




County of Fairfax, Virginia

MEMORANDUM

DATE: March 12, 2013
TO: Board of Supervisors
FROM: Susan W. Datta, Chief Financial Officer 
SUBJECT: Responses to FY 2014 Budget Q&A Items (Package 1)

Attached for your information is FY 2014 Budget Q&A Package 1 containing responses to budget questions primarily from the County Executive's budget presentation. Future responses will be included in subsequent packages. If you have any questions or need additional information, please contact me.

The following responses are included in this package:

Question Number	Question	Supervisor	Pages
	Pkg. 1 – Primarily from Advertised Budget Presentation 2/26/13		
01	Provide a multi-year history of the local funds contributed by Fairfax County in support of the Community Services Board and compare to the local funds contributed in other Virginia localities.	Frey	1-2
02	Provide a summary of the Fairfax County Unified System (FOCUS) project funding and identify which phases are complete and which are remaining.	Frey	3-4
03	Provide additional information on what is driving the cost escalation in replacing large apparatus in the Fire and Rescue Department. Please include the average lifespan of different apparatus types.	McKay/ Gross	5-6
04	What is the plan for utilizing the Wolf Trap Fire Station site until it is opened? Please provide the specific timeframe for opening the facility and how it will be funded.	Foust	7
05	Review reserves and verify that the annual contributions are necessary and are funded at the proper levels.	Foust	8-14
06	Please provide a link to the community feedback received in preparation of the <u>FY 2014 Advertised Budget Plan</u> .	Foust	15
07	Provide a summary of all tax and fee increases include in the <u>FY 2014 Advertised Budget Plan</u> . Breakout the residential equalization changes more discretely.	Smyth/ McKay	16-17
08	Identify the tax increases included in the transportation bill passed by the General Assembly. Identify the impact of these increased taxes on the "average" resident and business.	McKay	18-19

Attachment

cc: Edward L. Long Jr., County Executive
Patricia Harrison, Deputy County Executive
David J. Molchany, Deputy County Executive
David M. Rohrer, Deputy County Executive
Robert A. Stalzer, Deputy County Executive

Response to Questions on the FY 2014 Budget

Request By: Supervisor Frey

Question: Provide a multi-year history of the local funds contributed by Fairfax County in support of the Community Services Board (CSB) and compare to the local funds contributed in other Virginia localities.

Response: Using data obtained from the Virginia Department of Behavioral Health and Developmental Services (DBHDS), the table below provides a five year history of the local funds contributed by Fairfax County in support of the CSB in comparison to total revenue received:

Fiscal Year	Local Revenue	Total Revenue	Local Share %
FY 2012	\$99,647,066	\$143,139,517	69.6%
FY 2011	\$93,989,219	\$139,281,994	67.5%
FY 2010	\$95,701,358	\$137,966,285	69.4%
FY 2009	\$98,450,233	\$142,797,889	68.9%
FY 2008	\$102,227,027	\$145,291,934	70.4%

It is worth noting that the numbers above that are submitted by the CSB to DBHDS may differ from those figures published in Fairfax County Budget Plans due to adjustments such as the inclusion of grant funding and retained earnings that are not reported to the Commonwealth until spent.

Using the most recent data available from DBHDS, for the provision of CSB services, the percent of revenue defined as “local” averaged 23.2 percent of the total revenue across all of the Commonwealth’s 40 CSBs in FY 2012. Attached is a table showing the local revenue and the local revenue as a percent share of total revenue for all jurisdictions in the Commonwealth.

Please note that the ten jurisdictions (Fairfax, Loudon, Arlington, Alexandria, Price William, Henrico, Hanover, Chesterfield, Virginia Beach and Chesapeake) with the highest percentage of local revenue are all “Administrative Policy CSBs”. The final Administrative Policy CSB is Norfolk, which had the 12th highest percentage of local revenue. The 11 Administrative Policy CSBs are usually city or county departments and may provide different types, quality and intensity of CSB services that may impact the amount/level of local revenue provided.

The remaining CSBs in the Commonwealth are primarily “Operating CSBs” and are usually agents of the local governments that established them and are not city or county government departments. This may account for their relatively lower levels of local revenue share of the total revenue. Their local revenue percentage ranges from approximately 1-10 percent of total revenue.

