

# **Report and Recommendations**

## **Joint Committee on Infrastructure Financing**

### **Fairfax County Board of Supervisors**

### **Fairfax County School Board**

#### Members

The Honorable John C. Cook, Fairfax County Board of Supervisors (Co-Chair)

The Honorable Kathy L. Smith, Fairfax County School Board (Co-Chair)

The Honorable John Foust, Fairfax County Board of Supervisors

The Honorable Sandy Evans, Fairfax County School Board

The Honorable Jeff C. McKay, Fairfax County Board of Supervisors

The Honorable Patty Reed, Fairfax County School Board

February 18, 2014

## **I. Background**

The Infrastructure Financing Committee (IFC), a joint School Board/County Board Committee, was established in April 2013, as a working group to collaborate and review both the County and School's Capital Improvement Program (CIP) and capital requirements. The Committee was initiated as a result of Chairman Bulova's consideration of the School Board's request for an additional \$25M per year in capital funding for FCPS and long standing County infrastructure needs (see correspondence dated Feb. 7, 2013 and Feb. 13, 2013 between Chairman Bulova and Chairman Moon). In addition, the Committee agreed to the development of five goals, which included a comprehensive review of the following:

- (a) The County's long-standing fiscal, financial, and capital improvement policies;
- (b) The County and School requirements for major maintenance/capital renewal, including HVAC replacement, roof replacement and other essential building subsystem repairs required to maintain existing facilities;
- (c) Requirements for major renovations and new projects; and
- (d) Financing options.

For your reference a copy of the County's Principles of Financial Management, first adopted by the Board of Supervisors in 1975 and last amended in 2008, is made part of this report as Attachment A. A compilation of the infrastructure needs of the County, Schools and Parks as identified by staff is included as Attachment B.

## **II. Acknowledgements**

The Committee wishes to acknowledge and recognize the tremendous work of County and School staff in the preparation of materials for Committee review and in the development of these Recommendations. Special thanks goes out to: Fairfax County Executive, Edward Long, Jr.; FCPS Superintendent Karen Garza; Fairfax County Chief Financial Officer, Susan Datta; FCPS Assistant Superintendent for Financial Services, Susan Quinn; Deputy County Executive, Rob Stalzer; FCPS Assistant Superintendent of Facilities and Transportation Services, Jeffrey Platenberg; County Capital Program Coordinator, Martha Reed; FCPS Director of Design and Construction, Kevin Sneed; County Debt Manager, Joe LaHait; Deputy Clerk of the Board, Lizette Torres-Barthel, and staff from the Park Authority, Department of Public Works and Environmental Services and Facilities Management Department.

## **III. Findings and Recommendations**

The Committee developed five goals to guide its deliberations. These goals were provided to the full Board of Supervisors and School Board for their review, and were adopted unanimously by the Committee. Early in the Committee's deliberations it became evident that the County and School capital challenges far exceed the capacity to fund them. However, in this Report, the Committee sets forth some recommended strategies to begin to address these critical and growing requirements.

### Preliminary Recommendations

The Committee found the analysis of financial policy, the review of the condition of hundreds of facilities, and the scarce options for financing to be challenging. The Committee benefited immensely from detailed reviews of these topics provided by staffs of the County, Schools, and Parks. The Committee believes the detailed knowledge it gained on these subjects must be shared with the full membership of both the Board of Supervisors and the School Board. Therefore, the Committee makes two preliminary recommendations:

1. The School Board should invite the County's Chief Financial Officer and staff to make a detailed presentation to the School Board regarding the County's longstanding Principles of Financial Management, its debt policy, its current debt, and the abilities and constraints on future bonding capacity, with specific examples, including the impact of additional bond sales up to \$25M.
2. The Board of Supervisors should invite the Assistant Superintendent of Facilities and Transportation Services to make a detailed presentation to the Board of Supervisors on the conditions of school facilities, capacity challenges, the current state of the Schools' renovation program, and instructional impacts and related educational inequities.

The following final recommendations are organized by the initial goals to which they are related. **Principal new policy recommendations appear in bold.**

1. **Goal:** Achieve a common understanding of the opportunities and challenges regarding the CIP process, existing capital infrastructure and opportunities for financing capital requirements through a structured collaborative discussion by FCPS and Fairfax County Government.

