Long-Term Financial Policies and Tools

Overview

This section identifies some of the major policies, long-term financial management tools and planning documents that serve as guidelines for decisions, support the strategic direction of the County and contribute directly to the outstanding fiscal reputation of the County. Adherence to these policies has enabled the County to historically borrow funds at the lowest possible interest rates available in the municipal bond market.

The keystone to the County's ability to maintain its fiscal integrity is the continuing commitment of the County's Board of Supervisors. This commitment is evidenced by the Board of Supervisors' adoption of the *Ten Principles of Sound Financial Management (Ten Principles)* in 1975, which remain the policy context within financial decisions are considered and made. These principles relate primarily to the integration of capital planning, debt issuance, cash management, and productivity as a means of ensuring prudent and responsible allocation of the County's resources.

In addition to the *Ten Principles*, this section includes an overview of the County's long-term financial policies with a brief description of policies relating to the budget guidelines, reserves, internal financial controls, debt management, risk management, information technology, and investments. Long-term financial management tools and planning documents used by the County are also briefly described.

Ten Principles of Sound Financial Management

The *Ten Principles*, adopted by the Board of Supervisors on October 22, 1975, endorsed a set of policies designed to contribute to the County's fiscal management and maintain the County's "triple A" bond rating. The County has maintained its superior rating in large part due to its firm adherence to these policies. The County's exceptional "triple A" bond rating gives its bonds a high level of marketability and results in the County being able to borrow for needed capital improvements at low interest rates, thus realizing significant debt service savings for the residents of Fairfax County now and in the future.

From time to time the Board of Supervisors amends the *Ten Principles* in order to address changing economic conditions and management practices. In FY 2008, the Board authorized the use of variable rate debt. Variable rate obligations are debt obligations that are frequently used for short-term or interim debt financing and have an interest rate that is reset periodically, usually for periods of less than one year. Variable rate debt is typically used to take advantage of low short-term rates in anticipation of converting to longer-term fixed rate financing for complex projects or to mitigate the impact of volatile markets.

In FY 2016, as a response to concerns from the bond rating agencies, the Board committed to increasing the County's reserve policies to strengthen the County's financial position. As a result, the Managed Reserve target increased from 2 to 4 percent of General Fund Disbursements and the Revenue Stabilization Reserve target increased from 3 to 5 percent of General Fund Disbursements. In addition, a new Economic Opportunity Reserve was established at 1 percent of General Fund Disbursements (revising the total for these primary reserves from 5 to 10 percent), as well as funding other replacement reserves. The County reserve policy is now more in line with other triple-A jurisdictions. The FY 2025 Adopted Budget Plan reflects full funding for the Managed Reserve, the Revenue Stabilization Fund and the Economic Opportunity Reserve at 4.0 percent, 5.0 percent and 1.0 percent, respectively.

In February 2020, the Board of Supervisors and the School Board established a joint Capital Improvement Program (CIP) Committee (Committee) to allow for information sharing, prioritizations, and planning by both the County and Fairfax County Public Schools. The Committee spent its time reviewing the County's existing financial policies, considering the financing options available for capital projects, understanding the capital project requirements identified for both the County and Schools, and evaluating the current CIP Plan and processes. Following these discussions over several months, the Committee issued its final report in October 2021. The report was then presented to the Budget Committee in November before the full Board of Supervisors and the School Board and approved by the Board of Supervisors in December 2021. The Committee made three notable funding recommendations as part of its report. First, the County's General Obligation Bond sale limit would increase from $300 million to $400 million annually. Bond sale limits had not increased since 2007 for the County and 2019 for the Schools. A gradual approach to reach the revised bond limit is provided as follows. As part of the FY 2023 Adopted Budget Plan, the County included an additional $25 million in general obligation bonds for Schools and an additional $25 million in general obligation bonds for the County, thereby increasing the annual total from $300 million to $350 million. This amount remained level in FY 2024. In FY 2025, the county will include an additional $25 million in general obligation bonds for Schools and an additional $25 million in general obligation bonds for the County, thereby increasing the annual total from $350 million to $400 million.

	FY 2022	FY 2023	FY 2024	FY 2025
County	$120m	$145m	$145m	$170m
Schools	$180m	$205m	$205m	$230m
Total	**$300m**	**$350m**	**$350m**	**$400m**

The County's annual bond sale limits were revised as part of the *Ten Principles* coupled with updates to the description for the Economic Opportunity Reserve (EOR) given its fully funded status. These changes to the *Ten Principles* were approved as part of the FY 2023 Adopted Budget Plan. Debt ratio impact with respect to capacity and affordability will continue to be reviewed on an annual basis.

Second, the Committee recommended dedicating the equivalent value of one penny on the Real Estate Tax Rate (approximately $32 million in FY 2025) to the capital program. This will be supported through Pay-As-You-Go (PAYGO) and debt service allocations. As part of the FY 2025 Adopted Budget Plan, a total of $5 million was included, or $2.5 million each for the County and School capital programs, which is level with the FY 2024 Adopted Budget Plan. Investment in this recommendation will need to grow gradually over time to accommodate future debt service cost increases with the revised annual bond sale limits. Funding will continue to be subject to revenue availability as determined through annual and quarterly budget reviews.

Third, the County increased the percentage allocated to the Capital Sinking Fund at year-end from 20 percent to 30 percent of balances not needed for critical year-end items. Schools would receive 25 percent of this allocation, and the County would evaluate the percentages to each of the remaining areas (County facilities, Parks, Walkways, and County-owned roads and Revitalization). This began as part of the *FY 2022 Carryover Review*.

In addition to the more traditional methods of long-term financing through General Obligation Bonds, the County has been able to accomplish major capital improvements using alternative financings while maintaining the County's fiscal integrity as required by the *Ten Principles*. Accomplishments such as Metrorail station parking garages, construction of Route 28, the opening of a commuter rail and construction of government facilities have all been attained in addition to a robust bond construction program. In 2003, the County accelerated the construction of a new high school by

three years through the creative use of revenue bonds in connection with the joint development of a senior care facility and a golf course. From 1999 through 2023, the County has approved $6.33 billion of new debt via referendum, with $4.10 billion for Schools and $2.23 billion for the County.

Since 1975, the savings associated with the County's "triple-A" bond rating is estimated at $634.33 million. Including savings of $395.44 million from the various refunding sales, the total benefit to the County is an estimated $1.03 billion. Also, implementation of a Master Lease program and judicious use of short-term lease purchases for computer equipment, copier equipment, school buses and energy efficient equipment have permitted the County and Schools to maximize available technology while maintaining budgetary efficiency.

The *Ten Principles* full text is as follows:

Ten Principles of Sound Financial Management
April 26, 2022

1. **Planning Policy**. The planning system in the County will continue as a dynamic process, which is synchronized with the capital improvement program, capital budget and operating budget. The County's land use plans shall not be allowed to become static. There will continue to be periodic reviews of the plans at least every five years. Small area plans shall not be modified without consideration of contiguous plans. The Capital Improvement Program will be structured to implement plans for new and expanded capital facilities as contained in the County's Comprehensive Plan and other facility plans. The Capital Improvement Program will also include support for periodic reinvestment in aging capital and technology infrastructure sufficient to ensure no loss of service and continued safety of operation.