Jurisdiction	FY 2012 Local Revenue	FY 2012 Total Revenue	FY 2012 Local Share %	FY 2012 Rank	FY 2011 Local Share %	FY 2010 Local Share %	FY 2009 Local Share %	FY 2008 Local Share %
Fairfax:	\$99,647,066	\$143,139,517	69.6%	1	67.5%	69.4%	68.9%	70.4%
Loudoun:	\$15,241,894	\$24,296,849	62.7%	2	57.4%	60.5%	64.9%	64.3%
Arlington:	\$21,086,227	\$34,126,532	61.8%	3	57.8%	56.9%	58.1%	58.0%
Alexandria:	\$17,845,911	\$31,727,720	56.2%	4	55.6%	54.7%	53.8%	56.7%
Prince William:	\$12,977,323	\$25,388,669	51.1%	5	51.9%	53.4%	53.9%	52.9%
Henrico:	\$14,650,000	\$32,390,556	45.2%	6	46.3%	46.6%	46.1%	45.9%
Hanover:	\$4,045,769	\$9,966,994	40.6%	7	39.3%	41.3%	41.6%	45.8%
Chesterfield:	\$10,014,670	\$33,676,549	29.7%	8	27.5%	27.6%	32.5%	31.0%
Virginia Beach:	\$12,951,660	\$47,195,182	27.4%	9	3.1%	3.2%	3.3%	3.7%
Chesapeake:	\$2,310,655	\$14,224,926	16.2%	10	13.8%	15.9%	25.1%	27.5%
Colonial:	\$1,849,431	\$12,893,797	14.3%	11	14.6%	15.3%	14.0%	14.3%
Norfolk:	\$2,851,000	\$22,315,243	12.8%	12	15.9%	16.4%	15.5%	15.4%
Goochland:	\$415,574	\$4,464,843	9.3%	13	11.2%	9.5%	9.8%	9.9%
Northwestern:	\$1,133,857	\$13,687,736	8.3%	14	8.1%	9.3%	10.3%	8.3%
Harrisonburg:	\$756,343	\$9,702,707	7.8%	15	7.5%	8.7%	9.0%	8.3%
Hampton:	\$3,214,183	\$60,003,891	5.4%	16	5.7%	6.1%	5.8%	5.5%
Dickenson:	\$138,000	\$3,041,966	4.5%	17	4.3%	3.8%	4.3%	4.7%
Region Ten:	\$1,475,484	\$33,880,106	4.4%	18	4.2%	4.2%	4.1%	4.0%
District 19:	\$767,038	\$17,982,433	4.3%	19	4.0%	4.2%	3.9%	3.8%
Richmond:	\$1,805,725	\$47,060,293	3.8%	20	3.9%	3.7%	4.4%	4.3%
Portsmouth:	\$365,988	\$9,827,419	3.7%	21	6.4%	5.5%	6.2%	5.7%
Danville:	\$618,911	\$17,350,849	3.6%	22	3.6%	3.9%	3.4%	3.5%
Blue Ridge:	\$996,467	\$28,583,089	3.5%	23	3.4%	3.4%	3.4%	3.3%
Rappahannock-Rapidan:	\$456,142	\$13,949,257	3.3%	24	4.2%	4.6%	3.6%	4.5%
Rappahannock Area:	\$839,583	\$26,312,576	3.2%	25	3.3%	3.6%	3.8%	4.0%
Eastern Shore:	\$276,965	\$9,388,040	3.0%	26	3.5%	2.2%	2.2%	2.3%
Western Tidewater:	\$545,599	\$19,908,447	2.7%	27	2.7%	2.8%	3.1%	3.2%
Planning District 1:	\$317,731	\$11,855,899	2.7%	28	2.4%	2.4%	2.3%	2.2%
Highlands:	\$489,103	\$18,267,856	2.7%	29	3.1%	3.7%	4.4%	4.8%
Rockbridge:	\$167,526	\$7,550,417	2.2%	30	3.6%	4.4%	3.3%	3.3%
Middle Peninsula:	\$446,154	\$20,159,728	2.2%	31	3.1%	2.4%	2.7%	2.6%
Piedmont:	\$391,951	\$17,976,711	2.2%	32	2.3%	2.6%	2.6%	2.7%
Alleghany:	\$139,520	\$6,467,240	2.2%	33	2.0%	2.7%	1.8%	2.0%
Central Va:	\$847,999	\$39,739,783	2.1%	34	2.2%	2.3%	2.4%	2.6%
Crossroads:	\$341,238	\$16,799,020	2.0%	35	2.1%	2.1%	2.2%	2.2%
Southside:	\$230,184	\$12,920,023	1.8%	36	2.1%	2.5%	2.2%	2.6%
Valley:	\$363,782	\$20,707,635	1.8%	37	3.5%	3.1%	2.1%	3.4%
Mount Rogers:	\$529,564	\$35,617,547	1.5%	38	1.8%	2.2%	2.2%	2.2%
New River:	\$506,690	\$35,779,838	1.4%	39	1.6%	1.8%	2.0%	2.3%
Cumberland:	\$237,547	\$21,362,747	1.1%	40	0.6%	0.6%	0.6%	0.7%
Total All CSBs	\$234,286,454	\$1,011,690,630	23.2%	--	21.8%	22.5%	23.6%	24.4%

Response to Questions on the FY 2014 Budget

Request By: Supervisor Frey

Question: Provide a summary of the Fairfax County Unified System (FOCUS) project funding and identify which phases are complete and which are remaining.