### Recommendations:

- a. County and School decision makers must understand the components of the County's Ten Principles of Sound Financial Management and the criticality of maintaining their established debt ratios. These debt ratios along with the other principles are the cornerstone of the County's financial policies and directly influence the County's Triple A bond rating.
- b. Both County and School Board members recognize that capital requirements must become a funding priority.
- c. To better define total needs, condition assessments must first be conducted to enable staff to define and focus on the most pressing requirements. In that regard, the Committee recommends that the County provide funding in its *FY 2014 Third Quarter Review* for a full condition assessment of all County and Park facilities. School facilities assessments are up-to-date. Updated assessments would provide comprehensive facility condition evaluation and cost estimates.

- d. To ensure a more comprehensive County CIP, the Committee recommends that a listing of all school projects be included in the County CIP Project List. (To be included in the FY 2015-FY 2019 CIP publication)
2. **Goal:** Develop long term maintenance plans for both County and Schools including annual requirements and reserves.

**Recommendations:**

- a. The County and Schools should adopt common definitions of capital projects, major maintenance/capital renewal (synonyms used by the County and Schools), and general maintenance. The recommended definitions are as follows:
  1. **Operations and Maintenance:** The recurring, day-to-day, periodic, or scheduled work required to preserve, control deterioration and provide for the basic operation of a facility. This type of maintenance is routine and is based on frequency schedules, responding to service requests, or through periodic inspection and correction efforts. Operations and Maintenance is typically funded through operational budgets.

Examples of Operations and Maintenance include:

    - ✓ Janitorial – custodial services, trash removal
    - ✓ Electrical—power malfunctions, burned out light bulbs, elevator and escalator repairs
    - ✓ Plumbing—dripping faucets, clogged pipes
    - ✓ Painting—painting walls, doors
    - ✓ Carpentry—broken doors, ceiling tile replacement, replacement windows
    - ✓ Mechanical systems - replacing filters, belts on HVAC equipment
    - ✓ Replacement – gym floors, carpet tiles, roof top HVAC components, field lighting
    - ✓ Upgrades – most improvements to meet Americans with Disability Act (ADA) standards
  2. **Infrastructure Replacement and Upgrades:** Infrastructure Replacement and Upgrades refers to the planned replacement of building subsystems that have reached the end of their useful life. These systems, once replaced, will typically endure for more than 20 years. Without significant reinvestment in building subsystems, older facilities can fall into a state of ever-decreasing condition and functionality, and the maintenance and repair costs necessary to operate the facilities increase. Currently these types of Infrastructure Replacement and Upgrades are funded within operational budgets or financed using municipal bonds. The Committee recommends that the preferred mechanism to finance infrastructure replacement and

upgrade projects that are regular and on-going is operational funds.

Examples of Infrastructure Replacement and Upgrades include:

- ✓ Roof replacement
- ✓ Electrical System replacement
- ✓ HVAC replacements
- ✓ Plumbing systems replacements
- ✓ Replacement windows
- ✓ Parking lot resurfacing
- ✓ Fire alarm system replacements
- ✓ Sprinkler Systems
- ✓ Emergency generator replacements
- ✓ Elevator replacement

3. **Renovations:** Renovations are performed on a facility in order to replace all building subsystems which have outlived their useful life, as well as, alter, modernize, expand, or remodel the existing space. Renovations also may improve or modernize the operations and functions of the facility and bring the facility up to current code standards. Renovations are typically financed through municipal bonds.

4. **New Construction:** Construction of a new facility or expansion of an existing facility with no other renovation work performed on existing building. New Construction is typically financed through municipal bonds.

- b. **Both the County and Schools should make funding of Operations and Maintenance (as defined above) clear budgetary priorities.**
- c. Industry standards and other locality approaches should be considered when reviewing needs for Infrastructure Replacement and Upgrades in order to assess funding levels and work toward prescribed funding goals over time.
- d. **The County and Schools should each establish an Infrastructure Replacement and Upgrades Capital Sinking Fund (the “Capital Sinking Fund”) as the new budgetary mechanism for funding of Infrastructure Replacement and Upgrades requirements. Principal funding for these projects would come from a joint commitment to devote a designated amount or percentage of carryover funds to the Capital Sinking Fund. This commitment would begin with the FY 2014 Carryover, and the Committee suggests “ramping up” this commitment over three to five years until the Boards reach a funding level of 20 percent of the unencumbered Carryover balance of both the County and Schools budget not needed for critical requirements. Both Boards agree that the School Board may need additional time to reach this goal based on the need to address the School system’s current structural budget imbalance. FCPS has used an average of \$13.1**