2. **Annual Budget Plans**. Annual budgets shall continue to show fiscal restraint. Annual budgets will be balanced between projected total funds available and total disbursements including established reserves.

    a. Managed Reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than four percent of total General Fund disbursements in any given fiscal year.

    b. A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. This Fund shall be maintained at five percent of total General Fund disbursements in any given fiscal year. Use of the RSF should only occur in times of severe economic stress. Accordingly, a withdrawal from the RSF will not be made unless the projected revenues reflect a decrease of more than 1.5 percent from the current year estimate and any such withdrawal may not exceed one half of the RSF fund balance in that year. A drawdown of this Fund should be accompanied with expenditure reductions.

    c. An Economic Opportunity Reserve shall be established in addition to the Managed Reserve and the Revenue Stabilization Fund. This reserve is meant to stimulate economic growth and will provide for strategic investment opportunities that are identified as priorities by the Board of Supervisors. This reserve is equal to one percent of total General Fund disbursements. Funding for this reserve occurred after the Managed

Reserve and the Revenue Stabilization Fund were fully funded at their new levels of four percent and five percent, respectively. Criteria for funding, utilization, and replenishment of the reserve were approved by the Board of Supervisors as part of the Eight Principles of Investment in Economic Opportunities. The criteria for use include financial modeling analysis (e.g., cost-benefit, etc.) to determine the fiscal impact to the County of the proposed investment opportunity and requires approval from the Board of Supervisors for any use.

d. Budgetary adjustments which propose to use available general funds identified at quarterly reviews should be minimized to address only critical issues. The use of non-recurring funds should only be directed to capital expenditures to the extent possible.

e. The budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property in order to minimize disruption of budgetary planning from irregularly scheduled monetary demands.

3. **Cash Balances.** It is imperative that positive cash balances exist in the General Fund at the end of each fiscal year. If an operating deficit appears to be forthcoming in the current fiscal year wherein total disbursements will exceed the total funds available, the Board will take appropriate action to balance revenues and expenditures as necessary so as to end each fiscal year with a positive cash balance.

4. **Debt Ratios**. The County's debt ratios shall be maintained at the following levels:

a. Net debt as a percentage of estimated market value shall be less than 3 percent.

b. Debt service expenditures as a percentage of General Fund disbursements shall not exceed 10 percent. The County will continue to emphasize pay-as-you-go capital financing. Financing capital projects from current revenues is indicative of the County's intent to use purposeful restraint in incurring long-term debt.

c. For planning purposes, annual bond sales shall be structured such that the County's debt burden shall not exceed the 3 and 10 percent limits. To that end, sales of General Obligation Bonds and general obligation supported debt will be managed so as not to exceed a target of $400 million per year, or $2.0 billion over five years, with a technical limit of $425 million in any given year. Excluded from this cap are refunding bonds, revenue bonds or other non-General Fund supported debt.

d. For purposes of this principle, debt of the General Fund incurred subject to annual appropriation shall be treated on a par with general obligation debt and included in the calculation of debt ratio limits. Excluded from the cap are leases secured by equipment, operating leases, and capital leases with no net impact to the General Fund.

e. Use of variable rate debt is authorized in order to increase the County's financial flexibility, provide opportunities for interest rate savings, and help the County manage its balance sheet through better matching of assets and liabilities. Debt policies shall stipulate that variable rate debt is appropriate to use when it achieves a specific objective consistent with the County's overall financial strategies; however, the County must determine if the use of any such debt is appropriate and warranted given the potential

benefit, risks, and objectives of the County. The County will not use variable rate debt solely for the purpose of earning arbitrage pending the disbursement of bond proceeds.

f. For purposes of this principle, payments for equipment or other business property, except real estate, purchased through long-term lease-purchase payment plans secured by the equipment will be considered to be operating expenses of the County. Annual General Fund payments for such leases shall not exceed 3 percent of the annual General Fund disbursements, net of the School transfer. Annual equipment lease-purchase payments by the Schools and other governmental entities of the County should not exceed 3 percent of their respective disbursements.

5. **Cash Management**. The County's cash management policies shall reflect a primary focus of ensuring the safety of public assets while maintaining needed liquidity and achieving a favorable return on investment. These policies have been certified by external professional review as fully conforming to the recognized best practices in the industry. As an essential element of a sound and professional financial management process, the policies and practices of this system shall receive the continued support of all County agencies and component units.

6. **Internal Controls**. A comprehensive system of financial internal controls shall be maintained in order to protect the County's assets and sustain the integrity of the County's financial systems. Managers at all levels shall be responsible for implementing sound controls and for regularly monitoring and measuring their effectiveness.

7. **Performance Measurement**. To ensure Fairfax County remains a high performing organization all efforts shall be made to improve the productivity of the County's programs and its employees through performance measurement. The County is committed to continuous improvement of productivity and service through analysis and measurement of actual performance objectives and customer feedback.

8. **Reducing Duplication**. A continuing effort shall be made to reduce duplicative functions within the County government and its autonomous and semi-autonomous agencies, particularly those that receive appropriations from the General Fund. To that end, business process redesign and reorganization will be encouraged whenever increased efficiency or effectiveness can be demonstrated.

9. **Underlying Debt and Moral Obligations**. The proliferation of debt related to but not directly supported by the County's General Fund shall be closely monitored and controlled to the extent possible, including revenue bonds of agencies supported by the General Fund, the use of the County's moral obligation and underlying debt.

   a. A moral obligation exists when the Board of Supervisors has made a commitment to support the debt of another jurisdiction to prevent a potential default, and the County is not otherwise responsible or obligated to pay the annual debt service. The County's moral obligation will be authorized only under the most controlled circumstances and secured by extremely tight covenants to protect the credit of the County. The County's moral obligation shall only be used to enhance the credit worthiness of an agency of the County or regional partnership for an essential project, and only after the most stringent safeguards have been employed to reduce the risk and protect the financial integrity of the County.

b. Underlying debt includes tax supported debt issued by towns or districts in the County, which debt is not an obligation of the County, but nevertheless adds to the debt burden of the taxpayers within those jurisdictions in the County. The issuance of underlying debt, insofar as it is under the control of the Board of Supervisors, will be carefully analyzed for fiscal soundness, the additional burden placed on taxpayers and the potential risk to the General Fund for any explicit or implicit moral obligation.

10. **Diversified Economy**. Fairfax County must continue to diversify its economic base by encouraging commercial and, in particular, industrial employment and associated revenues. Such business and industry must be in accord with the plans and ordinances of the County.

