County of Fairfax, Virginia

MEMORANDUM

DATE: March 20, 2017
TO: Board of Supervisors
FROM: Joseph M. Mondoro, Chief Financial Officer
SUBJECT: Responses to BOS Budget Questions – Package 4

Attached for your review is Package 4 of responses to Board questions on the FY 2018 budget. If you have any questions or need additional information, please do not hesitate to contact me. The following responses are included in this package:

Question Number	Question	Supervisor	Pages
	Budget Questions 1-5 answered in package 1 dated November 18, 2016		*1-7*
	Budget Questions 6-7 answered in package 2 dated January 18, 2017		*8-9*
	Budget Questions 8-10 answered in package 3 dated February 28, 2017		*10-14*
Budget-11	Please provide additional detail on the residential assessment increases to identify if lower valued properties are experiencing higher percentage increases.	McKay	15
Budget-12	What is the cost of exempting from real estate taxes surviving spouses of first responders killed in the line of duty? What is the implementation timeline for enactment of an ordinance approving real estate tax exemption for surviving spouses of first responders killed in the line of duty?	Herrity	16
Budget-13	How many properties in Fairfax County's Real Estate Tax Relief Program are valued at over $1.0 million? If these properties were not eligible for tax relief, how much additional revenue would be generated by the County? Alternatively, if the County capped real estate tax relief at a particular value (such as the current residential mean assessed value of $553,168 or $750,000) and tax relief was only applicable on taxes below that level, how much additional revenue would be generated?	K. Smith	17
Budget-14	Please provide information on whether any savings from lower jail populations is available that could potentially be applied to Diversion First.	Herrity	18-19
Budget-15	Please provide data regarding the cost of lobbying functions (state and federal) by both staff and outsourced services. Also, please provide information regarding the manner in which staff time is billed to the legislative budget during session or if is accounted for in the home agency budget (i.e. how is county attorney staff time billed if a county attorney is in Richmond during session?)	Herrity	20
Budget-16	Please provide information on the number of employees who will receive pay increases if there is no Market Rate Adjustment (MRA) in the FY 2018 budget, and provide similar details for the past two years. In addition, please cost out the MRA if implementation were delayed until January 1, 2018.	Gross	21-22

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Budget-17	How does Fairfax County compare in terms of education spending per capita to other jurisdictions?	Foust	23
Budget-18	Please describe the funding process for safety equipment in the context that the Fairfax County Public Schools (FCPS) provides a small amount of funds to each of the high schools to recondition helmets and other safety equipment with the bulk of dollars used coming from athletic boosters, ticket sales, and fundraisers held by each respective school throughout the year. If this is truly the way important safety equipment is being financed, some parts of the County would be able to do this significantly faster than others. In addition, there are large differences in the student populations among the high and secondary schools which clearly have an impact on ticket sales volume. This policy may create challenges, the first of which is ensuring the safety of the students. Also address whether this funding need would make a good candidate for review as part of the One Fairfax policy.	McKay	24-26
Budget-19	What assumptions were used by Aon Hewitt/FCPS staff in their 2016 study that led to the conclusion that it would cost $70 million to end the ERFC program for employees?	Herrity	27

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 2018 Budget

Request By: Supervisor McKay

Question: Please provide additional detail on the residential assessment increases to identify if lower valued properties are experiencing higher percentage increases.

Response: Generally, lower valued properties in the County appreciated more than higher valued properties between January 1, 2016 and January 1, 2017. In fact, properties assessed in excess of $1,000,000 for 2016 actually decreased in value for 2017. It is helpful to keep in mind that lower valued homes lost the most value during the foreclosure crisis and that some of the current appreciation in value represents the ongoing recovery of value for these properties.

Properties assessed less than $400,000 for 2016 increased in value on average 1.41 percent for 2017.

Properties assessed greater than $400,000 up to $600,000 for 2016 increased in value on average 1.28 percent for 2017.

Properties assessed greater than $600,000 up to $1.0 million for 2016 increased in value on average 0.37 percent for 2017.