**million in bond funding each year for the past five years to meet what is now termed Infrastructure Replacement and Upgrades. The County and Schools should limit the practice of funding Infrastructure Replacement and Upgrades through bond or proffer funding. To transition to this new system of funding, both Boards should make simultaneous commitments. The Committee recommends that the Schools adopt this recommendation and the County then increase the transfer to the School Construction Fund by \$13.1 million per year, beginning in FY 2016. Such funds would be placed in an account within the School Construction Fund established as the Schools' Capital Sinking Fund. This increase in the transfer shall *not* affect in any way consideration of the County transfer to the School Operating Fund making this recommendation cost neutral to the Schools.**

- e. The County's and School's other funding for the Capital Sinking Fund could come from designating fees from community use of facilities to the Capital Sinking Fund. The County and Schools should consider additional sources of funding for the Capital Sinking Fund.
3. **Goal:** Evaluate ways to further reduce capital project costs for both County and School infrastructure.

**Recommendations:**

- a. County and Schools staff should continue to employ Value Engineering (VE).
  - b. Staff should highlight significant project savings and reallocations to their Boards.
4. **Goal:** Better coordinate the use of facilities and discuss options for joint County/School use, while eliminating barriers/obstacles.

**Recommendations:**

- a. The County and School Boards should reaffirm the September 24, 2007 resolution outlining cooperation between the County and School Board in coordinating the planning and delivery of both facilities and services. (Attachment C)
  - b. County and school staff should enhance their collaboration efforts on CIP projects, exploring opportunities for joint use.
5. **Goal:** Consider all forms of financing to begin to close the gap between the requirements for both County and School facilities and specifically consider the request from schools for additional bonds sales.

**Recommendations:**

- a. The Committee notes that the commitment of an additional \$13.1 million annually in County funding for the Schools' Capital Sinking Fund will free up a parallel \$13.1 million per year in the Schools' bond funding for Capital Projects, effective FY 2016.
- b. The Committee discussed a recommendation to establish a new "Infrastructure Service District" to provide further funding for Capital projects. However, pursuant to *Virginia Code § 15.2-2403(6), Powers of service districts*, the adoption of an ordinance creating a service district shall not be levied for or used to pay for schools. **Consequently, the Committee recommends that the Board of Supervisors establish a goal of additional Pay-as-you-go funding of approximately \$20 million annually. A joint working group of county and school staff should engage in a comprehensive review of the condition of School and County facilities and recommend to the Board of Supervisors an appropriate formula for annually dividing the new approximately \$20 million in pay-as-you-go funding between Schools, County, and Parks.**
- c. Staff should review the use of proffers for one-time expenditures and new funding sources, whether currently available or through legislative action, to meet CIP requirements.
- d. The County and Schools should consider retaining a consultant to develop a program of private fundraising for major capital projects such as school renovations and park facilities.
- e. Staff should, when possible, outline for the Boards and the public the operational funding impacts when new or renovation/expansion projects are considered in the CIP.

**IV. Suggestions not adopted**

The Committee further benefited from a number of suggestions for funding that were not ultimately adopted, but are outlined here for future consideration.

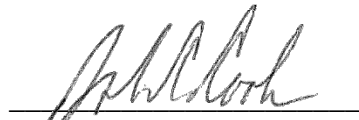
- a. The Committee considered whether to recommend the use of meals tax revenues as a funding source for capital requirements. Currently, in order to implement a Meals Tax, the Board of Supervisors must approve by majority vote a resolution to initiate a referendum which must be approved by the voters. Alternatively, the County and Schools could seek legislative authority for the Board of Supervisors to institute a meals tax without referendum. The Committee recommends that the Board of Supervisors continue to assess the viability of such a measure in the future.

- b. The Committee considered a suggestion that the County reduce its Affordable Housing Proffer commitments and add to its School Proffer an additional requirement of like size. The Committee determined that such a decision would represent a significant change in County priorities and was not appropriate for further consideration without further direction from the Board of Supervisors.
- c. The Committee has discussed the County's concerns with increasing the bond sales by an additional \$25M for FCPS. The committee has identified alternative recommendations to start addressing some critical requirements as cited in the report.

**V. Conclusion**

The Committee appreciates the opportunity to review and offer recommendations on these critical issues. Early in the Committee's deliberations it became evident that the County and School capital challenges far exceed the capacity to fund them. The Committee believes that the Recommendations included in this Report, if implemented, will begin to address the capital challenges that are not able to be met with the limited revenue currently available and will increase fiscal strength and vitality to public facilities in the County and School system. The Committee looks forward to working with the full Board of Supervisors, School Board, and county and school staff in implementing these recommendations.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_, 2014

  
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John C. Cook, Co-Chair

  
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Kathy Smith, Co-Chair