County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County

Chairman and Members of the Board of Supervisors
County of Fairfax
Fairfax, Virginia 22035

February 20, 2018

Chairman and Board Members,

I am pleased to forward for your review and consideration the Fairfax County *Advertised Capital Improvement Program (CIP) for Fiscal Years 2019 – 2023, with Future Fiscal Years to FY 2028*. The CIP is released concurrently with the FY 2019 Advertised Budget Plan. During the development of this year's CIP, the following primary objectives were accomplished:

- Reviewed and revised the Bond Referendum Plan based on each program area's prioritized future project requirements and revised project estimates associated with current experience in the construction market;

- Reviewed the County's debt capacity and conducted an analysis of debt service requirements, sales limitations, and debt ratios in conformance with the County's Ten Principles of Sound Financial Management;

- Recommended an increase in of $25 million in annual bond sales for Fairfax County Public Schools from $155 million to $180 million per year bringing the total sales limit for both County and Schools to $300 million annually.

- Developed a General Fund Supported Capital Program distinguishing between commitments, contributions and on-going capital maintenance and infrastructure replacement and upgrade projects;

- Reviewed the progress on the use of the Capital Sinking Funds;

- Reviewed the 5-year Stormwater Service District Spending Plan, developing an FY 2019 program consistent with the recommended increase of ¼ penny in the tax rate per year to address stormwater management regulations;

- Developed a new Countywide Infrastructure Replacement and Upgrades component of the CIP; and

- Identified future efforts and challenges that will directly impact the CIP.

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1. Reviewed and Revised the Bond Referendum Plan

As part of the development of the FY 2019 – FY 2023 Capital Improvement Program (CIP), staff continued the successful process of meeting with each County agency to discuss and prioritize future CIP project requirements. The continuation of this enhanced process provided for a more detailed and rigorous review of each project and a clearer understanding of agency priorities.

This year staff has reviewed proposed future projects and reevaluated current project costs, as the local metro DC construction market has been experiencing a trend of escalation in construction costs for building projects. The County has experienced this trend in recent construction bids dating back to approximately spring/summer 2016; and the cost estimates for projects currently in the planning and design phases are being reviewed to account for this increase in construction costs. Some of the factors influencing this construction market escalation include: a shortage in skilled labor; a reduced supply of general contractors; less competition, particularly at the subcontractor level; and recent hurricanes and forest fire damage that have been diverting both building construction materials and labor to the southern and western parts of the country. The effect of these storms on the construction market is expected to continue for several years, particularly for steel, PVC, drywall, diesel and gasoline. In addition, other materials such as unit masonry, concrete, and windows/glazing/storefront are experiencing substantial escalation as the market reacts to the high volume of work. Finally, contractors are more selective about the types of projects they "competitively" bid due to the high volume of work in the market, and this is resulting in less competitive bidding for County projects. This market escalation has resulted in an increase to the projected costs for projects that were recently bid, approved projects that are in the planning and design phases, and future projects in the CIP. The Bond Referendum Plan has been adjusted to account for this escalation trend, and County staff is continuing to monitor the status and impacts of cost escalation in the regional construction market.

The Bond Referendum Plan includes County Referenda proposed in fall 2018 (FY 2019), fall 2020 (FY 2021) and fall 2022 (FY 2023) and FCPS Referendum in fall 2019 (FY 2020) and fall 2021 (FY 2022) within the five-year CIP period.