Properties assessed greater than $1.0 million for 2016 <u>decreased</u> in value on average 0.97 percent for 2017.

Properties included in this analysis are single family detached homes, townhomes and residential condominiums.

Two small subgroups of lower value residential properties experienced higher percentage increases due to extraordinary circumstances. One subgroup is Affordable Dwelling Unit (ADU) properties that came out of their initial control period. While these properties are in their initial control period, the price for which the owners can sell the property back to Housing and Community Development (HCD) is suppressed below market value (typically 50 percent or less). When ADU properties come out of their initial control period, the owners can sell their property for whatever price the market will bear, with any profit split between the property owner and HCD.

Another subgroup is Habitat for Humanity properties that received a one-time higher than typical increase, based on additional information provided by Habitat for Humanity. The values of Habitat for Humanity properties were reconciled for tax year 2017 using updated financial information provided by the organization. This resulted in a one-year reconciliation increase to assessed values of Habitat properties of over 10 percent, compared to typical annual increases of 2 to 4 percent. It should be noted that assessment values of Habitat properties are substantially discounted below their sale prices. The current median assessment-to-sale ratio for all Habitat properties is 68 percent of sale price. The units are discounted to account for their repurchase requirement terms with Habitat, which removes them from market consideration.

Response to Questions on the FY 2018 Budget

Request By: Supervisor Herrity

Question: What is the cost of exempting from real estate taxes surviving spouses of first responders killed in the line of duty? What is the implementation timeline for enactment of an ordinance approving real estate tax exemption for surviving spouses of first responders killed in the line of duty?

Response: Currently, veterans who have a 100 percent permanent and total disability related to military service, or their surviving spouse, are eligible for real estate tax relief on their home and up to one acre of land regardless of income or assets. In addition, surviving spouses of veterans killed in action are also eligible for real estate tax relief; however, the exemption applies only up to the average assessed value of single family residential homes in the County in the most recently ended tax year.

On November 8, 2016, voters approved a constitutional amendment which allows localities in Virginia the option to grant real estate tax relief for surviving spouses of first responders killed in the line of duty. If the Board of Supervisors (BOS) wishes to grant such relief, no County ordinance change would be required. To implement the exemption, the BOS would need to pass a resolution with the terms of the exemption.

The Department of Tax Administration (DTA) would need to coordinate all the required systems changes with an external vendor and first responder groups would be canvassed to identify impacted residents. Changes could be completed by late fall 2017, with a preferred effective date of January 1, 2018 (FY 2019). The implementation cost of the required systems changes is estimated at approximately $50,000.

State law provides some flexibility of how the program could be designed. The BOS could elect to provide relief in a manner similar to the exemption for disabled veterans and their surviving spouses; alternatively, the exemption could be more in line with that provided to surviving spouses of military members killed in action, which is limited only to the average assessed value of single family residential homes in the County in a particular tax year.

While DTA does not have data on the number of potential applicants and the value of the homes that would be tax exempt, the average FY 2018 assessed value for improved residential properties in the County is $533,168, with a base tax liability of approximately $6,025 at a tax rate of $1.13 per $100 of assessed value. Therefore, if 10 applicants are approved, the estimated revenue loss would be $60,250.

Staff is reviewing the approaches other jurisdictions are taking and will report back to the Board with an update.

Response to Questions on the FY 2018 Budget

Request By: Supervisor Smith

Question: How many properties in Fairfax County's Real Estate Tax Relief Program are valued at over $1.0 million? If these properties were not eligible for tax relief, how much additional revenue would be generated by the County?

Alternatively, if the County capped real estate tax relief at a particular value (such as the current residential mean assessed value of $553,168 or $750,000) and tax relief was only applicable on taxes below that level, how much additional revenue would be generated?

