must be balanced against the long-term sustainability needs of Fairfax County and its residents.
The predominance of residential development 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. On the flip side, Tyson's Corner is an example of initial development resulting in too much office and retail. Fairfax County is aggressively seeking to add residential capacity to achieve more balance and develop a live-work community.

The Board of Supervisors has set a goal that commercial real estate taxes comprise 25 percent of all real estate taxes collected. Commercial real estate taxes comprise 19 percent of all the real estate taxes collected. This serves as an additional indicator of the trend perpetuating a predominance of residential development. We believe creating live-work business areas elsewhere in the County on a much smaller scale where commuting could be localized would be a positive step.

Recommendation: The Department of Planning and Zoning, in conjunction with the Fairfax County Economic Development Authority, should focus on encouraging and enabling commercial development proximate to areas that are predominantly residential and that recognizes and caters to emerging and desirable long-term business trends for the region, such as health care technology, information technology, research and development, and communications.

INCENTIVES: Businesses continue to come to Fairfax County rather than other local jurisdictions. While many factors contribute to our continued success in economic development, we raise the question about whether the County's current business licensing and taxation might be serving as a disincentive for some types of highly desirable businesses to locate here. The Business/Professional/Occupational License (BPOL) requirements impose graduated fees:

- If gross receipts are $10,000 or less, there is no fee or license requirement.
- For businesses with gross receipts from $10,001 to $50,000, a flat fee of $30 is assessed.
- For businesses with gross receipts from $50,001 to $100,000, a flat fee of $50 is assessed.
- For businesses with gross receipts of $100,001 or greater, the tax rate is determined by the business classification.

The BPOL rate schedule for businesses with gross receipts/purchases of $100,001 or more is determined by the "nature of the business," as follows:

Nature of Business	Tax Per $100
Wholesale Merchants*	0.04
Builder and Developers	0.05
Contractors	0.11
Retail Merchants	0.17
Business Service Occupations	0.19
Money Lenders	0.19
Personal Service Occupations	0.19
Repair Service Occupations	0.19
Telephone, Heat, Power, Light and Gas Companies	0.24
Amusement Occupations	0.26
Hotel and Motels	0.26
Renting By Owner (Residential or Commercial Property)	0.26
Professional Occupations	0.31
Consultants and Specialized Occupations	0.31
Real Estate Brokers	0.31
Research & Development Business (Certain federally-funded Research & Development prime contracts are eligible for the $0.03 per $100 rate upon DTA approval)	0.31

* Wholesale Merchants - based on gross purchases instead of gross receipt

It is not clear to our group why the highlighted categories above warrant a higher tax as these are the business types that employ high-tech and other professionals and would seem highly desirable to attract as employers in Fairfax County.

A small consulting business with $10 million in gross receipts will be paying $31,000 in BPOL just to have a license to do business in Fairfax County. In 2012, BPOL revenue was almost $150 million and only one-third of it came from the highlighted categories even though they were taxed at the highest rates. This is defacto evidence of a disproportionately smaller percentage of such employers in the County.

Consultants	$32,926,425	22%
Professional	$16,429,311	11%
R&D	$943,789	1%
Sub-total	$50,299,525	34%
TOTAL BPOL	$149,738,567	

Businesses in Fairfax County are taxed annually on their real estate, personal property (i.e., computers and furniture), and vehicles used for business. The tax rate is just under five percent of the assessed or depreciated value each year. In 2012:

- Business Real Estate taxes amounted to over $2 billion
- Leased and business vehicles were taxed at more than $32.5 million
- Business personal property was taxed at more than $115.4 million

  - Furniture and fixtures $82.8 million
  - Computer equipment 29.5 million
  - Machinery and tools 2.9 million
  - R&D equipment 0.2 million

Again the revenues above indicate a paucity of certain business types in the County while also making it clearly expensive for businesses reliant on office space, computers or other equipment to locate to the County. While the group acknowledges the need to generate revenue to fund County services and other obligations, the tax and licensing structure could be reconfigured to produce desired incentives rather than disincentives as they do now.

Recommendation: Fairfax County should examine its business tax and licensing structure to see if high pay, high technology, and professional employers would have stronger financial incentives to locate if revisions were made to the current schedule. This is especially important for a County striving to diversify its private sector employment base as federal spending shifts. County staff could also ask those involved in economic development and business retention initiatives, for their observations about the possible incentives/disincentives inherent in the current tax structure.