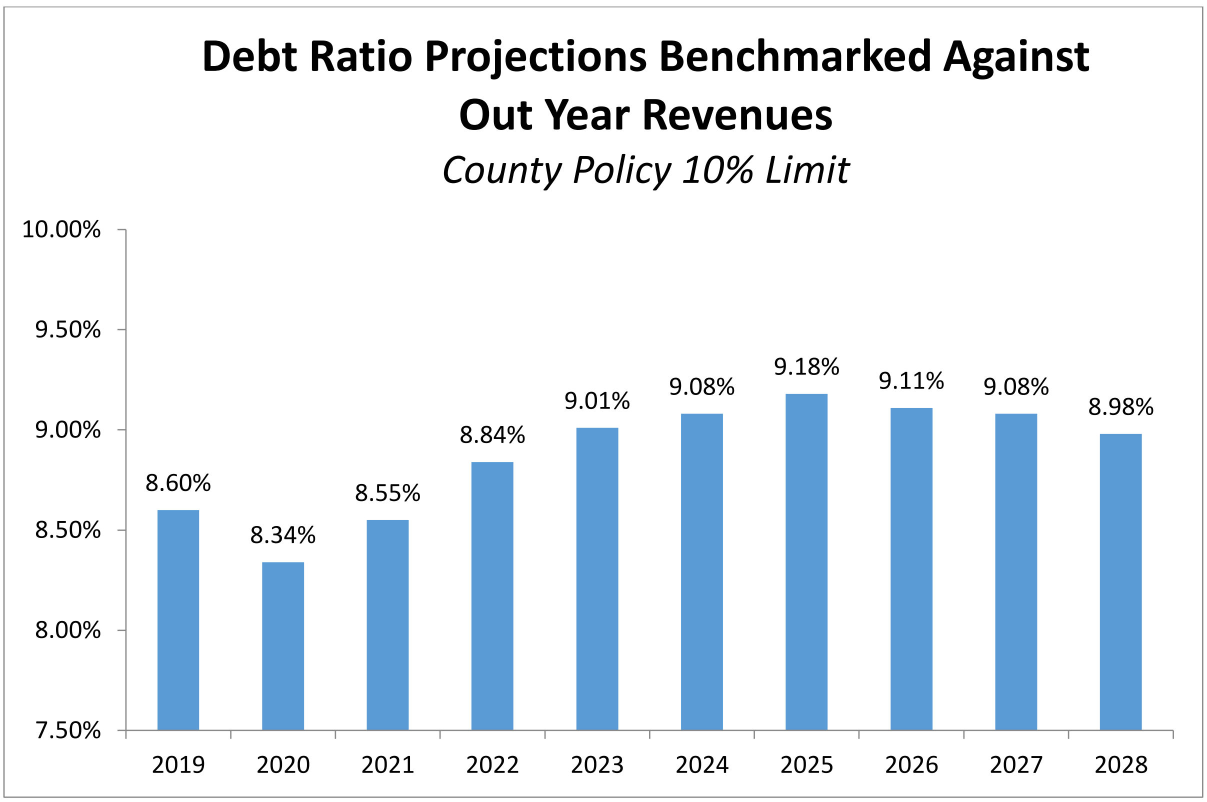
I am recommending a fall 2018 Public Safety and Courts/Detention facilities bond in the amount of $182 million. The 2018 Bond Referendum is proposed to include: renovations to the Mt Vernon, Fairview, Gunston, and Seven Corners Fire Stations, as well as a placeholder for the renovation of one Volunteer Fire Station ($73 million); and renovations of the Police Evidence/Storage Facility, the Mason Police Station and the Criminal Justice Academy ($59 million). All of these facilities are aging, require upgrades to the building systems and are in need of adjustments to meet the current and future operational needs of the agencies. In addition, the Adult Detention Center (ADC) has been under review based on a mechanical, plumbing, and building systems assessment completed by a contracted engineering firm. The results of this assessment indicate that most of the major building systems including plumbing, electrical, HVAC, and fire protection systems are in need of replacement and exterior work such as weather stripping and roof repairs are recommended. Due to the magnitude of the facility, as well as the infrastructure upgrades and repairs required, this facility is being considered for full renovation. In addition, the security systems at the ADC were assessed in 2016 and determined to be outdated and no longer able to be repaired. Proposed improvements would integrate and upgrade mechanical and electronic security systems to enable Sheriff Deputies to be more proactive, avoid security issues, and design more efficient security operations. In order to minimize disruption to the inmates, the implementation of the security system is being considered as part of the overall renovation project. Staff is continuing to work to develop a phased approach to the project. It is estimated that the total project will be in the $62 million range with approximately $17 million in General Fund support required for the security system software, cameras and equipment and General Obligation Bonds of approximately $45 million to support the capital improvement requirements. Finally, the 2018 Referendum includes $5 million to continue the phased renovation of courtrooms at the Jennings Judicial Center. These courtrooms require improved lighting, ductwork realignment and technology upgrades.

The Plan increases the level of support for Fairfax County Public Schools (FCPS), with referenda of $360 million every two years, directly related to a proposed increase in the annual bond sale amount for FCPS. As part of the adoption of the FY 2018 – FY 2022 Capital Improvement Program, the Board of Supervisors directed staff to consider raising the $275 million annual bond sale limit. The sales limit was last raised from $200 million to $275 million in FY 2007. Staff has reviewed the debt capacity as it relates to an increase in the bond sales and is recommending an increase in FCPS bond sales from $155 million to

$180 million annually. FCPS has requested an increase of $50 million in bond sales annually; however, recognizing the impact of increased sales to the annual budget, I am recommending an increase of $25 million. The increase of $25 million for FCPS bond sales equates to an increase of approximately $2.5 million annually in debt service and directly competes with all other General Fund operational requirements. As such, I am recommending a total increase in bond sales limits from $275 million to $300 million annually to support FCPS capital requirements, while also considering the affordability of this increase in the annual budget.