Response: Fairfax County currently provides graduated real estate tax relief to residents who are either 65 or older or permanently and totally disabled and meet income and asset eligibility requirements. The current program provides 100 percent exemption for elderly and disabled taxpayers with incomes up to $52,000; 50 percent exemption for eligible applicants with income between $52,001 and $62,000; and 25 percent exemption if income is between $62,001 and $72,000. The allowable net asset limit is $340,000 for all ranges of tax relief. The asset limit excludes the value of the taxpayer's dwelling and up to one acre of land on which the dwelling is located. Currently, there is no limit on the value of the property for which tax relief is received. In FY 2018, the Real Estate Tax Relief Program for the Elderly and Disabled is projected to relieve approximately $28.0 million. An additional $1.1 million in tax relief is expected to be granted to disabled veterans that is not subject to income and asset limitations.

Of the approximately 7,100 households in the Real Estate Tax Relief Program for the Elderly and Disabled, 48 have property that exceeded $1.0 million in value. If the tax relief program was limited to properties valued at less than $1.0 million, a savings of approximately $550,000 would be generated.

Alternatively, if the program limited tax relief to the tax on the first $750,000 in property value, savings of approximately $372,000 would be generated. Limiting real estate tax relief to the tax on the FY 2018 residential mean assessed value of $533,168 would generate savings of approximately $1.8 million. The majority of the current tax relief participants have properties valued at less than the residential mean assessed value.

Response to Questions on the FY 2018 Budget

Request By: Supervisor Herrity

Question: Please provide information on whether any savings from lower jail populations is available that could potentially be applied to Diversion First.

Response: The jail's Average Daily Population (ADP) has declined significantly in recent years. The chart below summarizes the year-end ADP from FY 2010 through FY 2017:

Average ADP From FY 2010 thru FY 2017	
Fiscal Year	**Average ADP**
FY 2010	1,279
FY 2011	1,226
FY 2012	1,257
FY 2013	1,220
FY 2014	1,233
FY 2015	1,108
FY 2016	1,038
FY 2017[1]	1,032
[1] FY 2017 numbers are through February	

As noted in the chart, the current ADP is lower than it has been in the recent past. This is consistent with national trends; however, ADP is influenced by several factors and these make predicting ADP difficult and drawing conclusions from a review of ADP figures challenging. For example, the Virginia Department of Corrections (DOC) leaves its state-remanded inmates in the Fairfax Adult Detention Center (ADC) if there are insufficient or inappropriate beds for their inmates. Historically, these numbers add about 100-125 to the ADP. In recent years, the number has varied considerably and unpredictably. Using FY 2016 as an example, DOC inmates (out-of-compliance inmates) ranged from a high of 179 to a low of 119. The out-of-compliance inmates peaked in FY 2014 at 246, but in January of this year, they are back down to 114. These numbers, which are part of the ADP, are erratic and often mask trends in the ADP. In addition, ADP trends can reverse suddenly and rapidly.

As 85% of the Sheriff's budget made up of personnel costs, any substantive savings needs to come from the personnel side of the budget. It is important to note that since FY 2010, approximately $7.5 million in personnel budget cuts have been made, including a $250,000 reduction in the FY 2018 Advertised Budget Plan. These reductions have been the result of several factors, such as significant reductions in overtime and through eliminating the vast majority of non-mandated programs. Cost savings as a result of the declining ADP have also been recognized.

With regards to the Diversion First program specifically, it is too early to determine the specific impact the program is having on the jail population. Of note, the ADP in June 2016, just prior to the formal start of the Diversion First program, was 992. The average FY 2017 ADP (from July 2016 through February 2017) has been 1032. As noted above, there are several distinct factors, which influence ADP; however, given that ADP has actually gone up slightly since the program's inception, identifying budget savings in the Office of the Sheriff budget directly attributable to Diversion First is not possible at this time.