REGULATORY PROCESSES: Again this year, the group endorses the Economic Advisory Commission's Strategic Plan recommendation which states: "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)." This group notes, however, that the County has little latitude in storm water management regulations—these are state and federally mandated.

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

- Continue 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 requirements.

ATTRACT MORE FEDERAL JOBS: The County has a one-time opportunity to bring over 11,000 more federal jobs to Fairfax County if the GSA/FBI site selection process results in the selection of Fairfax County. That process is underway and competing jurisdictions are posturing to win this prize. The group supports efforts by the Fairfax County Board of Supervisors to win a favorable siting decision and attract the FBI headquarters to the Springfield area and preferably the GSA warehouse site. We strongly endorse continuing to seek this, or other uses for the GSA warehouse site should the FBI relocation go to a competing jurisdiction or other location.

INVESTMENTS IN TRANSPORTATION: On the assumption that the General Assembly's passage of a sweeping transportation funding bill moves into execution, Fairfax County residents could realize new investments in transportation infrastructure. The group understands that Fairfax County Department of Transportation (FCDOT) and Virginia Department of Transportation (VDOT) have long lists of projects queued up, however, we believe the priorities for implementation could benefit from a new assessment of desired outcomes now that more predictable funding is being made available.

Recommendation: Board of Supervisors encourage FCDOT to work with VDOT to jointly take a fresh look at all the planned transportation projects in Fairfax County to assure early investments are achieving maximum benefits in congestion relief, safety, and realizing a needed balance with multi-modal opportunities and connectivity.

CONCLUSION We are in a new economic reality -- one of scarce resources and fiscal and regulatory uncertainties. This is not something that we "need to get through" but rather this is where we are and how it is going to be. Citizen expectations must change to meet this new reality. The public must be fully engaged in a process to decide how best to spend our public dollars. The discussion must define the programs and services we expect from government (core functions); how and at what levels those programs and services will be delivered; and, most importantly, how to sustain core programs over the long term. Our citizens face the same economic difficulties and uncertainties; therefore, tax increases must be our choice of last resort.

The process of deciding how we spend our public dollars demands first that we understand fully how our tax dollars are being spent to maintain the County's school system. The school transfer is the biggest slice of our "spending pie" and has a direct impact on the rest of the County government. Absent a full understanding of how much we should be paying for our schools, questions will always arise about the trade-offs made to other County programs and services. We are now seeing the impact of the years of cumulative cuts to our human services safety net and public safety systems. The prolonged cuts in both areas, combined with the rising community needs have brought the County to a critical juncture.

Many of the concerns raised and recommendations we offer in this report are not new. We must value and nurture our workforce for they are our greatest asset. That includes making sure that benefits and retirement systems are affordable and sustainable in the long-term. We need to ensure that our citizens are safe and, for those in need, that there exists an adequate safety net. As the County Executive so rightly states, we need to protect and preserve those programs and services that contribute to the high quality of life which brings citizens and businesses to Fairfax County. Equally as important, we need to ensure that our basic infrastructure is adequately maintained.

We understand the difficult choices that need to be made to do all of the above and commend the County Executive and the Board of Supervisors for their leadership. Finally, we offer our deep appreciation to Supervisor Jeff McKay for providing us with the opportunity to participate in this very important public dialogue on the County's budget.

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THE BUDGET ADVISORY GROUP Group members, shown below, represent 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 including 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.

Ed Batten
Johna Gagnon
Suzette Kern, Chair
Stephen Levenson
Emily McCoy
Craig Mehall
Michele Menapace
Carl Sell
Harry Zimmerman

Staff Advisor: Linda Waller

Summary of Recommendations

LONG-TERM STRATEGIC PLANNING

We recommend that the County develop a long-range sustainable strategy that would clearly identify core programs and services, the optimum organizational structures needed, and the most efficient and sustainable ways to deliver those programs and services.

AGENCY REDUCTIONS

We urge the Board of Supervisors to revisit the list of reductions-not-taken with the notion that some reductions can or should be modified and implemented.

