

Long-Term Financial Policies and Tools

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

Fairfax County is proud to have been named “one of the best-managed jurisdictions in America” by *Governing* magazine and the Government Performance Project (GPP) during their last evaluation of counties in 2001. The GPP conducted a comprehensive study evaluating the management practices of 40 counties across the country and Fairfax County received an overall grade of “A-,” one of only two jurisdictions to receive this highest grade. For the past 33 years, Fairfax County has earned the Government Finance Officer’s (GFOA) Distinguished Budget Presentation Award. Fairfax County also received accolades from GFOA for “Special Performance Measures Recognition” in fiscal years 2004, 2005, 2007, 2008 and 2009. Fairfax County has been nationally recognized as a leader in performance measurement, garnering awards such as the International City and County Management Association’s (ICMA) Center for Performance Measurement Certificate of Distinction for each fiscal year from 2004 through 2016. In addition, the County received ICMA’s Certificate of Excellence, its newest and highest level of recognition for excellence in performance measurement from 2009 through 2017.



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

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

Ten Principles of Sound Financial Management

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

From time to time the Board of Supervisors amends the *Ten Principles* in order to address changing economic conditions and management practices. In FY 2016 as a response to concerns from the bond rating agencies, the Board committed to increasing the County's reserve policies to strengthen the County's financial position. As a result, the Managed Reserve target increased from 2 to 4 percent of General Fund Disbursements and the Revenue Stabilization Reserve target increased from 3 to 5 percent of General Fund Disbursements. In addition, a new Economic Opportunity Reserve will be established at 1 percent of

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General Fund Disbursements (revising the total for these primary reserves from 5 to 10 percent), as well as funding other replacement reserves. As a result, the County reserve policy will be more in-line with other triple-A jurisdictions. Funding of this increase began immediately; however, it will take several years to fully fund the new target level.

In FY 2008, the Board authorized the use of variable rate debt. Variable rate obligations are debt obligations that are frequently used for short-term or interim debt financing and have an interest rate that is reset periodically, usually for periods of less than one year. Variable rate debt is typically used to take advantage of low short-term rates in anticipation of converting to longer-term fixed rate financing for complex projects or to mitigate the impact of volatile markets. In May 2006, reflecting changes in the economy and the market place, annual bond sale limits were increased from \$200 million to \$275 million per year.

For the FY 2019 Advertised Budget Plan, the County has assumed an additional \$25 million in general obligation bonds for the Fairfax County Public Schools, thereby increasing their annual total from \$155 million to \$180 million. This bond sale is targeted for January 2019 with the debt service beginning in FY 2020. It is anticipated that discussions on this increase will occur with the Board of Supervisors as part of budget committee meetings in spring 2018. Also, any proposed changes would require revisions to current annual bond sale limits and the *Ten Principles of Sound Financial Management*, and a review of the debt ratio impact with respect to capacity and affordability.

In addition to the more traditional methods of long-term financing through General Obligation Bonds, the County has been able to accomplish major capital improvements through the use of alternative financing while maintaining the County's fiscal integrity as required by the *Ten Principles*. Accomplishments such as Metrorail station parking garages, construction of Route 28, the opening of a commuter rail and construction of government facilities have all been attained in addition to a robust bond construction program. In 2003, the County was able to accelerate the construction of a new high school by three years through the creative use of revenue bonds in connection with the joint development of a senior care facility and a golf course. From 1999 through 2017, the County has approved \$4.56 billion of new debt via referendum, with \$2.94 billion for Schools and \$1.62 billion for the County.

Since 1975, the savings associated with the County's "triple-A" bond rating is estimated at \$532.87 million. Including savings of \$283.04 million from the various refunding sales, the total benefit to the County equates to \$815.91 million. Also, implementation of a Master Lease program and judicious use of short-term lease purchases for computer equipment, copier equipment, school buses and energy efficient equipment have permitted the County and Schools to maximize available technology while maintaining budgetary efficiency.