What follows is some additional background on the Office of the Sheriff budget, provided to give additional context on why achieving savings is difficult. In the FY 2017 budget, non-personnel expenses are less than 15% of the total Office of the Sheriff budget. Within that amount, only 19% (or 3% of the total budget) of the expenses are directly determined by the number of inmates. While the unit costs for these non-personnel expenses have been rising, no budget increases for these expenses have been requested or funded since FY 2009. For example, by far the greatest expense directly related to the number of inmates is meals. In FY 2010 there were (on average) 1,279 inmates compared to 1,038 inmates in FY 2016; however, because the contracted unit price has increased, the annual expense is about the same.

Another example is the cost of inmate health care, which has gone up dramatically. Based on a study completed for the Commonwealth this past year, pharmacy costs per inmate for non-psychotropic drugs have increased 92% between FY 2010 and FY 2016. Although the ADP decreased from 1,279 in FY 2010 to 1,038 by the end of FY 2016, annual pharmacy costs have risen by $233,000, an amount that has been managed within the existing Office the Sheriff budget.

In sum, the ADP is unpredictable, and susceptible to many different factors. The Office of the Sheriff cannot predict in budget preparation that the population is going to continue to go down, especially now that ADP is at the lowest level seen since FY 2001. The trend can reverse suddenly and rapidly as evidenced by the period of significant growth from FY 2001 through FY 2008 followed by recent year trends that have shown a decrease. To keep from overspending, at least a modest increase must always be assumed. The Sheriff's Office will continue to monitor the ADP and the non-personnel expenses on a monthly basis and allocate resources accordingly.

Response to Questions on the FY 2018 Budget

Request By: Supervisor Herrity

Question: Please provide data regarding the cost of lobbying functions (state and federal) by both staff and outsourced services. Also, please provide information regarding the manner in which staff time is billed to the legislative budget during session or if is accounted for in the home agency budget (i.e. how is county attorney staff time billed if a county attorney is in Richmond during session?)

Response: Below is an updated chart that was provided to the Board during the Lines of Business (LOBs) presentation for the Administration of County Policy/Legislative Functions LOB, which reflects County expenses for legislative activities.

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual
LOB #5: Administration of County Policy/Legislative Functions			
FUNDING			
Expenditures			
Compensation	$331,336	$301,861	$324,379
Operating Expenses	259,581	260,806	274,714
Total Expenditures	$590,917	$562,667	$599,093

In addition to the 3/3.0 FTE legislative staff that are part of the County Executive's office, one staff person each from the Office of the County Attorney and the Department of Transportation work on legislative issues as part of their duties in that agency, in addition to the other duties they perform throughout the year (for example, litigation and other legal assignments in the Office of the County Attorney and transportation planning and funding in the Department of Transportation). The salaries for those staff members are funded through their respective agency's budget, though operating expenses related to the General Assembly session are included in the totals in the chart above.

Response to Questions on the FY 2018 Budget

Request By: Supervisor Gross

Question: Please provide information on the number of employees who will receive pay increases if there is no Market Rate Adjustment (MRA) in the FY 2018 budget, and provide similar details for the past two years. In addition, please cost out the MRA if implementation were delayed until January 1, 2018.

Response: In FY 2018, combining General County and uniformed Public Safety employees, approximately 79 percent of merit employees will receive a pay increase (ranging up to 5 percent) if no MRA is approved. Only those employees who are in a longevity hold (uniformed public safety only) or at the maximum of their pay scale would not be eligible for a pay increase. For FY 2018, it is estimated that approximately 2,500 employees would not receive a pay increase if no MRA is approved.

The percentage of employees eligible for pay increases has been relatively consistent in the past two years. In FY 2017, 80 percent of employees were eligible for an increase in addition to the MRA, while the figure was slightly higher – at 81 percent – in FY 2016.

The table below summarizes eligibility for pay increases under the County's non-uniformed compensation plan and uniformed public safety pay plans.