As of January 2024, only a limited number of jurisdictions, including Fairfax County, have received a "triple A" bond rating from Moody's Investors Service, Standard and Poor's Corporation, and Fitch Investors Services:

- **only 53 of the nation's 3,069 counties**
- **only 12 of the nation's 50 states**
- **only 37 of the nation's 35,000+ cities and towns**

Through the application of the *Ten Principles*, careful fiscal planning and sound financial management, Fairfax County has achieved a "triple A" bond rating from the three leading rating agencies. The County has held a Aaa rating from Moody's Investors Service since 1975, a AAA rating from Standard and Poor's Corporation since 1978, and a AAA rating from Fitch Investors Services since 1997. As of January 2024, Fairfax County is one of only 53 counties in the country with "triple A" bond ratings from all three rating agencies.

Budget Guidance

Each year during budget adoption, the Board of Supervisors reaffirms and approves budget guidelines for the next budget year. These guidelines then serve as a future budget development tool.

Budget Guidance for FY 2025 and FY 2026

April 30, 2024

At a regular meeting of the Board of Supervisors of Fairfax County, Virginia, held in the Board Auditorium of the Fairfax County Government Center on Tuesday, April 30, 2024, the Board approved the following Budget Guidance for FY 2025 and FY 2026. Our next step is to adopt guidance for the development of the FY 2026 budget. The purpose of Budget Guidance is to indicate Board of Supervisors' support for initiatives included in the FY 2025 budget, to provide direction to the County Executive and County agencies related to the implementation of the FY 2025 Budget, and to make recommendations to the County Executive and County staff for the development of the FY 2026 Advertised Budget. Budget Guidance is not inclusive of all priorities of the Board, nor is it inclusive of all issues raised by the community during the development of this year's budget.

Fairfax County Public Schools (FCPS)

The Board appreciates the continued collaboration with the School Board on our joint legislative priority of securing increased state funding for schools. The Joint Legislative Audit and Review

Commission (JLARC) study found that the state uses a “complex and unreasonable funding formula” that results in the underfunding of schools by $1,900 per student when compared to the national average. Implementing all JLARC recommendations would result in an additional $568.7 million for Fairfax County Public Schools. The cost of supporting our schools falls disproportionately on our local homeowners. As a result, it is imperative that we continue to pressure the state for increased funding, as growth in our local revenue sources will be limited. FCPS is encouraged to develop a FY 2026 transfer request that is consistent with the projected revenues that will be presented as part of the joint fiscal forecast in November.

State Budget

The Governor and General Assembly continue to negotiate on the state budget, with hopes for a compromise by mid-May. The budget passed by the General Assembly in March promised significant progress towards addressing Metro’s budget deficit, with the pledge of additional state resources over a two-year period. The Governor’s amendments reversed course, seeking to balance Metro’s budget by redirecting County funds that are held at the Northern Virginia Transportation Commission (NVTC) for planned replacement of our Connector bus fleet and that could be depleted as early as October 2024. Metro is a critical component of Virginia’s transportation infrastructure that keeps our economic engine moving. Funding the Metro system is a shared responsibility between the state and localities and significant new state resources are required this year to support Metro’s operations. Staff is directed to report back to the Board regarding state budget action on Metro, as well as other possible actions impacting the County budget such as expansion of the sales tax base to include digital purchases, with any recommended changes in funding allocations as part of the *FY 2024 Carryover Review*.

FY 2026 Budget Development

The FY 2025 budget presented a challenging year, with limited revenue growth to support our expenditure requirements. County staff, through an extensive process last year, identified the equivalent of over one cent on the Real Estate Tax rate, primarily through expenditure reductions, to allow limited investments in County priorities. However, the burden on real estate taxpayers has continued to grow, with real estate taxes increasing as a percentage of our County’s budget from 63.5 to 66 percent over the past ten years. This is creating an affordability challenge for all Fairfax County residents, particularly those on fixed incomes and those who are already struggling to make ends meet in a region with a high cost of living.

The FY 2026 budget, based on early forecasts, appears to be similarly challenging. Projected requirements for employee compensation and schools will leave limited flexibility to address other priorities or provide relief to taxpayers. This dynamic has been building for a number of years and is likely to continue; changing it will require state advocacy for the development of other revenue options. The JLARC study, as noted above, plainly stated the systemic underfunding by the state of school systems across Virginia. However, in addition to direct support of schools by the state, real tax reform is necessary to provide localities with options to reduce their over-reliance on real estate taxes and to help diversify their tax bases. While the world around us continues to modernize, Virginia’s tax structures remain rooted in the past.

As we look ahead to our legislative program for the coming session, we should continue to advocate for broader taxing authority that will provide options to diversify our revenue base and for the state to meet its responsibility to fund shared services such as schools and transportation. We also direct the County Executive to review all existing taxing authority and come back to the Board at a future Budget Committee meeting with recommendations for strategies to diversify our revenue base and reduce the over-reliance on the Real Estate Tax.

Employee Pay and Collective Bargaining

The FY 2025 budget is our first to be adopted following negotiations with employee unions representing the Fire and Emergency Services and Police bargaining units. One theme arising from these initial agreements is that our employees desire predictability in their pay. The Market Rate Adjustment (MRA) has fluctuated widely in recent years, proving to be a challenge for our budget and a source of uncertainty for our employees. We support the County Executive's proposal to implement a more stable and predictable means of keeping our pay scales in line with the market, coupled with a commitment to more consistently fund those adjustments. We also encourage the Department of Human Resources to evaluate additional ways to help employees more easily calculate the graduated performance pay increases that are awarded to General County employees. The County will continue to use all of its available tools to recruit, retain and reward employees, including merit increases, performance increases, longevity increases, the hiring incentive bonus program approved by the Board in 2022 and the annual benchmarking of salary ranges against competitors that resulted in the adjustment of the salary grades of nearly 1,200 General County employees for FY 2025.

Retirement

One of the ways that the County exemplifies support for its outstanding employees is through the funding of employee benefits, particularly our strong defined-benefit retirement plans. Two studies are currently underway by the Retirement Administration Agency that will help ensure that the County is transparent to our employees and our residents about the financial health of our plans and that we remain vigilant in maximizing investment income which can help offset County costs. The first is a comprehensive 'stress test' of the systems, which will help us to understand the financial strength of our systems. The second is a consultant review that will examine the overall governance of the systems, as well as investment policies and procedures, based on best practices of other public retirement systems. The Board supports both efforts and looks forward to the results and recommendations of each.

County Position Review and Vacancy Analysis

The County, like many employers across the country, has faced significant challenges in the recruitment and retention of employees, as the post-pandemic labor market has been strong. As the County has made great strides with programs like the Board-approved hiring incentive bonuses, it has been difficult to assess our successes based on vacancy metrics due to the large number of unfunded positions throughout County agencies. The Board recognizes that many of these positions are unfunded as a result of budget reductions, some going back to actions taken following the Great Recession. In some cases, these positions provide flexibility for agencies to adapt their organizations to changing needs. However, it is important for the Board – and our residents – to have a clear picture regarding the number of positions that are vacant and are able to be filled. As a result, the Board directs staff to continue its ongoing comprehensive review of County positions. This review, conducted by the Department of Management and Budget in concert with agency directors, should include a focus on eliminating vacant positions that are unfunded and examining whether funded positions are appropriately classified. Steps to address any identified issues should be implemented as soon as possible but no later than as part of the FY 2026 budget.