EMPLOYEE COMPENSATION

We urge the Board of Supervisors to make every effort to resist balancing the budget at the expense of its workforce. To the extent possible, when employee-related budget cuts are made, efforts should be made to identify offsetting non-monetary incentives.

HUMAN SERVICES SAFETY NET

We remain concerned that the funding for our human services network may fall short of what is needed to provide a safety net for our most vulnerable citizens and urge the Board of Supervisors to consider this one of the top priorities areas for funding.

PUBLIC SAFETY

We ask that the Board consider ways to augment the number of patrol officers for the entire County in the current budget proposal. We applaud the commitment to analyze the County's public safety needs over a five-year period and suggest that the review include representatives to provide the perspective of the citizens who are served.

PARKS

We recommend that before the next funding cycle begins, the Board of Supervisors schedule a work session with the Park Authority to complete discussions about a sustainability model using as a starting point the 2013 - 2015 Financial Sustainability Plan options and any strategies proposed in the Park Authority's 2014-2018 Strategic Plan. The discussion should also include whether the County Comprehensive Plan's current requirements provide adequate solutions to meet existing and projected needs and expectations for our park system.

INDIRECT COST RECOVERY CHARGE

We are concerned about the basis for developing this new indirect cost recovery charge to certain special revenue and enterprise funds, how it is being applied and the unintended consequences of this type of charge. We strongly urge the Board of Supervisors to revisit the wisdom of instituting such an assessment without further review.

PENSION SYSTEM MODIFICATIONS

We recommend the County consider changing the method for determining the cost of living (COLA) adjustment for retirees to make the COLA dependent on return on investment.

FAIRFAX COUNTY PUBLIC SCHOOLS

School Transfer We are recommending a flat transfer from the County General Fund to the Schools.

Transparency and Accountability All of the recommendations below are designed to help improve the accountability and transparency concerns raised in our report.

Issue 1 -- Correlating Budget to Strategic Governance

The Board of Supervisors ask FCPS to develop a budget that strengthens the connection between expenditures, specific objectives and projects, detailed multi-year planning, and clear assessments of progress. An excellent example can be found in the Montgomery County Public Schools budget which is presented in the Baldrige accountability model. (http://www.montgomeryschoolsmd.org/departments/budget/fy2014/superintendent/)

Issue 2 -- Budget Preparation and Community Input

County and school leaders and staff begin the budget development process earlier. The process will include a give-and-take capability to allow citizens to understand fiscal implications and prioritize spending. Such activity would reassure leaders that spending trends still comply with community values. It would offer a regular assessment and accountability mechanism for citizens, staff, budget decision makers, and County leaders. In other words, it would provide a financial gut-check. Sessions would include both County and school budget proposals.

Issue 3 -- Budget Organization and Content

The Board of Supervisors ask FCPS to simplify the budget with: improved readability; clear accountability to a long-term plan linked to strategic goals, achievements, and benchmarks to be met; and more understandable language and definitions that are used throughout FCPS financial documents. Some specific suggestions include:

- Improve transparency and accountability by incorporating the budget-goal connection (above) into the main body of the document.

- Suggest that the schools budget be made available as multiple documents or as a whole. See the Montgomery County Schools budget for an example.

- Suggest that the schools create an ongoing budget work group. The group could include appropriate school administrative staff, teachers and interested citizens (especially members of the Lee District Budget Group). It will help to funnel community feedback on the budget document itself and budget priorities.

- Suggest that all line items in the budget, particularly in the detail sheets, must have definitions within the document. Further suggest that links to program budget be available.

Issue 4 - Carryover Funds

We recommend that the Board of Supervisors:

- Suggest that the School Board analyze and regularly review the effectiveness of its staffing and other funding formulas. The funding formulas are driving the $26 million carryover at the school level. These formulas might be adjusted to transfer materials and supplies funding especially to areas where student needs are greater.

- Suggest that the School Board present budgets which more accurately reflect anticipated funding balances and carryover. Actual FCPS carryovers and starting balances are in the tens of millions of dollars, while the budgets are zero. At the same time, real-time adjustments are not factored into budget plans. For example, the FY2013 Third-Quarter Budget Review projects $14.4 million to be set aside for the FY2014 starting balance on top of the $51.3 million reflected in the FY2014 Proposed Budget and set aside during the FY2012 Year-End Budget Review.