	FY 2018		FY 2017		FY 2016*	
Pay Increase	**# of EEs**	**% of EEs**	**# of EEs**	**% of EEs**	**# of EEs**	**% of EEs**
0.00%	2,553	20.5%	2,431	19.6%	2,374	19.2%
0.01-1.25%	905	7.3%	969	7.8%	416	3.4%
1.26-1.50%	686	5.5%	662	5.3%	442	3.6%
1.51-1.75%	1,164	9.4%	1,087	8.8%	875	7.1%
1.76-2.00%	1,211	9.7%	1,044	8.4%	947	7.7%
2.01-2.50%	1,953	15.7%	1,646	13.3%	1,293	10.4%
2.51-3.00%	1,953	15.7%	2,465	19.8%	3,009	24.3%
3.01-4.00%	149	1.2%	142	1.1%	1,278	10.3%
5.00%	1,868	15.0%	1,976	15.9%	1,743	14.1%
	12,442	**100.0%**	**12,422**	**100.0%**	**12,377**	**100.0%**
Eligible for Increase	*9,889*	*79%*	*9,991*	*80%*	*10,003*	*81%*
Not Eligible - At Max of Pay Scale or in Longevity Hold	*2,553*	*21%*	*2,431*	*20%*	*2,374*	*19%*

Includes full and part-time employees on C, F, L, O, P and S pay scales.

* As FY 2016 was the first year of the new General County pay plan, all employees with at least 20 years of service (not at the maximum) were eligible for a 4% longevity. Thus, the proportion of employees in the higher percentage categories, particularly the 3.01-4.00% category, is greater in FY 2016.

Pay increase ranges in the table above do not include MRAs or increases resulting from market studies. The MRA was calculated and funded at 1.33 percent for FY 2017. In FY 2016, the MRA was calculated at 1.68 percent; however, due to budgetary constraints, a partial MRA of 1.10 percent was funded.

If a 1.65 percent Market Rate Adjustment were provided in January 2018, the half-year cost would be approximately $9.9 million. However, this would increase the projected budgetary shortfall in FY 2019 by approximately $20 million based on the full-year impact.

Response to Questions on the FY 2018 Budget

Request By: Supervisor Foust

Question: How does Fairfax County compare in terms of education spending per capita to other jurisdictions?

Response: The following response was prepared by Fairfax County Public Schools (FCPS):

A divisionwide cost per pupil is computed annually using a methodology agreed on by the Washington Area Boards of Education (WABE). The WABE calculation includes general education, special education, and federal entitlement grants, as well as all support expenditures in the operating fund, but it excludes operating fund transfers to the Family and Early Childhood Education Program (FECEP), Adult and Community Education (ACE), and debt service. These WABE-adjusted expenditures are divided by the total approved student enrollment to determine the approved WABE cost per pupil.

The FY 2017 approved divisionwide average cost-per-pupil ratios, calculated according to WABE guidelines, are shown in the chart below. In FY 2017, FCPS maintained its middle ranking when compared to other school districts in the metropolitan area.

COST PER PUPIL	
School Division	FY 2017 Approved
Arlington County	$18,957
Falls Church City	$18,418
Alexandria City	$17,008
Montgomery County	$15,975
Fairfax County	**$14,432**
Prince George's County	$13,869
Loudoun County	$13,121
Manassas City	$13,112
Manassas Park City	$11,158
Prince William County	$10,981

Response to Questions on the FY 2018 Budget

Request By: Supervisor McKay

Question: Please describe the funding process for safety equipment in the context that the Fairfax County Public Schools (FCPS) provides a small amount of funds to each of the high schools to recondition helmets and other safety equipment with the bulk of dollars used coming from athletic boosters, ticket sales, and fundraisers held by each respective school throughout the year. If this is truly the way important safety equipment is being financed, some parts of the County would be able to do this significantly faster than others. In addition, there are large differences in the student populations among the high and secondary schools which clearly have an impact on ticket sales volume. This policy may create challenges, the first of which is ensuring the safety of the students. Also address whether this funding need would make a good candidate for review as part of the One Fairfax policy.

Response: The following response has been prepared in response to similar questions from School Board member Derenak Kaufax. Staff from the Schools and County as well as the Athletic Council, will develop a work plan to review this funding approach in the context of the One Fairfax policy and equipment replacement information by school, and report back to both the County Board and School Board.