Consolidation of Animal Control Services

The Board agrees with the staff proposal to consolidate animal control services into the Department of Animal Sheltering (DAS). However, we heard concerns throughout the budget season from the public and staff regarding how this new model would impact service delivery. Given the concerns voiced by some of our residents, additional clarification on how this

consolidation will be operationalized and a clear timeline of implementation strategies are needed to provide further transparency. Staff is directed to return to the Board as part of a Safety and Security Committee meeting to provide additional details regarding the roles of DAS staff and police officers under this new structure and any changes to the philosophical approach to wildlife and other services.

Affordable Housing

As reflected in the Board's budget guidance for the past few years, the County is committed to taking steps necessary to reach our goal of a minimum of 10,000 new affordable homes by the year 2034. Although unable to commit additional baseline funds as part of the FY 2025 budget, the Board recognizes that additional capital investments are necessary and approved the allocation of $4 million for this purpose as part of the *FY 2024 Third Quarter Review*. Baseline funding of $32.3 million is currently included in the budget, equivalent to one penny on the Real Estate Tax rate. Including the additional $4 million, onetime funding of $89 million has also been allocated since FY 2022 for this important initiative. This onetime funding is a combination of utilizing $55 million in federal stimulus funds and $34 million from onetime General Fund balances. The Board remains steadfast in its resolve to add recurring baseline funding for this initiative with the goal of reaching a total investment of two pennies on the Real Estate Tax rate by FY 2027. As such, the County Executive is encouraged to add recurring resources in FY 2026. In addition, the Board encourages the County Executive to continue to pursue additional sources of funding, such as federal and state grants, to support affordable housing needs, including for the County's manufactured housing communities and to expand the County's efforts on promoting homeownership.

Parks

In January 2024, the Fairfax County Park Authority (FCPA) and their outside consultants provided a presentation at a Board committee meeting on the Review of the Equity of FCPA's Revenue and Operating Fund. Due to a reliance on the current fee structure, there are several FCPA programs that charge more than local comparators and have priced out many County residents. The presentation provided several recommendations to provide greater equity in FCPA programs. The next step in this process will be for Neighborhood and Community Services and FCPA staff to conduct a thorough public outreach process. This coordination will provide departmental insight into existing County programs that already implement some of the recommendations (e.g., School-Age Child Care sliding fee scale) to provide a guide to best practice implementation. County staff, in concert with the Park Authority Board, are directed to review the current funding structure of FCPA to determine if there are alternative approaches that could be considered to improve park services, facilities, and maintenance and further address equity. The Board recognizes that these changes will require significant fiscal resources and organizational change and expects any recommendations to be phased in over multiple years.

Workhouse Arts Center

Similar to other nonprofits in the region and nationally, the Workhouse Arts Foundation (WAF) was able to emerge from the pandemic but has been experiencing financial challenges to their operating budget for the last two fiscal years. This has been driven largely by lower revenues from class registrations, grants, contributions, and special events. WAF has utilized a portion of its reserves to balance its budget, but this is not sustainable long term. WAF Board members have formally asked the County for financial assistance for FY 2025 and potentially for the next several fiscal years.

The Board recognizes the need to ensure the vitality of this campus and the unique programs WAF offers, and encourages the exploration of additional opportunities, such as public/private partnerships, to generate further development on the campus. The opening of a brewery on the campus later this spring is the first of what the Board hopes will be many successes to attract more visitors to the site.

The Board requests that WAF provide further background and justification for its request for operational subsidy assistance, which could be considered as part of a future budget process. This should include an out-year financial forecast; actions from the WAF Board to ensure proactive oversight, fundraising, and member expansion; and review of joint coordination efforts with County agencies and non-profit organizations such as Celebrate Fairfax, Visit Fairfax, and ArtsFairfax.

Support for the Arts

Fairfax County is home to a variety of organizations that further arts, cultural, and tourism related activities. Consistent with the County's Strategic Plan, these activities "…are foundational to the overall quality of life and well-being of Fairfax County residents and visitors and contribute significantly to our community social connectivity and health." The County currently provides direct contributions through its Contributory Fund for arts organizations, and, in some cases, County funds are further leveraged in the form of grant funding opportunities for organizations. The Board remains committed to the arts in the County and requests staff review options to expand the annual funding dedicated towards the arts.

Consolidated Community Funding Pool

The Consolidated Community Funding Pool (CCFP) has been a valuable tool in partnering with the non-profit community for the delivery of human services for our most vulnerable residents. CCFP allows for innovative service delivery but also addresses core basic needs. This was most evident during the COVID-19 pandemic when the County saw an unprecedented need for services and the County's partnership with the non-profit community was instrumental in delivering these services. With the pandemic-era funding coming to an end, now is the time to evaluate what level of resources are needed and what is the most efficient method for delivering these services. Staff should convene a workgroup and report back to the Board at a future Health and Human Services Committee meeting on recommendations for moving forward with the expectation that these recommendations are included in the FY 2026 Advertised Budget Plan.

I now move the Budget Guidance that I just reviewed, which will help direct the FY 2026 budget process.

Reserve Policies

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

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

- If an operating deficit appears to be forthcoming in the current fiscal year wherein total disbursements will exceed the total funds available, the Board will take appropriate action to balance revenues and expenditures as necessary to end each fiscal year with a positive cash balance.

In FY 2016, the Board of Supervisors updated the *Ten Principles of Sound Financial Management* to increase the County's overall reserve target from 5 percent to 10 percent of General Fund Disbursements. Since the reserve targets were adjusted, the County made significant progress in increasing reserve funding. As of the FY 2025 Adopted Budget Plan, total reserve funding is funded at 10.0 percent of General Fund Disbursements. Additional allocations to maintain the 10 percent target will be made through a combination of annual appropriations, by applying one-time resources such as bond refunding, and setting aside 40 percent of year-end balances after funding critical requirements.

There are three primary General Fund reserves:

Managed Reserve

- Policy of four percent of General Fund Disbursements.
- Per the FY 2025 Adopted Budget Plan, funding equates to 4.0 percent or $218.43 million.
- From the *Ten Principles:* A Managed Reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than four percent of total General Fund disbursements in any given fiscal year.

Revenue Stabilization Fund

- Policy of five percent of General Fund Disbursements.
- Per the FY 2025 Adopted Budget Plan, funding equates to 5.0 percent or $276.89 million.
- From the *Ten Principles:* A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. This Fund shall be maintained at five percent of total General Fund disbursements in any given fiscal year. Use of the RSF should only occur in times of severe economic stress. Accordingly, a withdrawal from the RSF will not be made unless the projected revenues reflect a decrease of more than 1.5 percent from the current year estimate and any such withdrawal may not exceed one half of the RSF fund balance in that year. A drawdown of this Fund should be accompanied with expenditure reductions.
- The RSF was used for the first and only time in FY 2009. A withdrawal of $18.7 million was a small part of the total plan approved by the Board which included significant reductions, a furlough for employees and application of other balances to address a $64.7 million shortfall at the *FY 2009 Third Quarter Review*. As a result of available balances at FY 2009 year-end, the reserve was fully replenished.