Issue 5 --Undelivered Orders

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- Suggest that the School Board adopt the independent auditor position reporting solely to the School Board.

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- Urge the School Board to review fourth-quarter purchasing and contracting practices and consider greater scrutiny and stricter guidelines for same, in line with controls commonly used by federal government agencies.

Issue 6 -- Program Budget

We recommend that the Board of Supervisors request that FCPS include in its annual Program Budget the previous year's actual expenditures, detailing those associated with the mandates covered and/or the budgeted expenditures for mandate requirements.

Issue 7 -- Definitions of Expenditures

We again recommend that the Board of Supervisors require full and detailed accounting of the differences between the state and County definitions of instructional costs. Either these differences should be included in the budget and transfer request, or the FCPS budget use state definitions and accountability standards.

Issue 8 -- Clear Linkages Between Budgets - Approved, Estimates, Actual

We recommend that the Board of Supervisors should require FCPS to provide, in the Expenditure Details of the School Operating Fund, new columns showing the current fiscal year's Approved Budget and Actual Year-to-Date Expenditures in addition to the existing Estimate (projected current-year expenditures).

LONG TERM STRATEGIC INITIATIVES Our recommendations in this section are primary geared toward improving the County economic development efforts.

Prototype/Test Bed The group believes that the Board of Supervisors should consider some specific steps to improve the County's long-term financial health and transportation issues besides whatever changes are being made to the annual budget this year. In this context, we recommend that the Board of Supervisors considers trying some specific steps in one or more discrete areas of the County as a test bed for greater applicability in the future.

Micro Live-work Communities We recommend that the Department of Planning and Zoning, in conjunction with the Fairfax County Economic Development Authority, should focus on encouraging and enabling commercial development proximate to areas that are predominantly residential and that recognizes and caters to emerging and desirable long-term business trends for the region, such as health care technology, information technology, research and development, and communications.

Incentives We recommend that the County examine its business tax and licensing structure to see if high pay, high technology, and professional employers would have stronger financial incentives to locate if revisions were made to the current schedule. This is especially important for a County striving to diversify its private sector employment base as federal spending shifts. County staff could also ask those involved in economic development and business retention initiatives, for their observations about the possible incentives/disincentives inherent in the current tax structure.

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

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- Streamline Comprehensive Plan Amendment and zoning processes to keep pace with changing requirements.