CD# TDK-01

FY 2018

Response to Questions of the FY 2018 Budget

School Board Member Requesting Information: Tamara Derenak Kaufax

Answer Prepared By: Bill Curran

Date Prepared: March 12, 2017

Question:
What regulations outline FCPS budgeted costs for high school sports vs. what the booster clubs are responsible for? What does FCPS pay for? What do boosters pay for?

What are the budget figures for distribution allocations across the Fairfax County high schools for a) personnel b) safety replacement equipment c) any other miscellaneous costs. Please include position titles and number of employees holding these positions.

Is it true that football boosters have to buy safety equipment such as football helmets and pads but that FCPS pays for safety equipment “replacement.” What does this mean and how does this work? If new types of helmets are required by law, is it the booster responsibility to pay for these or is this a safety equipment replacement cost?

Please provide a comprehensive listing, sport by sport, of what safety equipment is required to be paid from FCPS central funds.

Response:
The FY 2017 budget for Student Activities and Athletics program totals $23.5 million and includes 91.5 positions. Activities at the elementary and middle school levels are provided through organized sponsored clubs providing students opportunities beyond their classrooms. At the high school level, both activities and athletics are offered to all students. Positions provided at each high school include a 1.0 director of student activities, 0.5 assistant director of student activities, 1.0 certified athletic trainer, and 1.0 student activities administrative assistant. This formula generates 25.0 directors of student activities, 12.5 assistant directors of student activities, 25.0 certified athletic trainers, and 25.0 student activities administrative assistants. Central office staff supporting the Student Activities and Athletics program includes a 1.0 director, 2.0 specialists, and a 1.0 office position. Additionally, funding is allocated for athletic coaching supplements, transportation for VHSL trips, extra duty supplements, official fees, postseason activities, police services, funding for the AED program, and limited funding for equipment replacement and maintenance.

The Office of Student Activities and Athletics Programs ensures that equipment is evaluated each season to verify that these items meet or exceed safety requirements. Approximately $4,000 is provided to each high school annually for equipment replacement and maintenance. Funding allocated to each school for maintenance of safety equipment is also used to replace safety equipment. This allows schools to establish a rotating stock of equipment and maintain safety equipment above National Operating Committee on Standards for Athletic Equipment (NOCSAE) standards. For example, a school may have a total of 100 football helmets in inventory. Each year all 100 helmets are sent for evaluation and recertification. Through this process any defective helmets are pulled out of inventory and schools will purchase additional helmets as part of the maintenance process.

Additional funding for the replacement and maintenance of equipment may be provided through gate receipts from sporting events and contributions from booster organizations. These funds are managed and accounted for in local school activity funds. The mission and function of sports booster organizations vary according to their individual bylaws. The degree of fundraising activities and other supports by booster organizations also vary across schools.

If conditions exist where the funding allocated from the Office of Student Activities and Athletics combined with local school and/or the booster organization funding cannot meet the schedule demands and student safety requirements for needed equipment replacement, the Office of Student Activities and Athletics Program evaluates the circumstances and works with that program to help find a resolution. When the National Federation of High Schools (NFHS) requires new safety equipment or upgrades to existing equipment, or FCPS determines it is in the best interest of our students to change equipment, FCPS adjusts the funding available to provide funds to the schools to replace the equipment and ensure that all schools are within the NFHS and NOCSAE standards. Recent examples include: a lacrosse helmet was suddenly taken out of stock by the manufacturer and was not eligible for recertification. Since several schools (Stuart, Lee, and Marshall) had this helmet in stock, funding was provided to these schools to replace the helmet; a rule change in gymnastics impacted the crash mat configuration and funding was provided to schools to meet this requirement; and girls field hockey implemented a new rule requirement mandating goggles which required funding for 70 pairs of goggles for each school.

Fairfax County Public Schools currently sets standards above the NOCSAE standards related to equipment reconditioning, inventory maintenance and fitting. The Office of Student Activities and

Athletics receives the inventory from each school in late spring and this information is used annually to determine if any schools need additional allocations to replace equipment in order to meet all safety standards.