Economic Opportunity Reserve

- Policy of one percent of General Fund Disbursements.
- Per the FY 2025 Adopted Budget Plan, funding equates to 1.0 percent or $54.61 million.

- From the *Ten Principles*: An Economic Opportunity Reserve shall be established in addition to the Managed Reserve and the Revenue Stabilization Fund. This reserve is meant to stimulate economic growth and will provide for strategic investment opportunities that are identified as priorities by the Board of Supervisors. This reserve is equal to one percent of total General Fund disbursements. Funding for this reserve occurred after the Managed Reserve and the Revenue Stabilization Fund were fully funded at their new levels of four percent and five percent, respectively. Criteria for funding, utilization, and replenishment of the reserve were approved by the Board of Supervisors as part of the Eight Principles of Investment in Economic Opportunities. The criteria for use will include financial modeling analysis (e.g. cost-benefit, etc.) to determine the fiscal impact to the County of the proposed investment opportunity and requires approval from the Board of Supervisors for any use.

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

Replacement Reserve Policies: The Board of Supervisors has repeatedly reaffirmed the policy that the County budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property to minimize disruption of budgetary planning from irregularly scheduled monetary demands. These reserves are necessary to provide a source of funding for planned replacement of major equipment or infrastructure over several years. For example, the County maintains a vehicle replacement reserve within the Department of Vehicle Services to plan for vehicle replacement once age, mileage and condition criteria have been met. General Fund monies are set aside each year over the life of the existing vehicle to pay for its replacement. Helicopter, ambulance, and large apparatus replacement funds are also maintained for the Police and Fire and Rescue Departments. Fixed payments to these reserves are made annually to ensure funding is available at such time that the equipment must be replaced.

Outstanding Liability Policies: The Board of Supervisors has also consistently funded reserve requirements for outstanding liabilities as they are identified and in conformance with accounting standards and practices. It is important to note that contributions to these liability reserves have been sustained even as reductions in services have been made, demonstrating the commitment of the Board to meet its fiduciary responsibilities. An example of a liability reserve is the County's Self Insurance program, which is evaluated each year by an actuary and the liability for all self-insured programs is identified. The accrued liability reserve identified as of year-end is funded during a subsequent quarterly review. An additional reserve is also currently identified by County policy for catastrophic loss above and beyond the identified accrued liability. Beginning in FY 2008, the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) statements for other post-employment benefits. This standard addressed how local governments should account for and report their costs related to post-employment health care and other non-pension benefits. Therefore, an actuarially determined contribution (ADC) to meet the long-term liability is funded by both the County and Schools.

Debt Service Reserve Policies: The majority of debt service reserves are maintained by a trustee as stipulated by the terms of the bond documents for the bonds, which are being supported.

However, the Wastewater Management Program, as an Enterprise System ("System") of the County, established a Sewer Bond Debt Reserve in Fund 69030, Sewer Bond Debt Reserve, to provide one year of principal and interest for the outstanding bond series as required by the Sewer System's General Bond Resolution. However, due to the strong financial standing of the System and its triple-A bond rating, this reserve will be discontinued. This was based on actions taken in spring 2024 from the Board of Supervisors and consent agreements from bondholders and the proceeds returned to the County for capital investment in the System.

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

In addition to its standard reserve policies, the Board regularly reviews the status of fund reserves and makes policy decisions to improve the County's reserve position based on availability and budget flexibility.

Third Quarter and Carryover Reviews

The Department of Management and Budget conducts a Third Quarter Review on the current year Revised Budget Plan, which includes a detailed analysis of expenditure requirements. All agencies and funds are reviewed during the Third Quarter Review and adjustments are made to the budget as approved by the Board of Supervisors. Section 15.2-2507 of the Code of Virginia requires that a public hearing be held prior to Board action when the potential increases in the appropriation are greater than 1.0 percent of expenditures. The Board's Adopted Budget guidelines indicate that any balances identified throughout the fiscal year, which are not required to support expenditures of a legal or emergency nature, must be held in reserve.

Carryover Review represents the analysis of balances remaining from the prior year and provision for the appropriation of funds to cover the prior year's legal obligations (encumbered items) in the new fiscal year without loss of continuity in processing payments. Carryover extends the prior year funding for the purchase of specific items previously approved in the budget process, but for which procurement could not be obtained for various reasons. All agencies and funds are reviewed during the Carryover Review and adjustments are made to the budget as approved by the Board of Supervisors. Again, the Code of Virginia requires that a public hearing be held prior to Board action when the potential increases in the appropriation are greater than 1.0 percent of expenditures.

Cash Management/ Investments

Maintaining the safety of the principal of the County's public investment is the highest priority in the County's cash management policy. The secondary and tertiary priorities are the maintenance of liquidity of the investment and optimization of the rate of return within the parameters of the Code of Virginia, respectively. Funds held for future capital projects are invested in accordance with these objectives, and in such a manner to ensure compliance with U.S. Treasury arbitrage regulations. A senior interagency Investment Committee develops investment policies and oversees the effectiveness of portfolio management in meeting policy goals.

The County maintains cash and temporary investments in several investment portfolios. A general investment portfolio holds investments purchased by the County for the pooled cash and General

Obligation Bond funds. Investments for this portfolio are held by a third-party custodian. Other portfolios are managed to meet the specific needs of County entities, such as, the Fairfax County Economic Development Authority Metrorail Parking System Project Revenue Bonds (the Herndon and Innovation Center Station Parking Garages), Sewer Revenue Bonds, and Fairfax County Redevelopment and Housing Authority Bonds. Investments for all portfolios are held by a third-party custodian.

Except where prohibited by statutory or contractual constraints, the General Fund is credited with interest earned in the general investment pool. Non-General Fund activities that earn interest through centralized investment management contribute to the cost of portfolio management by way of a market-based administrative charge that accrues to the General Fund.

Debt Management/ Capital Improvement Planning

The Commonwealth of Virginia Constitution requires that long-term debt pledged by the full faith and credit of the County can only be approved by voter referendum. There is no statutory limit on the amount of debt the voters can approve. It is the County's own policy to manage debt within the guidelines identified in the *Ten Principles of Sound Financial Management*. Specifically, debt service expenditures as a percentage of General Fund disbursements should remain under ten percent and the percentage of debt to estimated market value of assessed property should remain under three percent. The County continues to maintain these debt ratios, as shown in the following tables:

Debt Service Requirements as Percentage of Combined General Fund Disbursements

Fiscal Year	Debt Service Requirements[1]	General Fund Disbursements[2]	Percentage
2021	325,402,126	4,545,901,853	7.16%
2022	331,033,590	4,750,271,879	6.97%
2023	338,052,652	5,092,737,845	6.64%
2024 (Est.)	361,312,570	5,468,956,604	6.61%
2025 (Est.)	378,835,646	5,453,319,029	6.95%

[1] The amount includes total principal and interest payments on the County's outstanding tax supported debt obligations, including General Obligation Bonds, Economic Development Authority bonds, and other tax supported debt obligations budgeted in other funds. Sources: FY 2021 to FY 2023 Annual Comprehensive Financial Report; FY 2024 and FY 2025 Fairfax County Department of Management and Budget.