Response: Fairfax County purchased SAP software in 2009. The County entered into a contract with SAP for Implementation services in 2010. Payment of \$3.75 million has been made to SAP for the software, and to date \$27.66 million has been paid for implementation services. Fairfax has only made implementation services payments to SAP for functionality that has been successfully implemented and resulted in phase close out.

At the time of implementation services contract signing, the scope of the system included: General Ledger; Budget; Accounts Payable; Accounts Receivable; Fixed Assets; Grant Accounting; Project Accounting; Inventory; Purchasing; Treasury Management; Personnel Administration; Benefits Administration; Risk Management; Time and Attendance; Payroll; and Training Administration.

FOCUS was implemented in two major phases: replacing central financial and logistics (procurement functions) management "core" systems (FILO) functionality for Fairfax County Government and Fairfax County Public Schools (FCPS) in November 2011 and implementing the core human capital management (HCM) system for Fairfax County Government in June 2012.

The first major phase, FILO, has been closed out. It should be noted that during the course of the implementation, the Risk Management module was descoped based on the fact that SAP could not implement the functionality without additional software purchased by the County.

Advanced logistics functionality was a smaller, planned subsequent phase to FILO and was rolled out in 2012. Advanced logistics includes features such as catalog ordering (primarily for FCPS), electronic bidding and invoicing, and vendor self-service. Each of these features is intended to provide convenience, ease of use and access to both County users and the vendor community in the procurement process. There is a small portion of that functionality still being addressed. As soon as those items are tested and in production, this phase will be closed out.

The second major phase included the core HCM functionality for Fairfax County Government. That functionality was rolled out in 2012. There are two items that require additional configuration and testing prior to being released to production and available to end-users, at which time the phase will be closed out.

There was a third phase planned for the Fairfax County Government non-core HCM functionality (which originally included e-recruiting, employee assessments, personnel functions, succession planning, and learning management), FCPS HCM functionality and budget functionality for both organizations. In April 2012, planning and blueprinting for that phase was completed and it was determined that to meet the functionality required,

the County would incur additional costs above what the vendor originally bid (deemed as beyond reasonable, thus unacceptable). Consequently, Fairfax suspended all work on that phase of the implementation and after a careful analysis the County and FCPS made the decision to cancel the phase of the contract. The County has taken this time to validate and stabilize those phases currently or scheduled for implementation and to evaluate cost and implementation alternatives for the remaining portions of the project. The County has a RFP process underway to select a vendor to deliver the remaining non-core HCM functionality needed immediately. Fairfax is investigating options for obtaining the required budget functionality. As part of that investigation it was determined Fairfax will need to upgrade the technical infrastructure of the system prior to implementation of the budget functionality. This additional informational will need to be considered as part of the investigation of options for implementation of budget functionality. It should be noted that FCPS will continue to use their existing HCM system, Lawson.

As part of the *FY 2012 Carryover Review*, rather than adding funding to complete the original project scope, funding was added only for the budget component, employee assessments, and e-recruiting functionality, and to upgrade and maintain the FCPS Lawson system through FY 2014. The first three components will be implemented following completion of an RFP process. At the same time, the Board also approved funding for a FOCUS Independent Verification and Validation (IV&V) study. The intent of this study is to ensure the system is properly configured to maximize efficient use by end-users, to validate business processes are aligned with the needs of the central business departments and to provide the framework for an on-going roadmap as the system matures. The results of the study will be available for review this spring.

Response to Questions on the FY 2014 Budget

Request By: Supervisor McKay and Supervisor Gross

Question: Provide additional information on what is driving the cost escalation in replacing large apparatus in the Fire and Rescue Department. Please include the average lifespan of different apparatus types.

Response: Fire apparatus is the most expensive single item purchased by the Fire and Rescue Department (FRD). Fire engines meeting basic Federal Environmental Protection Agency (EPA) regulations and National Fire Protection Association (NFPA) requirements cost approximately \$628,000 apiece.

The price of apparatus has risen dramatically since 2007 for all fire and rescue departments, including Fairfax County Volunteers. This increase is the result of a combination of three factors: emissions standards, safety regulations and material costs.

More stringent EPA regulations governing diesel engine emissions took effect in 2007 and again in 2010. While these regulatory requirements caused diesel engine manufacturers to change technologies, it also required apparatus manufacturers to engineer major vehicle cab redesigns to accommodate new diesel engine emissions standards. Redesigns, combined with higher costs of EPA-compliant diesel engines, increased the cost of an engine by \$20,000 in 2007 and another \$30,000 in 2010. In 2013 even stricter emission standards and fuel efficiency regulations will begin to be phased in. At this time it is unclear how significant the resulting cost increases will be for engines to meet the new standards.