School Board Policy and Regulation 3860 includes guidelines for financing the extracurricular program at the middle and high school levels. The policy indicates that subject to available funds, the School Board shall provide and maintain the facilities, transportation, and coaching supplements required in conducting the interscholastic activity program. When the School Board approves a new VHSL interscholastic sport, it shall be responsible for start-up costs for that sport as funds are available. These costs would include an initial outlay for uniforms, equipment, and supplies as identified by the director of student activities and athletic programs and approved by the Superintendent. Continuing costs of VHSL interscholastic programs shall be the responsibility of local schools. Financing of a VHSL high school activity or sport identified as a club sport is the responsibility of the participants. Required safety equipment includes: football helmets and pads, field hockey goggles, baseball helmets, catcher’s gear, softball helmets catcher’s gear, boys lacrosse helmets, shoulder pads, goalie gear, girl’s lacrosse goggles, and goalie gear.

School Board Policy 5820 provides guidelines regarding equipment for school activities for new schools in order to lessen the burden of fundraising on newly formed student organizations, parents, and community groups and to help existing schools provide equipment for school activities under special circumstances.

When a new FCPS high school is opened, initial field, infrastructure and equipment needs required to meet Virginia High School League (VHSL) requirements and National Operating Committee on Standards for Athletic Equipment (NOCASE) expectations are included within the schools’ renovation funding.

Response to Questions on the FY 2018 Budget

Request By: Supervisor Herrity

Question: What assumptions were used by Aon Hewitt/FCPS staff in their 2016 study that led to the conclusion that it would cost $70 million to end the ERFC program for employees?

Response: The following response was prepared by Fairfax County Public Schools (FCPS):

The study to determine the funding implications for closing the ERFC Plan to new hires was conducted by ERFC's actuary, Gabriel Roeder Smith & Company (GRS). When a plan is closed, it is necessary to evaluate the current funding policy and the major actuarial assumptions to determine if changes are warranted. A funding policy has three main components: an asset smoothing method, an actuarial cost method and an amortization policy.

Asset smoothing method. The present ERFC Plan asset smoothing method recognizes each year's investment gains or losses equally over a five-year period. If the ERFC Plan is closed, GRS does not recommend a change in the asset smoothing method.

Actuarial cost method. ERFC's current actuarial cost method is the individual entry age actuarial cost method. This method is required under the Governmental Accounting Standards Board (GASB) Statement 67. If the ERFC Plan is closed, GRS recommends switching to the aggregate cost method which is the method recommended by GASB and the Government Finance Officers Association (GFOA) in the event of plan closure. The aggregate cost method is well suited to a closed plan situation because it doesn't require assumptions about turnover, retirements, etc. for new entrants in the plan and, of course, there will be no new entrants if the ERFC Plan is closed to new hires.

Amortization policy. Generally accepted actuarial principles include the recommendation that the amortization of a plan's unfunded actuarial accrued liability should be accelerated if a plan is closed to new hires. For funding purposes, ERFC's unfunded accrued liability is currently being amortized over a closed 30-year period; the remaining amortization period in the December 31, 2015 valuation is 23 years. The liability is being amortized as a level percent of payroll.

Switching to the aggregate cost method changes the technique for amortizing the unfunded liability. The aggregate cost method funds the liability over the present value of future salary. This method produces a contribution rate that is theoretically a level percent of the declining closed plan payroll.

Assumed Rate of Return Assumption. ERFC's actuarial earnings rate assumption is 7.25 percent per year, net of investment expenses. If the ERFC plan is closed, (1) it may not be possible to develop a portfolio that earns 7.25 percent return throughout the life of the plan; and (2) at some point, the asset allocation will need to be changed and lower returns should be expected. In the closure study, GRS assumed that ERFC will earn 1 percent less than the current assumed 7.25 percent throughout the life of the closed plan.