[2] Sources: FY 2021 to FY 2023 Annual Comprehensive Financial Report; FY 2024 and FY 2025 estimates per Fairfax County Department of Management and Budget.

Net Debt as a Percentage of Market Value of Taxable Property

Fiscal Year	Net Bonded Indebtedness[1]	Estimated Market Value[2]	Percentage
2021	2,931,554,000	280,990,379,555	1.04%
2022	2,960,298,000	289,401,823,134	1.02%
2023	3,028,957,000	313,803,563,525	0.97%
2024 (Est.)	3,116,152,000	332,366,424,006	0.94%
2025 (Est.)	3,288,567,000	343,359,938,626	0.96%

[1] The amount includes outstanding General Obligation Bonds and other tax supported debt obligations. Sources: FY 2021 to FY 2023 Annual Comprehensive Financial Report and Fairfax County Department of Tax Administration; FY 2024 and FY 2025 Fairfax County Department of Management and Budget and Department of Tax Administration.

[2] Source: Fairfax County Department of Tax Administration and Department of Management and Budget.

Per capita debt is also an important measure used in analyses of municipal credit. Fairfax County has historically had moderate to low per capita debt and per capita debt as a percentage of per capita income due to its steady population growth, growth in the assessed valuation of property and personal income of residents, combined with a record of rapid repayment of capital debt.

The *Ten Principles* establishes, as a financial guideline, a self-imposed limit on the level of the average annual bond sale. Actual bond issues are carefully sized with a realistic assessment of the need for funds, while remaining within the limits established by the Board of Supervisors. In addition, the actual bond sales are timed for the most opportune entry into the financial markets. The policy guidelines enumerated in the *Ten Principles* also express the intent of the Board of Supervisors to encourage a diversified economy in the County and to minimize the issuance of underlying indebtedness by towns and districts located within the County.

It is County policy to balance the need for public facilities, as expressed by the countywide land use plan, with the fiscal capacity of the County to provide for those needs. The five-year Capital Improvement Program (CIP), submitted annually to the Board of Supervisors, is the vehicle through which the stated need for public facilities is analyzed against the County's ability to stay within its self-imposed debt guidelines as articulated in the *Ten Principles*. The CIP is supported largely through long-term borrowing that is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.

Pay-as-you-go Financing

Although a number of options are available for financing the proposed CIP, including bond proceeds and grants, it is the policy of the County to balance the use of the funding sources against the ability to utilize current revenue or pay-as-you-go financing. While major capital facility projects are funded through the sale of General Obligation Bonds, the Board of Supervisors, through the *Ten Principles*, continues to emphasize the importance of maintaining a balance between pay-as-you-go financing and bond financing for capital projects. Financing capital projects from current revenues indicates the County's intent to show purposeful restraint in incurring long-term debt. No explicit level or percentage has been adopted for capital projects from current revenues as a portion of either overall capital costs or of the total operating budget. The decision for using current revenues to fund a capital project is based on the merits of the project in relation to an agreed upon set of criteria. It is the Board of Supervisors' policy that non-recurring revenues should not be used for recurring expenditures.

Risk Management

Continuing growth in County assets and operations perpetuates the potential for catastrophic losses resulting from inherent risks that remain unidentified and unabated. In recognition of this, the County has adopted a policy of professional and prudent management of risk exposures.

To limit the County's risk exposures, a Risk Management Steering Committee was established in 1986 to develop appropriate policies and procedures. The County Risk Manager is responsible for managing a countywide program. The program objectives are as follows:

- To protect and preserve the County's assets and workforce against losses that could deplete County resources or impair the County's ability to provide services to its citizens;
- To institute all practical measures to eliminate or control injury to persons, loss to property or other loss-producing conditions; and

- To achieve such objectives in the most effective and economical manner.

While the County's preference is to fully self-insure, various types of insurance such as workers' compensation, automobile, and general liability insurance remain viable alternatives when they are available at an affordable price.

Pension Plans

The County funds the retirement costs for three separate retirement systems, including the Police Officers Retirement System, the Fairfax County Employees' Retirement System and the Uniformed Retirement System, while the Fairfax County Public Schools funds the cost of the Educational Employees Supplementary Retirement System. These retirement systems are administered by the County and are made available to Fairfax County government and school employees to provide financial security when they become retirement eligible or cannot work due to disability. In addition, professional employees of the Fairfax County Public Schools participate in a plan sponsored and administered by the Virginia Retirement System. The Board of Supervisors reviews the three County retirement plans annually and takes action to fund the County's obligation.

The County is committed to strengthening the financial position of its retirement systems. In order to improve the funded status of the plans, the Board of Supervisors approved, as part of the adoption of the FY 2016 Adopted Budget Plan, the following multi-year strategy:

- The employer contribution rates will be increased so that the County will include amortization of 100 percent of the unfunded liability in the actuarially determined contributions for all systems by FY 2020. The County will continue to use a conservative 15-year amortization period.

- Until each system reaches 100 percent funded status, employer contributions to that system will not be reduced. Various factors, such as the historical trend of the County's investment returns exceeding the assumed rate of return, could allow employer contribution rates to be reduced from current levels. However, the County is committed to maintaining the rates and redirecting any potential savings into further improvement in the systems' funded positions.

- Any additional unfunded liability created as a result of approved benefit enhancements, such as ad-hoc Cost-of-Living Adjustments (COLAs), will be fully funded. It is the intent that no adjustments to benefit levels will reduce the funded status of any of the systems.

In keeping with this strategy, the FY 2020 Adopted Budget Plan included the amortization of 100 percent of the unfunded liability in the actuarially determined contributions for all systems. In addition, the employer contribution rates to all three systems have been maintained or increased each year, and benefit enhancements, when approved by the Board, have been accompanied by one-time contributions to fully fund any associated increase in liability in the year that the benefit enhancement is approved.

The County has also taken multiple steps to limit increases in liabilities:

- In FY 2010, the requirements regarding the award of ad-hoc COLAs were tightened. Retirees are eligible to receive an annual base COLA which is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year's March 31, or 4.0 percent. If certain conditions are met, an additional 1.0 percent ad-hoc COLA can be awarded at the discretion of each retirement system's Board of Trustees. After a staff review at the Board

of Supervisors' direction, the Fairfax County Code was changed to require that the retirement system must have an actuarial surplus, demonstrated by having a funding ratio exceeding 100 percent, before an ad-hoc COLA can be considered.