The second fire apparatus cost impact was a result of changes in the National Fire Protection Association Standard for Automotive Fire Apparatus (NFPA #1901). The standard, revised in 2009, added requirements for vehicle data recorders, rollover stability, airbags, enhanced restraint systems, portable equipment and cab-integrity testing. These enhancements, adding an additional \$10,000 to vehicle costs, have made emergency vehicles safer for responding and operating at incidents.

On top of cost increases caused by EPA regulations and NFPA standards, the department has experienced price escalations between three and five percent annually due to the rising cost of raw materials.

In an effort to minimize the impact of rising costs, the FRD has identified multiple strategies, including eliminating several nonessential items from fire apparatus, re-evaluating operational needs when replacing vehicles to generate savings, as well as extending lifecycles of some vehicles from 12 to 14 years. Elimination of non-essential items, while still ensuring responders have the safest and most reliable vehicles, has reduced the price of an engine by almost \$10,000 each and the removal of water tanks and pumps on rescues has resulted in a \$35,000 savings.

The Fire and Rescue Department, in cooperation with the Department of Purchasing and Supply Management, continually works to identify vendors with the best product for the

best price. To take advantage of cost efficiencies, the County routinely searches nationwide to identify existing contracts that offer products meeting County requirements. In cases where acceptable existing contracts cannot be found, the County will request competitive vendor bids in accordance with County purchasing regulations. The County does not use sole source contracts for the purchase of emergency apparatus. Companies from which the County purchases emergency apparatus are leaders in the industry known for reliable work products, low failure rates, comprehensive warranty programs, and easily accessible, authorized repair centers that can support the heavy workload associated with a large fire and rescue department.

The following chart illustrates the life criteria of FRD apparatus:

Apparatus Type	Life of Vehicle
Towers/Aerials	17 Years
Tankers/Hazmat/Light & Air	14 Years
Engines/Rescues	12 Years
Ambulances	10 Years

Response to Questions on the FY 2014 Budget

Request By: Supervisor Foust

Question: What is the plan for utilizing the Wolftrap Fire Station site until it is opened? Please provide the specific timeframe for opening the facility and how it will be funded.

Response: Wolftrap Fire Station's substantial completion date was February 7, 2013. The contractor has 45 days to complete outstanding items with a final completion date expected in late March.

An additional \$4.2 million, including 29/29.0 FTE positions is required to staff Wolftrap Fire Station. Due to the current fiscal climate, the FY 2014 Advertised Budget Plan recommends delaying the opening of Wolftrap until funding can be appropriated in the FY 2015 budget. When funding is secured in the FY 2015 budget, the station will be operational January 2015. The department requires six months lead time to hold a recruit school and make necessary station purchases.

Until operational, the Fire and Rescue Department will utilize the station for training. Training currently planned includes:

- Officer I Training
- Instructor I Training
- Command Competency Training
- Overhead Electrical Demo/Training with Dominion Power
- Confined Space/Maze Training
- Volunteer Recruit Training
- National Capital Region Fire GIS Meetings

Response to Questions on the FY 2014 Budget

Request By: Supervisor Foust

Question: Review reserves and verify that the annual contributions are necessary and are funded at the proper levels.

Response: The County has defined policies for reserves including policies to govern their use and formulas to identify how they are funded. The attached memo from October 2011 lays out the importance of the reserves and the uses for them. As indicated in the memo, staff is continuing to work on improving the transparency of the reserves by making the uses and methods of calculation clearer in budget and financial reporting documents.

Many of the reserves are not funded with General Fund resources but rather with the revenue streams supporting the operation of the programs, such as sewer fees. Those that are supported by the General Fund include the Managed Reserve, the Revenue Stabilization Fund, the Accrued Liability Reserve in the Self Insurance fund, the Other Post-Employment Benefits (OPEB) and Retirement reserves, and replacement reserves for vehicles and technology infrastructure.

The annual contributions for the Managed Reserve and the Revenue Stabilization Reserve are directed by long standing Board policy and equate to, respectively, 2 percent and 3 percent of General Fund disbursements. These reserves are funded concurrently with any changes in appropriation.

The Accrued Liability, OPEB and Retirement reserves are funded annually in accordance with actuarial valuations performed by external actuaries. The Accrued Liability Reserve represents the County's current and projected requirements as a result of Worker's Compensation and other self-insured liabilities of the County. The \$1.1 million in funding required to meet the June 2012 valuation is included in the *FY 2013 Third Quarter Review* as it adjusts the FY 2013 required funding level. The OPEB reserve is a relatively new requirement by the Governmental Accounting Standards Board to ensure that the long term impact of County health benefits are accounted for. There is no increase to the General Fund OPEB contribution in FY 2014 based on the actuarial valuation for June 2012. The retirement contributions are also funded as a result of annual actuarial valuations to address long term funding requirements of the obligations of the County's retirement systems. The net impact of Retirement funding requirements in FY 2014 is an increase of \$0.8 million.