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The *Ten Principles* full text is as follows:

Ten Principles of Sound Financial Management

April 21, 2015

1. **Planning Policy.** The planning system in the County will continue as a dynamic process, which is synchronized with the capital improvement program, capital budget and operating budget. The County's land use plans shall not be allowed to become static. There will continue to be periodic reviews of the plans at least every five years. Small area plans shall not be modified without consideration of contiguous plans. The Capital Improvement Program will be structured to implement plans for new and expanded capital facilities as contained in the County's Comprehensive Plan and other facility plans. The Capital Improvement Program will also include support for periodic reinvestment in aging capital and technology infrastructure sufficient to ensure no loss of service and continued safety of operation.
2. **Annual Budget Plans.** Annual budgets shall continue to show fiscal restraint. Annual budgets will be balanced between projected total funds available and total disbursements including established reserves.
 - a. Managed Reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than four percent of total General Fund disbursements in any given fiscal year.
 - b. A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. This Fund shall be maintained at five percent of total General Fund disbursements in any given fiscal year. Use of the RSF should only occur in times of severe economic stress. Accordingly, a withdrawal from the RSF will not be made unless the projected revenues reflect a decrease of more than 1.5 percent from the current year estimate and any such withdrawal may not exceed one half of the RSF fund balance in that year. A drawdown of this Fund should be accompanied with expenditure reductions.
 - c. An Economic Opportunity Reserve shall be established in addition to the Managed Reserve and the Revenue Stabilization Fund. This reserve is meant to stimulate economic growth and will provide for strategic investment opportunities that are identified as priorities by the Board of Supervisors. When fully funded, this reserve will equal one percent of total General Fund disbursements in any given fiscal year. Funding for this reserve would only occur after the Managed Reserve and the Revenue Stabilization Fund are fully funded at their new levels of four percent and five percent, respectively. Criteria for funding, utilization, and replenishment of the reserve will be developed and presented to the Board of Supervisors for approval. The criteria for use will include financial modeling analysis (e.g. cost-benefit, etc.) to determine the fiscal impact to the County of the proposed investment opportunity and will require approval from the Board of Supervisors for any use.
 - d. Budgetary adjustments which propose to use available general funds identified at quarterly reviews should be minimized to address only critical issues. The use of non-recurring funds should only be directed to capital expenditures to the extent possible.
 - e. The budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property in order to minimize disruption of budgetary planning from irregularly scheduled monetary demands.
3. **Cash Balances.** It is imperative that positive cash balances exist in the General Fund at the end of each fiscal year. If an operating deficit appears to be forthcoming in the current fiscal year wherein total disbursements will exceed the total funds available, the Board will take appropriate action to balance revenues and expenditures as necessary so as to end each fiscal year with a positive cash balance.

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4. **Debt Ratios.** The County's debt ratios shall be maintained at the following levels:
 - a. Net debt as a percentage of estimated market value shall be less than 3 percent.
 - b. Debt service expenditures as a percentage of General Fund disbursements shall not exceed 10 percent. The County will continue to emphasize pay-as-you-go capital financing. Financing capital projects from current revenues is indicative of the County's intent to use purposeful restraint in incurring long-term debt.
 - c. For planning purposes annual bond sales shall be structured such that the County's debt burden shall not exceed the 3 and 10 percent limits. To that end sales of General Obligation Bonds and general obligation supported debt will be managed so as not to exceed a target of \$275 million per year, or \$1.375 billion over five years, with a technical limit of \$300 million in any given year. Excluded from this cap are refunding bonds, revenue bonds or other non-General Fund supported debt.
 - d. For purposes of this principle, debt of the General Fund incurred subject to annual appropriation shall be treated on a par with general obligation debt and included in the calculation of debt ratio limits. Excluded from the cap are leases secured by equipment, operating leases, and capital leases with no net impact to the General Fund.
 - e. Use of variable rate debt is authorized in order to increase the County's financial flexibility, provide opportunities for interest rate savings, and help the County manage its balance sheet through better matching of assets and liabilities. Debt policies shall stipulate that variable rate debt is appropriate to use when it achieves a specific objective consistent with the County's overall financial strategies; however, the County must determine if the use of any such debt is appropriate and warranted given the potential benefit, risks, and objectives of the County. The County will not use variable rate debt solely for the purpose of earning arbitrage pending the disbursement of bond proceeds.
 - f. For purposes of this principle, payments for equipment or other business property, except real estate, purchased through long-term lease-purchase payment plans secured by the equipment will be considered to be operating expenses of the County. Annual General Fund payments for such leases shall not exceed 3 percent of the annual General Fund disbursements, net of the School transfer. Annual equipment lease-purchase payments by the Schools and other governmental entities of the County should not exceed 3 percent of their respective disbursements.
5. **Cash Management.** The County's cash management policies shall reflect a primary focus of ensuring the safety of public assets while maintaining needed liquidity and achieving a favorable return on investment. These policies have been certified by external professional review as fully conforming to the recognized best practices in the industry. As an essential element of a sound and professional financial management process, the policies and practices of this system shall receive the continued support of all County agencies and component units.
6. **Internal Controls.** A comprehensive system of financial internal controls shall be maintained in order to protect the County's assets and sustain the integrity of the County's financial systems. Managers at all levels shall be responsible for implementing sound controls and for regularly monitoring and measuring their effectiveness.
7. **Performance Measurement.** To ensure Fairfax County remains a high performing organization all efforts shall be made to improve the productivity of the County's programs and its employees through performance measurement. The County is committed to continuous improvement of productivity and service through analysis and measurement of actual performance objectives and customer feedback.
8. **Reducing Duplication.** A continuing effort shall be made to reduce duplicative functions within the County government and its autonomous and semi-autonomous agencies, particularly those that receive