- In FY 2012, the Board of Supervisors adopted modifications to the retirement systems, which apply only to new employees who are hired on or after January 1, 2013. These changes include increasing the minimum retirement age for normal service retirement from 50 to 55 in the Employees' system; increasing the rule of 80 (age plus years of service) to the rule of 85 in the Employees' system; placing a cap on the use of sick leave for purposes of determining retirement eligibility and benefits at 2,080 hours for all three retirement systems; and, for the Deferred Retirement Option Plan (DROP), removing the pre-Social Security supplement from balances accumulated during the DROP period in the Employees' and Uniformed systems. No changes were made to benefits for existing employees.

- In FY 2019, the Board of Supervisors adopted modifications to the retirement benefits provided to new employees hired on or after July 1, 2019. These changes include eliminating the pre-Social Security supplement for employees in the Employees' and Uniformed systems and repealing the additional retirement allowance that increases the calculated retirement annuity by 3 percent for all three retirement systems. No changes were made to benefits for existing employees.

Revenue projections associated with future returns on fund investments for the three separate County retirement systems are based on an assumed actuarial rate of return. As part of the July 1, 2021, actuarial valuation, this rate was reduced from 7.25 percent to 6.75 percent.

The School Board reviews the Educational Employees' Supplementary Retirement plan annually and takes action to fund the County's obligation based on actuarial valuations that are usually performed annually. As part of the December 31, 2021, actuarial valuation, the discount rate was reduced from 7.25 percent to 7.00 percent.

Benefits are defined in each system according to the requirements of an ordinance of the Fairfax County Code. Each retirement system is governed by a Board of Trustees whose function is the general administration and operation of the system. Each Board has full power to invest and reinvest the accumulated monies created by the systems in accordance with the laws of the Commonwealth as they apply to fiduciaries investing such funds. Investment managers are hired by each Board and operate under the direction of the Boards' investment objectives and guidelines. Each Board meets once a month to review the financial management of the funds and to rule on retirement applications.

Other Post-Employment Benefits (OPEB)

Beginning in FY 2008, the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) statements that address how local governments should account for and report their costs related to post-employment health care and other non-pension benefits. Currently, the County offers retirees the option to participate in County group health insurance, life insurance, and dental plans. These benefits are offered to retirees at premium rates established using the blended experience of the active and retiree populations. As such, retirees receive an "implicit" benefit, as these premium rates are typically lower than if they were set solely using the experience of the retiree group. In addition, County retirees receive an explicit benefit through the retiree health benefit subsidy. The County provides monthly subsidy payments to eligible County retirees to help pay for health insurance. The current monthly subsidy, approved in FY 2018, commences at age 55 and varies by length of service. The monthly subsidy is provided to retirees

on a discretionary basis, and the Board of Supervisors reserves the right to reduce or eliminate the benefit in the future if the cost of the subsidy becomes prohibitive or an alternative is chosen to aid retirees in meeting their health insurance needs.

GASB 75 requires that the County accrue the cost of post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability to accurately account for the total future cost of post-employment benefits and the financial impact on the County. The County established the OPEB Trust Fund in FY 2008 to pre-fund the cost of post-employment healthcare and other non-pension benefits. Establishing such a trust fund allows the County to capture long-term investment returns and make progress towards eliminating the unfunded liability. This methodology mirrors the funding approach used for pension benefits. As a result, the County is required to make an annual contribution towards the long-term liability. This includes an amount for benefits accrued by active employees during the fiscal year, as well as an additional amount to address the unfunded actuarial accrued liability.

In FY 2016, the County implemented an Employer Group Waiver Plan (EGWP) for Medicare retiree prescription drug coverage. The EGWP is a standard Medicare Part D plan with enhanced coverage. By implementing an EGWP, the County can maximize prescription drug subsidies from the federal government and pharmaceutical manufacturers. This plan replaces the prescription drug coverage that was previously provided to Medicare retirees through the County's self-insured health plans and the Retiree Drug Subsidy (RDS) that the County previously received from the Centers for Medicare and Medicaid Services. This change has had a significant impact on the County's OPEB liability, as GASB accounting rules allow EGWP revenue to directly offset plan costs in the GASB valuation, impacting the Actuarial Accrued Liability (AAL), whereas the RDS could not be reflected in the liability calculations.

The actuarial accrued liability is calculated annually as part of the actuarial valuation and includes adjustments due to benefit enhancements, medical trend experience, and normal growth assumptions. Before approving additional benefit enhancements, the County must carefully consider not only the impact on the current fiscal year budget, but also the long-term impact on the County's OPEB liability and actuarially determined contribution. As part of the July 1, 2021, actuarial valuation, the County made changes to two key assumptions to be more conservative. First, the assumed actuarial rate of return – or discount rate – was reduced from 6.50 percent to 6.25 percent. Second, the amortization period was reduced from 30 to 20 years.

Fairfax County Public Schools (FCPS) offer similar benefits to their retirees, which result in a separate OPEB liability. FCPS also created an OPEB Trust Fund in FY 2008 to begin to address their unfunded liability and pre-fund the cost of other post-employment benefits.

Grants

County policy requires that the initial application and acceptance of all grants over $100,000 be approved by the Board of Supervisors. Each grant application is reviewed for the appropriateness and desirability of the program or service. Upon completion of the grant, programs are reviewed on a case-by-case basis to determine whether the program should be continued utilizing County funds. The County has no obligation to continue either grant-funded positions or grant-funded programs if continued grant funding is not available.

Effective September 1, 2004, the Board of Supervisors established a new County policy for grant applications and awards that meet certain requirements. If a grant is $100,000 or less, with a required Local Cash Match of $25,000 or less, with no significant policy implications, and if the grantor does not require Board of Supervisors' approval, the agency can work directly with the

Department of Management and Budget to receive the award and reallocate funding from the anticipated/unanticipated reserve directly to the agency. If an award exceeds these limitations but was listed in the Anticipated Grant Awards table in the Adopted Budget for the current fiscal year, Board of Supervisors' approval is not required unless the actual funding received differs significantly from the projected funding listed in the budget. For any grant that does not meet all the specified criteria, the agency must obtain Board of Supervisors' approval to apply for or accept the grant award.

Contributory Policies

To improve the general health and welfare of the community, as well as leverage scarce resources, it is the policy of the Board of Supervisors to make General Fund appropriations of specified amounts to various nonsectarian, nonprofit, or quasi-government entities. Because public funds are being appropriated, funds provided to designated contributory agencies are currently made available contingent upon submission and review of financial reports. This oversight activity includes program reporting requirements that request designated contributories to describe accurately, in a manner prescribed by the County Executive, the level and quality of services provided to County residents.

Information Technology

The following ten strategic directions are fundamental principles upon which Fairfax County will base its Information Technology (IT) decisions in the upcoming years. These are intended to serve as guidelines to assist County managers in applying information technology to achieve business goals.