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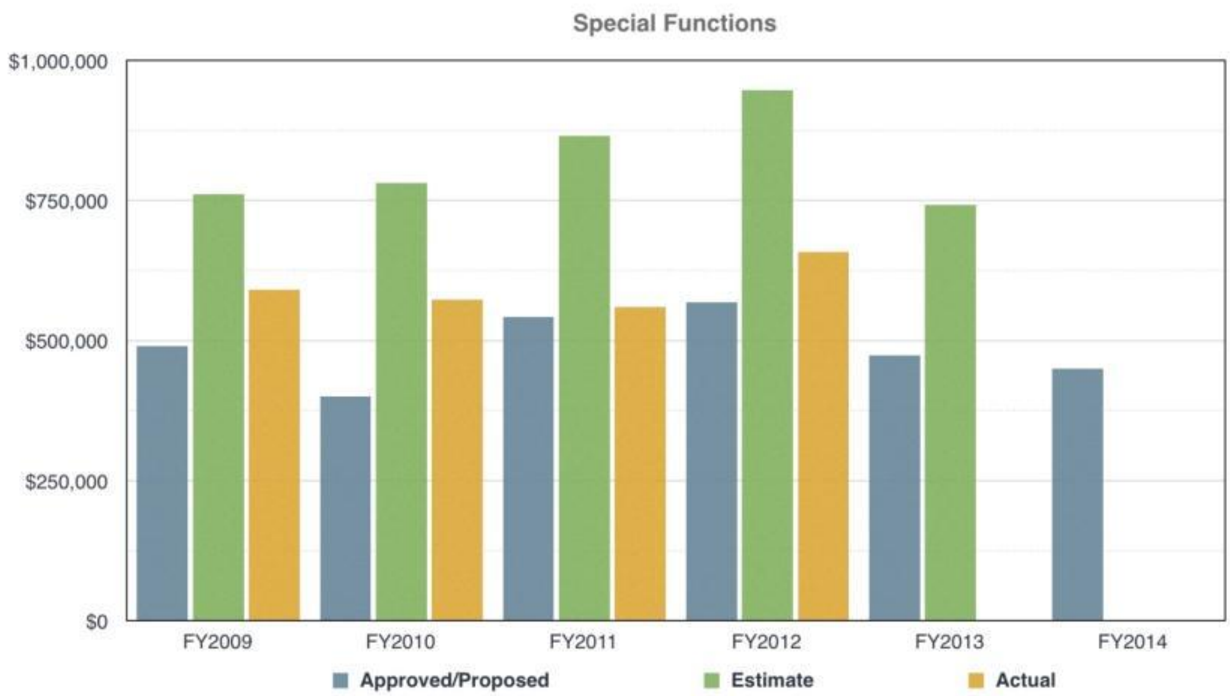
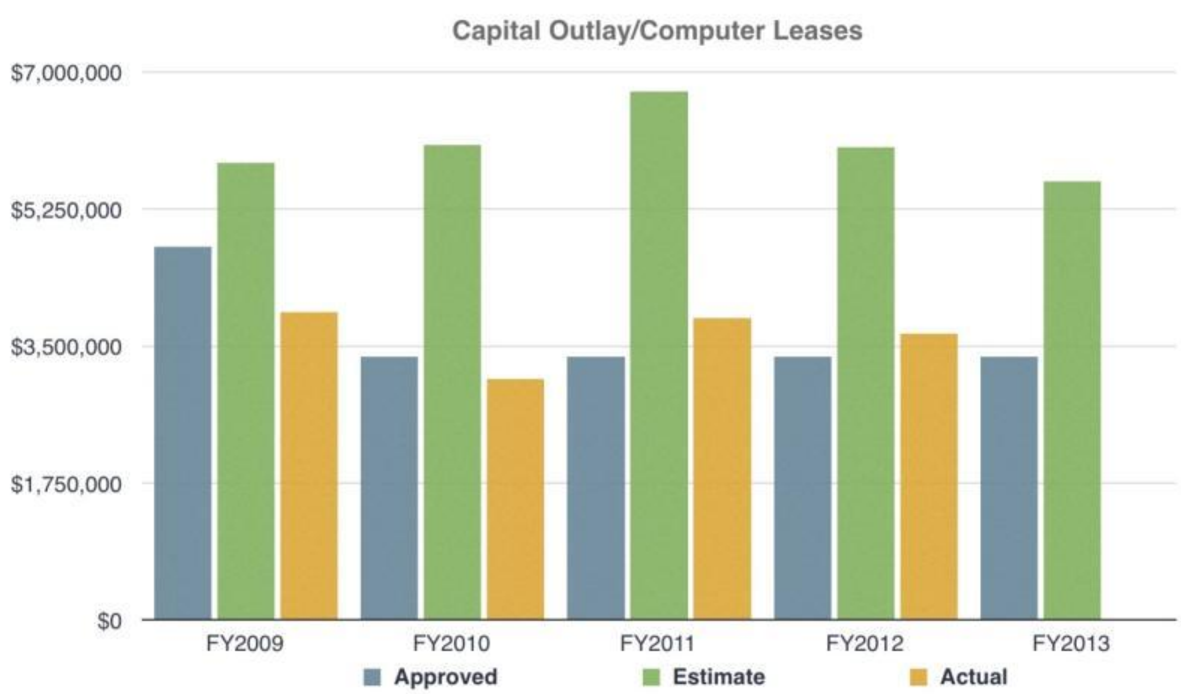
FCPS Issue 8 -- Clear Linkages Between Budgets - Approved, Estimates, Actual Data in the charts and graphs below are from FCPS Approved Budgets FY 2009- 2013. Our comparison of the figures shown for FY 2009-2013 between the budget which is approved in May, the estimates or revised budget done in July and the actual expenditures show large fluctuations. The charts and graphs provided below reflect data pulled from budget documents for a sampling of budget categories.