The replacement reserves for vehicles and technology infrastructure are sized to accommodate the inventory of vehicles, including Police cars and Fire and Rescue apparatus and ambulances, and computer equipment such as PCs and laptops, the costs of replacement equipment and the age and usage criteria established for each type of equipment.

The levels of most vehicle reserves did not require adjustments in FY 2014. However, Fire and Rescue apparatus and ambulance reserves are not sufficient and an increase of \$1.0 million is required to support the first year of a multi-year process to gradually

increase the annual contributions to the Large Apparatus Replacement Fund and Ambulance Replacement Fund. This funding is in addition to the department dedicating additional grant funds, additional baseline funds and one-time contributions in support of this effort. Additional contributions are required due to increasing cost of vehicles, some fleet growth, and a contribution level that has remained flat since FY 2007. Without additional funding, the replacement reserves will be depleted in FY 2016. It should be noted that given the current inventory and replacement cycle, the annual contribution should be in the \$5-6 million range for the Large Apparatus Replacement Reserve and approximately \$1 million for the Ambulance Replacement Reserve. The current annual contributions are \$3.1 million and \$0.2 million, respectively. It is also anticipated in the FY 2015 Plan that additional funding of \$1 million will be required and that the County will need to start funding a portion of the estimated \$0.8 million in annual requirements for apparatus and ambulances currently owned by volunteer companies due to the concern that exists that many of the volunteer companies will be unable to replace these vehicles when necessary.

As a result of the annual review of the requirements for these reserves, a balance of \$1.5 million was identified in the PC Replacement Reserve and was transferred to the General Fund as part of the FY 2014 Advertised Budget Plan. Under the current proposal, the PC Replacement Program will permanently move from a 4 year to a 5 year PC refresh cycle as part of a long term PC replacement strategy that is in development. A one-time transfer to the General Fund of \$1.5 million in FY 2014 can be accommodated within this proposal based on a lower number of hardware replacements in FY 2014, and is consistent with the ongoing requirements that have been preliminarily identified as a result of a review of inventory, replacement costs and the useful life of this equipment.



County of Fairfax, Virginia

MEMORANDUM

DATE: OCT 25 2011

TO: Board of Supervisors

FROM: Anthony H. Griffin
County Executive

SUBJECT: County Reserve Policies

AHG

Fairfax County has established a number of long term financial policies and practices which provide for strong and consistent fiscal performance. These policies, and the fact that the Board adheres to them even during difficult budget periods, are instrumental in maintaining the County's reputation for strong financial management that is repeatedly cited as one of the most important elements of our credit rating and the favorable impression the County has in the financial markets among investors.

Chief among those policies which have effectively guided financial decision-making over the last several decades is the County's Ten Principles of Sound Financial Management which were first adopted by the Board of Supervisors in 1975. These principles provide a set of policies that govern the development and monitoring of County budgets, identify debt standards and procedures, detail County internal controls, cash management practices and efficiency efforts and distinguish the County reserve policies particularly as they relate to the County's General Fund reserves.

To further strengthen our published financial policies staff has compiled the existing reserve policy language into a comprehensive overview of the definitions of and uses for a wide array of reserves. As the Board is aware, identification of reserves have always been included in the budget's financial statements by fund that are reaffirmed and adopted annually as part of the budget process. This overview of reserves seeks to clarify the purpose of each reserve, to provide greater transparency and to coordinate the budget presentation with the Comprehensive Annual Financial Report (CAFR) which has been impacted by new GASB 54 requirements as it relates to fund balance reporting.

Beginning in FY 2013 budget, the reserves overview summarized below will be incorporated into the "Long Term Financial Policies and Tools" section of the budget. Staff will then continue to refine the specific criteria for the calculation of reserves over the course of the next year. These very specific statements will then be incorporated into the budget narratives in future years to supplement the reserve information currently contained in the County's fund statements. For example, definitions of the number of vehicles and the age and usage criteria adopted by the County and the resulting annual contribution to reserves for vehicle replacement will provide County decision makers and the public reviewing the budget documents the information they need to evaluate if current contributions are sufficient or should be discussed for modification. The description of these methodologies and updates to them as they are refined over time as new standards are applied will make this process more transparent. This more clear

statement of our Reserve Policies will also be used as we continue to communicate our message of strong financial management to the rating agencies.

Reserve Policies Statement

There are two primary General Fund reserves:

A Managed Reserve (MR) shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than two percent of total Combined General Fund disbursements in any given fiscal year. The MR has been maintained since 1983 and a withdrawal has never been made from it. The current balance of the fully funded Managed Reserve is \$69.2 million.

A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. The ultimate target level for the RSF will be three percent of total General Fund Disbursements in any given fiscal year. The RSF was created in FY 2000 and fully funded in FY 2006. The Revenue Stabilization Fund will not be used as a method of addressing the demand for new or expanded services; it is solely to be used as a financial tool in the event of an economic downturn. Three specific criteria that must be met in order to make a withdrawal from the Fund :

- Projected revenues must reflect a decrease greater than 1.5 percent from the current year estimate;
- Withdrawals must not exceed one-half of the fund balance in any fiscal year; and
- Withdrawals must be used in combination with spending cuts or other measures.