Ten Fundamental Principles of Information Technology

In addition to the Department of Information Technology's Mission and Goals, Fairfax County Information Technology (IT) projects and processes are guided by ten fundamental principles approved by the Board of Supervisors in 1996, and updated annually, as needed.

1. Our ultimate goal is to provide citizens, the business community, and County employees with timely, convenient access to appropriate information and services through the use of technology.

2. Business needs drive information technology solutions. Strategic partnerships will be established between the customer and County so that the benefits of IT are leveraged to maximize the productivity of County employees and improve customer services.

3. Evaluate business processes for redesign opportunities before automating them. Use new technologies to make new business methods a reality. Exploit functional commonality across organizational boundaries.

4. Manage Information Technology as an investment.

   - Annually allocate funds sufficient to cover depreciation to replace systems and equipment before life-cycle end. Address project and infrastructure requirements through a multi-year planning and funding strategy.

   - Limit resources dedicated to "legacy systems" - hardware and software approaching the end of its useful life - to absolutely essential or mandated changes. Designate systems

Ten Fundamental Principles of Information Technology

as "legacy" and schedule their replacement. This approach will help focus investments toward the future rather than the present of past.

- Invest in education and training to ensure the technical staffs in central IT and user agencies understand and can apply current and future technologies.

5. Implement contemporary, but proven, technologies. Fairfax County will stay abreast of emerging trends through an ongoing program of technology evaluation. New technologies often will be introduced through pilot projects where both the automation and its business benefits and costs can be evaluated prior to any full-scale adoption.

6. Hardware and software will adhere to open (vendor-independent) standards and minimize proprietary solutions. This approach will promote flexibility, inter-operability, cost effectiveness, and mitigate the risk of dependence on individual vendors.

7. Manage the enterprise network as a fundamental building block of the County's IT architecture. The network will connect modern workstations and servers; will provide both internal and external connectivity; will be flexible, expandable, and maintainable; be fully integrated using open standards and capable of providing for the free movement of data, graphics, image, video, and voice.

8. Approach IT undertakings as a partnership of central management and agencies providing for a combination of centralized and distributed implementation. Combine the responsibility and knowledge of central management, agency staff, as well as outside contract support, within a consistent framework of County IT standards. Establish strategic cooperative arrangements with public and private enterprises to extend limited resources.

9. Emphasize the purchase and integration of top quality, commercial-off-the-shelf software (COTS) - with minimal customization - to speed the delivery of new business applications. This will require redesigning some existing work processes to be compatible with off-the-shelf software packages. Utilize modern efficient methods and laborsaving tools in a cooperative application development environment. A repository for common information objects (e.g., databases, files, records, methods, application inventories) will be created, shared and reused.

10. Capture data once in order to avoid cost, duplication of effort and potential for error and share the data whenever possible. Establish and use common data and common databases to the fullest extent. A data administration function will be responsible for establishing and enforcing data policy, data sharing and access, data standardization, data quality, identification, and consistent use of key corporate identifiers.

Budget

The primary financial management tool used by the County is the annual budget process. This involves a comprehensive examination of all expenditure and revenue programs of the County, complete with public hearings and approval by the Board of Supervisors.

Capital Improvement Program (CIP)

The Board of Supervisors annually considers and adopts a five-year Capital Improvement Program (CIP), which supports and implements the Comprehensive Plan. The CIP includes five years of project planning and forecasts project requirements for an additional five-year period. The CIP helps balance the need for public facilities identified by the Comprehensive Plan with the County's fiscal resources and serves as a planning guide for the construction of general County facilities, schools, and public utilities. The CIP process provides a framework for development of reliable capital expenditure and revenue estimates, as well as the timely scheduling of bond referenda.

The CIP is an integral element of the County's budgeting process. The Capital Budget is the foundation for the first year of the adopted five-year CIP. The remaining four years in the CIP serve as a general planning guide. Future planning requirements five years beyond the CIP period are also included. The CIP is supported largely through long-term borrowing, which is budgeted annually in the debt service fund or from General Fund revenues on a pay-as-you-go basis. The Board of Supervisors has approved the Principles of Sound Capital Improvement Planning and Criteria for Recommending Capital Projects, which are applied every year in the development of the CIP. The principles establish the County's Comprehensive Plan as the basis for capital planning requirements and emphasize the principle of life-cycle planning for capital facilities. The CIP is an integral part of the annual budget plan and is included on the County's website.

In October 2005, Fairfax County adopted revised guidelines for review of unsolicited Public Private Educational Facilities and Infrastructure Act (PPEA) proposals. In FY 2008, project screening criteria as presented in the CIP was approved for determining when an unsolicited PPEA project should be pursued or rejected. It is anticipated that other refinements, including any required legislative updates to the PPEA evaluation and review process will be developed and presented to the Board of Supervisors as needed. As of January 28, 2008, the County will only pursue an unsolicited PPEA project if, based on minimal analysis, the project offers a significant contribution to near term CIP goals, it offers significant savings to the General Fund, or a significant positive effect on the County's debt capacity.

In February 2020, the Board of Supervisors and the School Board established a joint CIP working group to allow for information sharing, prioritizations, and planning by both the County and Fairfax County Public Schools. The Committee spent its time reviewing the County's existing Financial Policies, considering the financing options available for capital projects, understanding the capital project requirements identified for both the County and Schools, and evaluating the current CIP Plan and processes. Following these discussions, the Committee arrived at a series of recommendations, which included gradually increasing General Obligation Bond Sale limits from $300 million to $400 million annually; dedicating the equivalent value of one penny on the Real Estate tax to the County and School capital program to support both infrastructure replacement and upgrade projects and debt on the increased annual sales; and increasing the percentage allocated to the Capital Sinking Fund at year-end, as well as including Schools in the allocation. These recommendations were adopted by the Board of Supervisors in December 2021.

Revenue Forecast

Revenue estimates are monitored monthly to identify any potential trends that would significantly impact the revenue sources. A Revenue Task Force meets regularly to review current construction trends, the number of authorized building permits, housing sales, mortgage rates, and other economic data, which impact Real Estate Tax revenue collections. In addition, the Revenue Task Force uses statistical models to estimate such revenue categories as: Personal Property Tax; Local Sales Tax; Business, Professional, and Occupational License Tax (BPOL); Consumer Utility Tax; and Recordation Tax.

Financial Forecast

A forecast of General Fund receipts and disbursements is developed as part of each year's budget process and is updated periodically. Individual and aggregate revenue categories, as well as expenditures, are projected by revenue and/or expenditure type. Historical growth rates, economic assumptions and County expenditure priorities are all used in developing the forecast. This tool is used as a planning document for developing the budget guidelines and for evaluating the future impact of current year decisions.

Fiscal Impact Review

It is County policy that all items having potential fiscal impact be presented to the Board of Supervisors for review. Effective management dictates that the Board of Supervisors and County citizens be presented with the direct and indirect costs of all items as part of the decision-making process. In addition to its preliminary review of items presented to the Board of Supervisors, County staff also review state and federal legislative items, which might result in a fiscal or policy impact on the County.