2. **Reviewed the County's Debt Capacity**
A review of the County's debt capacity is conducted annually. As previously noted, the FY 2019 – FY 2023 CIP includes a recommendation to increase the annual bond sales limit and continues the adherence to the *Ten Principles of Sound Financial Management* with regards to debt ratios. As of June 30, 2017, the ratio of debt to taxable property value was 1.16 percent, well below the 3 percent limit and the ratio of debt to General Fund disbursements was 7.82 percent, well below the 10 percent limit. These self-imposed limits are designed to maintain a balance between essential operating program expenditures and those for capital needs while preserving the County's AAA credit rating.

The FY 2019 – FY 2023 CIP Bond Referendum Plan is managed and reviewed annually. The Plan maintains a level below the 3 percent market value ratio limit and under the 10 percent ratio limit as depicted below. This chart is based on the percentage of anticipated debt requirements to conservatively forecasted revenues at a 2 percent growth rate.



As previously noted, this analysis is based on an increase in the annual sales amount to $300 million annually, including $180 million per year in sales for FCPS and $120 million in County bond sales during the 5-10 year CIP period. Although the Referendum Plan projects County cash needs exceeding the $300 million limit, staff recognizes that the cash flow analysis is conservative and sales will need to be managed. The increase in total bond sales from $275 million to $300 million annually is recommended to begin in FY 2019. Raising the sales limits will help address the growing FCPS capital requirements.

In addition, staff continues to actively manage existing debt and regularly reviews refunding opportunities. On January 9, 2018, the County conducted a General Obligation bond sale for the Series 2018A bonds. The County achieved an interest rate of 2.66 percent, representing a differential of 0.78 percent under the Bond Buyer Index (BBI), which stood at 3.44 percent on the day of the sale. In preparation of this bond sale, the County requested a bond rating from Standard and Poor's Corporation, Moody's Investors Service, and Fitch Ratings. The County's triple-A bond rating was affirmed by all three agencies.

3. **Developed a stable General Fund Supported Capital Program**
I have proposed an FY 2019 General Fund Supported Capital Program that is slightly lower than the FY 2018 Adopted Budget Plan level of $19,441,876. FY 2019 total funding of $18,462,076 includes an amount of $11,871,476 or 64 percent for commitments, contributions and facility maintenance and $6,590,600 or 36 percent for Paydown projects. The Paydown program has been redesigned, at the request of the Board of Supervisors, to exclude those projects that are on-going maintenance projects or annual contributions. Paydown now includes infrastructure replacement and upgrades, ADA compliance, athletic fields and other capital improvements. The following table provides a summary of both categories within the General Fund Supported Capital Program.

FY 2019 Capital Construction/Paydown Summary*

	Commitments, Contributions and Facility Maintenance	Paydown	Total General Fund Support
Athletic Field Maintenance and Sports Projects	$4,435,338	$1,700,000	$6,135,338
Park Authority Inspections, Maintenance and Infrastructure Upgrades	960,000	1,690,000	2,650,000
Environmental Initiatives	535,000	0	535,000
On-Going Development, Infrastructure Maintenance and Revitalization	1,560,000	0	1,560,000
Payments and Contributions	4,381,138	0	4,381,138
County Infrastructure Replacement and Upgrades	0	1,700,600	1,700,600
Reinvestment, Repair, and Emergency Maintenance of County Roads and Walkways	0	1,300,000	1,300,000
Developer Default Improvements	0	200,000	200,000
Total General Fund Support	**$11,871,476**	**$6,590,600**	**$18,462,076**

* Reflects General Fund support only. Other funding sources such as dedicated revenue and bond funding are not included in these totals.

The FY 2019 General Fund Capital Program represents a slight decrease of $979,800 based on a shift of operational expenses from the Capital Program to the General Fund operational budget. This shift is associated with operational expenses related to the management of the Laurel Hill and Workhouse Arts Foundation properties. Funding for capital improvements and other property management expenses had previously been funded in capital project funds. In recent years, funding has supported staffing and maintenance in the Park Authority and Facilities Management Department, and funding no longer supports capital improvements projects. There is no net impact to the General Fund.

4. **Reviewed Progress on the Use of the Capital Sinking Funds**

In April 2013, the County and School Board formed a joint committee, the Infrastructure Financing Committee (IFC), to collaborate and review both the County and School's Capital Improvement Program (CIP) and infrastructure upgrade requirements. One of the goals of the Committee was to develop long-term maintenance plans for both the County and Schools, including annual requirements and reserves. The committee conducted a comprehensive review of critical needs and approved recommendations to support the development of a sustainable financing plan to begin to address current and future capital requirements. A Final Report was developed and approved by the Board of Supervisors on March 25, 2014, and the School Board on April 10, 2014. One of the recommendations contained in the Final Report was the establishment of a capital sinking fund. The Capital Sinking Fund was first funded as part of the *FY 2014 Carryover Review.* Since then, the Board of Supervisors has approved funding annually at each Carryover Review. In addition, a formula for the allocation of dollars was approved by the Board as part of the *FY 2016 Third Quarter Review* and was based on the percent of each program area as it related to the total requirement presented to the IFC. The approved breakdown is as follows: 55 percent for FMD, 20 percent for Parks, 10 percent for Walkways, 10 percent for County-owned Roads and 5 percent for revitalization. A total of $26,767,431 to date has been dedicated to capital sinking funds and allocated for infrastructure replacement and upgrades in the following areas:

FMD	$14,722,086
Parks	5,353,485
Walkways	2,676,744
Roads	2,676,744
Revitalization	1,338,372
Total to Date	$26,767,431

On December 13, 2017, the Board of Supervisors was provided with a Status Report on the specific uses of the Capital Sinking Fund to date, including "before" and "after" pictures showing significant capital project reinvestment. The Capital Sinking Fund allocations have enabled agencies to continue much of the important replacement and upgrade work required at facilities throughout the County. Each program area is currently working on prioritizing the next set of projects for reinvestment based on the additional funds provided as part of the *FY 2017 Carryover Review*. Future status updates regarding the use of additional sinking funds will be provided to the Board of Supervisors periodically.

5. **Reviewed the 5-year Stormwater Service District Spending Plan**

In FY 2019, the stormwater service rate is recommended to increase from $0.0300 to $0.0325 per $100 of assessed real estate value. In FY 2015, the Board of Supervisors endorsed a Stormwater Program 5-year plan which included a rate increase of ¼ penny per year to address regulatory requirements. The FY 2019 rate is consistent with the 5-year plan and represents the final year of the plan. During the next year, staff will be evaluating the success of the program, analyzing future stormwater rate requirements and developing the next 5-10 year Stormwater plan. It is anticipated that the next multi-year plan will continue to include ¼ cent increases per year until such time as the rate reaches the target level of 4 cents.

The 5-year spending plan includes approximately $225 million in required projects and operational support. This increase will support a number of goals. First, it will provide for constructing and operating stormwater management facilities, including stream restorations, new and retrofitted ponds, and installation of Low Impact Development (LID) techniques, required to comply with the federally mandated Chesapeake Bay Program. Second, the increase will aid in the planning, construction, and operation of stormwater management facilities required to comply with state established local stream standards. Third, the increase will support the federally mandated inspecting, mapping, monitoring, maintaining, and retrofitting of existing stormwater facilities. Fourth, the increase will aid in collecting stormwater data and reporting the findings; providing community outreach and education, supporting new training programs; and developing new Total Maximum Daily Loads (TMDL) Action Plans for impaired streams related to the MS4 Permit requirements. Fifth, the increase will improve dam safety by supporting annual inspections of 20 state-regulated dams in the County and by developing Emergency Action Plans required by the state. Finally, the increase will facilitate maintaining, rehabilitating, and reinvesting in the County's conveyance system. Staff will continue to review the 5-year Stormwater spending plan on an annual basis.

6. **Developed a Countywide Infrastructure Replacement and Upgrades Component of the CIP**
   As requested by the Planning Commission and the Board of Supervisors, during their deliberations on the FY 2018 CIP, staff has developed a new CIP section which provides a compilation of the Infrastructure Replacement and Upgrade requirements associated with various program areas. Infrastructure Replacement and Upgrades is the planned replacement of building subsystems such as roofs, electrical systems, HVAC systems and plumbing systems that have reached the end of their useful life. As the County infrastructure ages, more frequent replacement and upgrades are required. Fairfax County's inventory of infrastructure includes not only government buildings and schools, but housing units, miles of walkways and sewer pipe and many facilities such as residential facilities and fire stations that operate 24/7, 365 days per year. Infrastructure replacement and upgrades are prioritized based on life safety concerns, repair history and availability of replacement parts. It is anticipated that this new section will evolve over time as County and School staff work to identify requirements, refine estimates and conduct facility assessments.

7. **Identified Future CIP Efforts and Challenges**
   In the next year, County and FCPS staff will continue to work together to coordinate capital improvement projects and identify opportunities for shared space/multi-use facilities. This year's CIP includes a list of both School and County projects in the 5-10 year period that have potential shared-used opportunities. This list was previously provided to both the Board of Supervisors and the School Board in fall 2017, but has been updated to reflect the latest information. In addition, staff is working to strengthen strategic planning efforts as they relate to the CIP. Over the next several years, these strategic efforts will be discussed as they relate to the long-term capital needs. In addition, staff continues to monitor information regarding the construction market and its effect on project costs of both current and future projects within the CIP.

Conclusion

I believe the County's proposed FY 2019 – FY 2023 CIP reflects a program which provides specific project planning and a clear financing plan. Although this plan requires annual evaluation, it does provide a specific facility roadmap for the future.

Respectfully submitted,

Bryan J. Hill
County Executive