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

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

monetary demands. These reserves are necessary to provide a source of funding for planned replacement of major equipment or infrastructure over several years. For example, the County maintains a vehicle replacement reserve within the Department of Vehicle Services to plan for vehicle replacement once age, mileage and condition criteria have been met. Funding is set aside each year over the life of the existing vehicle in order to pay for its replacement. Helicopter, ambulance and large apparatus replacement funds are also maintained for the Police and Fire and Rescue Departments. Fixed payments to these reserves are made annually to ensure funding is available at such time that the equipment must be replaced. Defined Replacement Reserves exist in the following funds:

Solid Waste: Funds 108 Leaf Collection, Fund 109 Refuse Collection and Recycling Operations, Fund 114, I-95 Refuse Disposal

Facility based programs: Fund 111, Reston Community Center, Fund 141, Elderly Housing Programs

Internal Service Funds: Fund 503, Department of Vehicle Services, Fund 504, Document Services Division, Fund 505, Technology Infrastructure Services

Replacement Reserves specifically designed to meet construction requirements have also been established to accrue funds for larger projects thereby reducing financing costs. Construction related reserves are identified in the following funds: 110, Refuse Disposal, 111 Reston Community Center, 113 McLean Community Center, 114 I-95 Refuse Disposal, 121, Dulles Rail Phase I Transportation Improvement District, 122 Dulles Rail Phase II Transportation Improvement District, and 340, Housing Assistance Program.

It should be noted that there are also Replacement Reserves in a number of the Non-Appropriated Housing and Park Authority Funds.

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 each year is funded during the Carryover Review. An additional reserve is also currently identified by County policy for catastrophic loss above and beyond the identified accrued liability. Beginning in FY 2008 the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for post-employment benefits including health care, life insurance, and other non-retirement benefits offered to retirees. This new standard addresses how local governments should account for and report their costs related to post-employment healthcare and other non-pension benefits. As a result an annual required contribution (ARC) to meet the long term liability is funded by both the County and Schools.

The liability reserves held by the County include Funds 501 and 590 for County Insurance and School Insurance, Funds 603 and 692 for County OPEB and School OPEB Trust Funds and Funds 600, 601, 691 and 691 for the County and School Retirement Funds. The size of the reserves in all of the above cases is

consistent with the annual actuarial valuations performed to ensure that the County is meeting its funding responsibilities relative to these long term liabilities. One of the hallmarks of the County's bond rating has been the consistent commitment by the County to meeting these requirements even during the most difficult of budgets.

In addition, a liability reserve was established by the School Board in FY 2010 to address the deferred funding requirements of the Virginia Retirement System VRS. This reserve is held in Fund 090, Public School Operating and is intended to be a short term buffer for the School system as the State gradually resets the contribution rates local school systems pay into VRS.

It is important to note that the largest reserves held by the County are for the County and School employee retirement systems. 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. In order to assure the continued soundness of each fund, an actuarial valuation is conducted annually and, if appropriate, an adjustment is made to the employer contribution rate.

On March 18, 2002 the Board of Supervisors adopted a corridor approach to employer contributions. The corridor approach adds further stability to the employer contribution rates and continues to adequately fund the retirement systems. In the corridor method of funding, a fixed contribution rate is assigned to each system and the County contributes at the fixed rate unless the system's funding ratio falls outside the pre-selected corridor of 90-120 percent or if benefit enhancements are approved. At the Board of Supervisors' direction, staff conducted a comprehensive examination of the corridor policy in FY 2010 and concluded that the corridor approach should be maintained, as it has cushioned the County from dramatic rate increases in the past and is currently providing insulation from the global financial crisis. However, recognizing the difficult economic environment and the impact on investment returns, it is unlikely that the funding ratios for the three systems will increase significantly over the next few years based on the current corridor parameters. Consequently, the corridor will remain at 90-120 percent, as codified in the Fairfax County Code, but every effort will be made to gradually move towards a narrower corridor of 95-105 percent. This solution will allow the County to maintain the flexibility afforded by the current policy with the understanding that increasing contributions to the retirement systems, when feasible from a budgetary perspective, will improve the systems' financial position. At a future date, when the funding ratios of the systems have risen above 95 percent, consideration will be given to formally revising the corridor to 95-105 percent.