Year	FY2009	FY2010	FY2011	FY2012	FY2013
Special Functions					
Approved	$489,879	$400,744	$542,333	$567,882	$473,398
Estimate	$761,283	$781,672	$865,112	$946,648	$742,475
Estimate vs Approved	55%	95%	60%	67%	57%
Actual	$591,289	$572,629	$560,310	$657,814	
Actual vs Approved	21%	43%	3%	16%	
Actual vs Estimate	-22%	-27%	-35%	-31%	
Employee Awards & Recognitions					
Approved	$4,500	$4,500	$4,500	$4,500	$1,000
Estimate	$7,000	$10,417	$18,389	$180,783	$1,000
Estimate vs Approved	56%	131%	309%	3,917%	0%
Actual	$7,381	$9,437	$25,815	$0	
Actual vs Approved	64%	110%	474%	-100%	
Actual vs Estimate	5%	-9%	40%	-100%	
Capital Outlay/Computer Leases					
Approved	$4,772,433	$3,361,903	$3,361,903	$3,361,903	$3,361,903
Estimate	$5,844,960	$6,071,549	$6,751,862	$6,039,094	$5,600,490
Estimate vs Approved	22%	81%	101%	80%	67%
Actual	$3,936,227	$3,076,680	$3,857,949	$3,654,235	
Actual vs Approved	-18%	-8%	15%	9%	
Actual vs Estimate	-33%	-49%	-43%	-39%	
Capital Outlay/Total Equipment					
Approved	$9,172,617	$5,220,117	$6,869,740	$3,262,617	$9,309,649
Estimate	$4,189,351	$7,807,389	$4,817,984	$2,112,349	$9,977,928
Estimate vs Approved	-54%	50%	-30%	-35%	7%
Actual	$5,494,500	$5,885,066	$4,451,169	$25,631	
Actual vs Approved	-40%	13%	-35%	-99%	
Actual vs Estimate	31%	-25%	-8%	-99%	

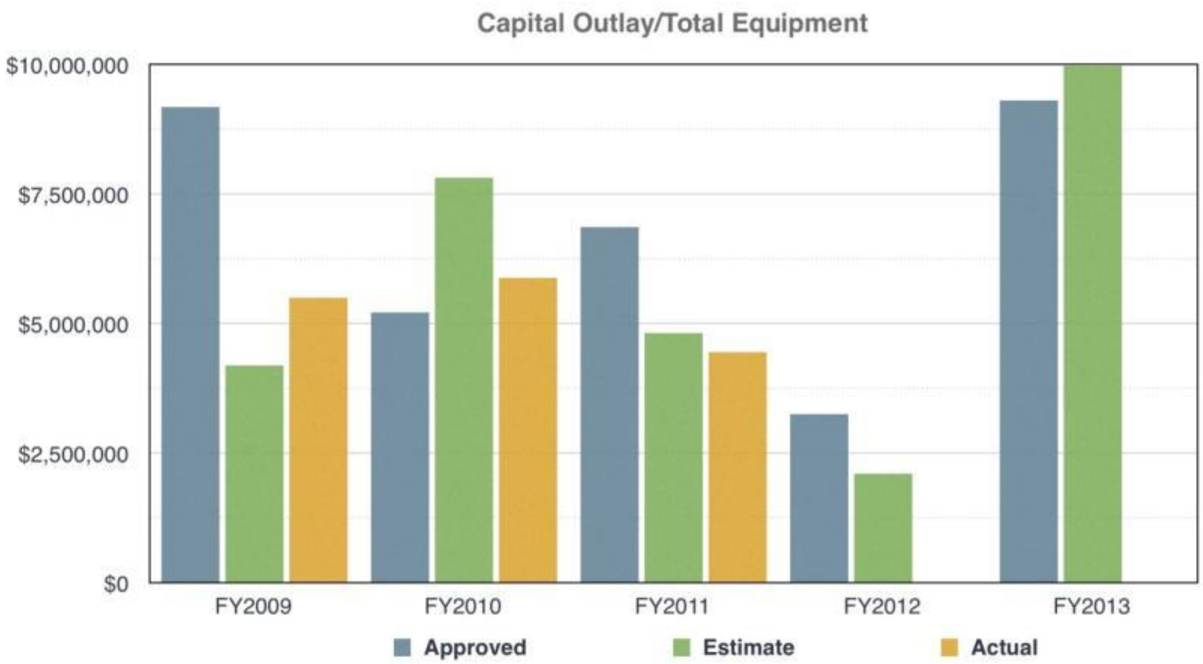
Year	FY2009	FY2010	FY2011	FY2012	FY2013
Fixed Assets > $5,000					
Approved	$801,847	$848,847	$916,447	$114,600	$57,000
Estimate	$3,489,608	$3,203,452	$2,909,468	$0	$413,114
Estimate vs Approved	335%	277%	217%	-100%	625%
Actual	$3,517,221	$4,272,310	$4,585,870	$4,978,787	
Actual vs Approved	339%	403%	400%	4,244%	
Actual vs. Estimate	1%	33%	58%	4,978,787%	
Addl Equipmt < $5,000					
Approved	$8,931,273	$8,580,590	$8,085,204	$8,838,629	$9,327,427
Estimate	$11,087,596	$11,241,403	$14,622,744	$17,972,338	$14,525,355
Estimate vs. Approved	24%	31%	81%	103%	
Actual	$7,781,297	$9,194,649	$15,093,662	$12,348,333	
Actual vs Approved	-13%	7%	87%	40%	
Actual vs Estimate	-30%	-18%	3%	-31%	
Other Svcs Contract					
Approved	$7,798,758	$7,793,067	$7,981,851	$6,565,203	$7,412,085
Estimate	$9,107,018	$11,571,802	$19,363,152	$12,266,764	$13,797,693
Estimate vs Approved	17%	48%	143%	87%	86%
Actual	$7,582,907	$11,334,317	$17,944,420	$7,999,888	
Actual vs Approved	-3%	45%	125%	22%	
Actual vs Estimate	-17%	-2%	-7%	-35%	
Other Prof Services					
Approved	$10,866,675	$12,113,447	$12,390,758	$18,445,111	$17,527,372
Estimate	$18,485,083	$20,601,466	$32,159,636	$29,972,733	$27,754,623
Estimate vs Approved	70%	70%	160%	62%	58%
Actual	$12,930,431	$12,688,033	$18,234,371	$17,518,200	
Actual vs Approved	19%	5%	47%	-5%	
Actual vs Estimate	-30%	-38%	-43%	-42%	