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

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

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consistent with the policy that positive cash balances are available at year end. Similarly, operating reserves also exist for rate or premium stabilization purposes in Special Revenue funds (Funds 108, Leaf Collection, 109 Refuse Collection and Recycling Operations, and 112 Energy Resource Recover (ERR) Facility) and the County and Schools health insurance funds (Funds 506 and 591). Environmental requirements are also covered in a number of operating reserves in Fund 114, I-95 Refuse Disposal for requirements associated with the landfill. Other County operating reserves are identified within specific County programs like internal service Funds 503, Department of Vehicle Services with a fuel price stabilization reserve which has been maintained over the last several years given the volatility of fuel prices and 504, Document Services Division to address variations in workload. Significant Operating Reserves are maintained within the Sewer System, primarily Fund 400 Sewer Revenue given the age and complexity of the system and the potential environmental and regulatory impacts to which the system must respond.

If you have any questions concerning these policies please let me know. Staff will continue to refine the specific criteria for the calculation of reserves over the course of the next year and we will incorporate this additional detail into the budget narratives in future years to supplement the reserve information currently contained in the County's fund statements.

cc: Senior Management Team

Michael Longhi, Office of the Financial and Program Auditor

Response to Questions on the FY 2014 Budget

Request By: Supervisor Foust

Question: Please provide a link to the community feedback received in preparation of the FY 2014 Advertised Budget Plan.

Response: The report entitled *Public Input on the Fairfax County FY 2014- FY 2015 Multi-Year Budget: October to December 2012* can be found by clicking on the following link:

<http://www.fairfaxcounty.gov/dmb/fy2014/public-input-fairfax-county-budget-january-2013.pdf>

In addition, memos from organizations and County groups that were sent to the County Executive concerning the budget can be found by clicking on the following links:

<http://www.fairfaxcounty.gov/dmb/fy2014/mclean-citizens-input-budget-fy2014.pdf>

<http://www.fairfaxcounty.gov/dmb/fy2014/hcab-input-budget-fy2014.pdf>

<http://www.fairfaxcounty.gov/dmb/fy2014/scfb-budget-input-fy2014.pdf>

<http://www.fairfaxcounty.gov/dmb/fy2014/league-women-voters-feb-2013.pdf>

<http://www.fairfaxcounty.gov/dmb/fy2014/eqac-letter-january-2013.pdf>

http://www.fairfaxcounty.gov/dmb/fy2014/ITPAC_FY2014_Budget_Letter.pdf

Response to Questions on the FY 2014 Budget

Request By: Supervisor McKay and Supervisor Smyth

Question: Provide a summary of all tax and fee increases included in the FY 2014 Advertised Budget Plan. Breakout the residential equalization changes more discretely.

Response: FY 2014 proposed tax rate increases are summarized in the following chart:

FY 2014 PROPOSED TAX AND FEE INCREASES				
Type	Unit	FY 2012 Actual Rate	FY 2013 Actual Rate	FY 2014 Recommended Rate
GENERAL FUND TAX RATES				
Real Estate	\$100/Assessed Value	\$1.07	\$1.075	\$1.095
NON-GENERAL FUND TAX RATES				
REFUSE RATES				
Solid Waste Landfill Ash Disposal	Ton	\$15.50	\$17.50	\$19.50
SEWER CHARGES				
Sewer Base Charge	Quarterly	\$5.00	\$5.50	\$12.79
OTHER				
Dulles Rail Phase II	\$100/Assessed Value	\$0.10	\$0.15	\$0.20
Commercial Real Estate Tax for Transportation	\$100/Assessed Value	\$0.11	\$0.11	\$0.125
Tysons Service District	\$100 / Assessed Value	\$0.00	\$0.00	\$0.09*

** for purposes of advertisement pending discussion and decision by the Board of Supervisors in conjunction with the Tysons Transportation Service District Advisory Board*

Other Revenue/Fee Enhancements

In addition to the proposed tax rate increases, the FY 2014 Budget Proposal includes a series of revenue enhancements. These increased fees and charges are based on actual costs of service provision, are comparable to rates in our neighboring jurisdictions and are consistent with suggestions from our residents, employees and agencies. These enhancements include:

- 5% increase for the School-Age Child Care (SACC) program, which would generate \$1.7 million.
- Land Development Services (LDS) building and inspection fee increase, which would generate \$480,000.
- REC-PAC fee increase, which would generate \$94,000.
- Library Archive Copying fee increase, which would generate \$4,000.

The overall FY 2014 average equalization of residential parcels in the County was 3.50 percent, while that of commercial parcels was 0.14 percent. However, individual neighborhoods and properties increased or decreased by different percentages based on neighborhood selling prices. For example, over 70,000, or 21 percent, of the residential parcels experienced no equalization change, while the assessed values of more than 49 percent of the commercial parcels remained unchanged from the previous year. The following chart provides equalization details on residential and commercial parcels:

FY 2014 Equalization Details						
<u>% Change</u>	<u>Res. Parcels</u>	<u>% of Total</u>	<u>Comm. Parcels</u>	<u>% of Total</u>	<u>Total All Equalization Parcels</u>	<u>% of Total</u>
> -10%	1,310	0.39%	531	4.88%	1,841	0.53%
-5% and -10%	6,444	1.92%	466	4.28%	6,910	1.99%
0% and -5%	19,552	5.82%	2,228	20.46%	21,780	6.28%
0%	70,737	21.05%	5,376	49.38%	76,113	21.93%
0% and 5%	120,247	35.78%	1,482	13.61%	121,729	35.08%
5% and 10%	79,558	23.67%	361	3.32%	79,919	23.03%
10% and 15%	23,898	7.11%	205	1.88%	24,103	6.95%
15% and 20%	8,791	2.62%	100	0.92%	8,891	2.56%
20% and 25%	2,848	0.85%	60	0.55%	2,908	0.84%
> 25%	<u>2,727</u>	<u>0.81%</u>	<u>79</u>	<u>0.73%</u>	<u>2,806</u>	<u>0.81%</u>
Total	336,112	100.00%	10,888	100.00%	347,000	100.00%
Overall Avg. Equalization:		3.50%		0.14%		2.63%

Response to Questions on the FY 2014 Budget

Request By: Supervisor McKay

Question: Identify the tax increases included in the transportation bill passed by the General Assembly. Identify the impact of these increased taxes on the “average” resident and business.

Response: In Northern Virginia, the transportation bill will increase the Grantor’s Tax, the Sales Tax and the Transient Occupancy Tax.

- The Grantor’s Tax is currently \$0.10 per \$100 of assessed value with half going to the state and half to the locality. The Grantor’s Tax is paid by the seller of a property and does not apply to mortgage refinancings. Under the new transportation bill, the Grantor’s Tax in Northern Virginia will be an additional \$0.25 per \$100 of assessed value. At the average 2012 home sales price of \$492,480 in Fairfax County, the seller of the home would pay an additional \$1,231 in taxes. The tax increase will also apply to sales of commercial buildings; however commercial buildings are unique and no “average” building sale value is available.
- Under the transportation bill, the state Sales Tax will increase 0.3 percentage points and the Sales Tax in Northern Virginia will increase 0.7 percentage points. The total Sales tax in Northern Virginia will increase from 5.0 percent to 6.0 percent, a 1 percentage point change. Unlike the County’s current 1.0 percent tax, the additional 1.0 percent tax will not apply to food purchased for home consumption. If all Sales Taxes are paid by households, the average household would see an increase of \$363 per year due to the 1.0 percent increase. This estimate is overstated as a portion of the sales tax is paid by businesses and visitors to the County.
- The transportation bill would levy an additional 3 percent Transient Occupancy tax in Northern Virginia. This tax would not impact most County residents. Based on an average hotel room of \$125 per night, this 3 percent tax would increase the stay at a Northern Virginia hotel by \$3.75 per night.

Fairfax County Revenues

From these taxes, Fairfax County is projected to generate \$139.7 million with 70 percent, or \$97.8 million, going to the Northern Virginia Transportation Authority (NVTA) for regional projects and 30 percent, or \$41.9 million, coming to the County. Projects using NVTA funds will be selected based on the NVTA’s TransAction 2040 Plan. These projects include highway, rail and other transit projects. The spending of the County’s portion of the transportation funds will be guided by the County’s Four Year Transportation Program. Projected revenue is shown in the table below. Note that the Sales Tax estimate has been revised from previous estimates to exclude Sales Taxes on food for home consumption.

**Fairfax County Revenue Estimates of
Northern Virginia Transportation Taxes in HB 2313**

	Estimated Revenue For Transportation	70% to NVTA	30% to County
Deed of Conveyance	\$23.3 25 cents / \$100	\$16.3	\$7.0
Sales Tax (excluding food)	\$100.8 0.7 percent	\$70.6	\$30.2
Transient Occupancy	\$15.6 3 percent	\$10.9	\$4.7
Total Fairfax County	\$139.7	\$97.8	\$41.9

In addition to the Northern Virginia taxes, the transportation bill adjusts several state taxes.

- The state Sales tax will increase 0.3 percent. The impact to a County household is calculated above.
- The transportation bill replaces the 17.5 cents per gallon tax with a 3.5 percent tax on the wholesale price. A 3.5 percent wholesale tax is estimated to be equal to 10.5 cents to 12.0 cents per gallon tax. Therefore, someone who drives 15,000 miles per year in a vehicle getting 25 miles per gallon would save somewhere between \$33 and \$42 per year. A household with two vehicles would save \$66 to \$84 per year.
- The State vehicle sales tax would increase from 3 percent to 4.3 percent over four years. As of July 1, 2013, the state vehicle sales tax will increase from 3.0 percent to 4.0 percent. Assuming a Virginia resident purchases a vehicle for \$20,000 in FY 2014, the vehicle sales tax would be \$800, an increase of \$200 over the FY 2013 tax of \$600.
- The bill also levies an annual fee of \$100 for alternative fuel, electric and hybrid vehicles. In Fairfax County, there are approximately 11,200 of these types of vehicles, which represent 1.2 percent of total vehicles in the County.