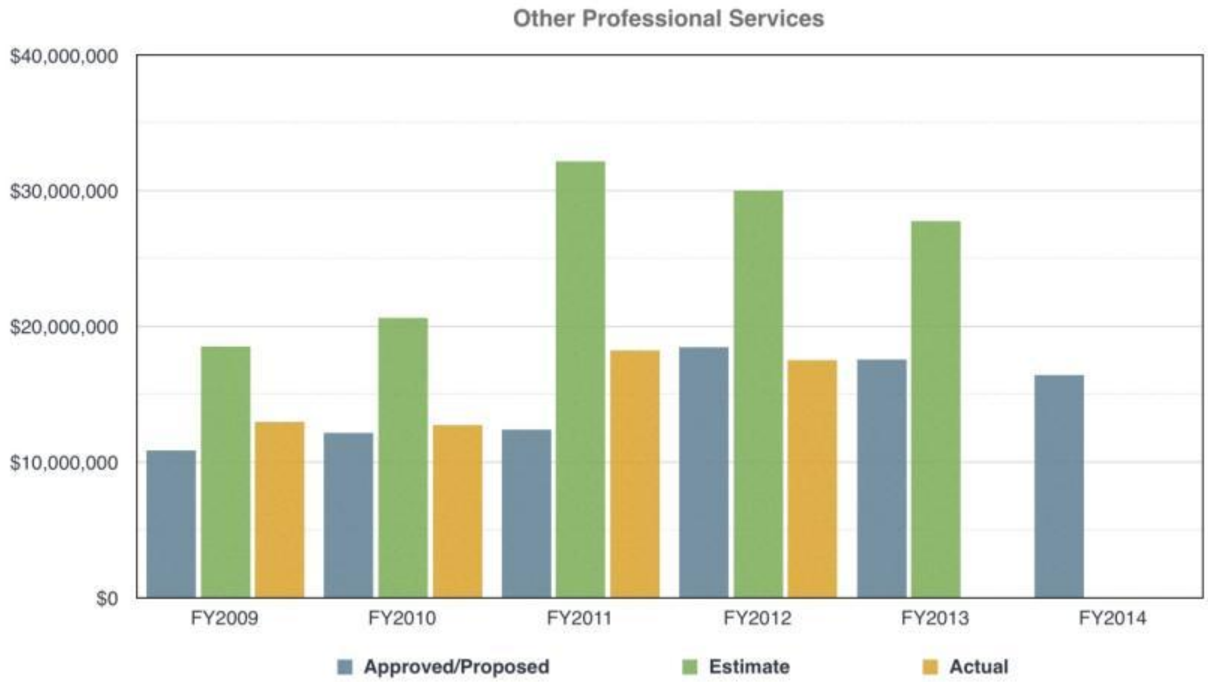
Special Functions
$1,000,000
$750,000
$500,000
$250,000
$0
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
Approved/Proposed
Estimate
Actual

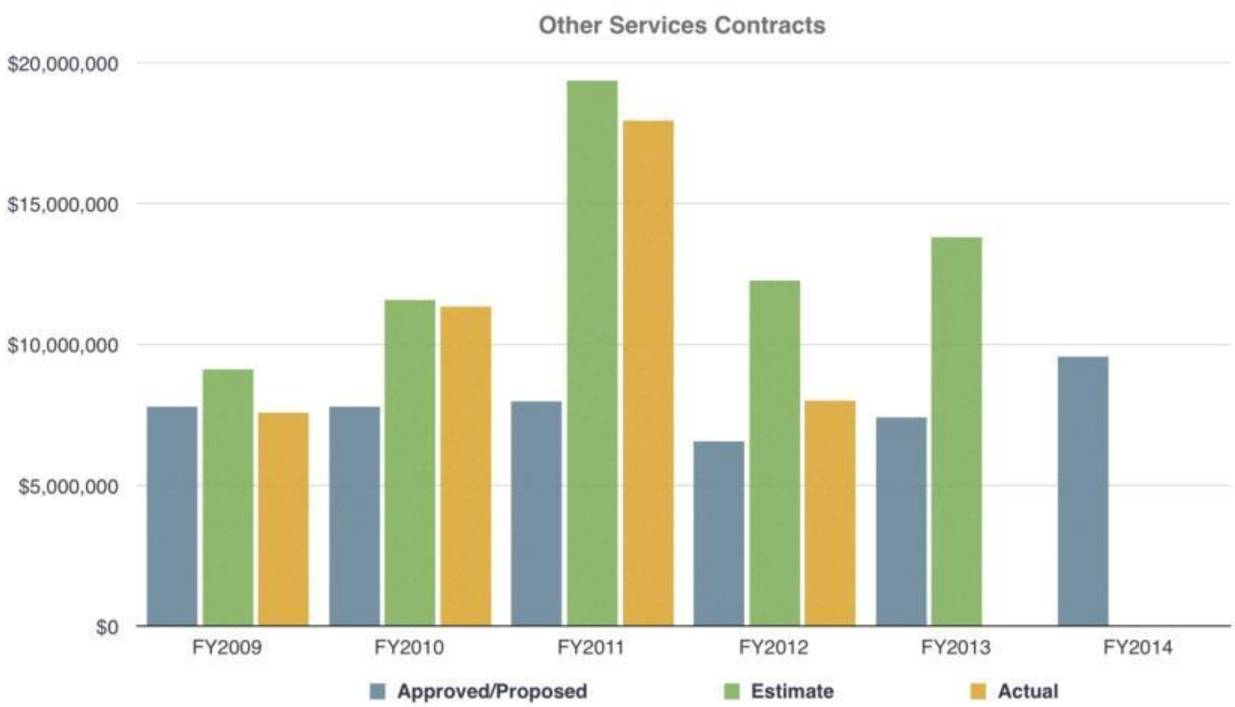


Capital Outlay/Computer Leases
$7,000,000
$5,250,000
$3,500,000
$1,750,000
$0
FY2009
FY2010
FY2011
FY2012
FY2013
Approved
Estimate
Actual


Capital Outlay/Total Equipment
$10,000,000
$7,500,000
$5,000,000
$2,500,000
$0
FY2009
FY2010
FY2011
FY2012
FY2013
Approved
Estimate
Actual


Additional Equipment < $5,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
Approved/Proposed
Estimate
Actual


Other Professional Services
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
Approved/Proposed
Estimate
Actual


Other Services Contracts
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
Approved/Proposed
Estimate
Actual