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appropriations from the General Fund. To that end, business process redesign and reorganization will be encouraged whenever increased efficiency or effectiveness can be demonstrated.

9. **Underlying Debt and Moral Obligations.** The proliferation of debt related to but not directly supported by the County's General Fund shall be closely monitored and controlled to the extent possible, including revenue bonds of agencies supported by the General Fund, the use of the County's moral obligation and underlying debt.
 - a. A moral obligation exists when the Board of Supervisors has made a commitment to support the debt of another jurisdiction to prevent a potential default, and the County is not otherwise responsible or obligated to pay the annual debt service. The County's moral obligation will be authorized only under the most controlled circumstances and secured by extremely tight covenants to protect the credit of the County. The County's moral obligation shall only be used to enhance the credit worthiness of an agency of the County or regional partnership for an essential project, and only after the most stringent safeguards have been employed to reduce the risk and protect the financial integrity of the County.
 - b. Underlying debt includes tax supported debt issued by towns or districts in the County, which debt is not an obligation of the County, but nevertheless adds to the debt burden of the taxpayers within those jurisdictions in the County. The issuance of underlying debt, insofar as it is under the control of the Board of Supervisors, will be carefully analyzed for fiscal soundness, the additional burden placed on taxpayers and the potential risk to the General Fund for any explicit or implicit moral obligation.
10. **Diversified Economy.** Fairfax County must continue to diversify its economic base by encouraging commercial and, in particular, industrial employment and associated revenues. Such business and industry must be in accord with the plans and ordinances of the County.

Through the application of the *Ten Principles*, careful fiscal planning and sound financial management, Fairfax County has achieved a "triple A" bond rating from the three leading rating agencies. The County has held a Aaa rating from Moody's Investors Service since 1975, a AAA rating from Standard and Poor's Corporation since 1978, and a AAA rating from Fitch Investors Services since 1997. As of January 2018, Fairfax County is 1 of only 46 counties in the country with "triple A" bond ratings from all three rating agencies.

As of January, 2018 only a limited number of jurisdictions, including Fairfax County, have received a "triple A" bond rating from Moody's Investors Service, Standard and Poor's Corporation, and Fitch Investors Services:

- only 46 of the nation's 3,069 counties
- only 12 of the nation's 50 states
- only 32 of the nation's 35,000+ cities and towns

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Long-Term Financial Policies

The following is a description of the primary financial policies that are used to manage the County's resources and contribute to its outstanding fiscal condition.

Budget Guidance

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

Budget Guidance for FY 2018 and FY 2019

At a regular meeting of the Board of Supervisors of Fairfax County, Virginia, held in the Board Auditorium of the Fairfax County Government Center on Tuesday, April 25, 2017, the Board approved the following Budget Guidance for FY 2018 and FY 2019:

Schools Operating Support and Board of Supervisors/School Board Collaboration

With limited projected revenue growth and an estimated budgetary shortfall of over \$95 million in FY 2019, next year is shaping up to be another difficult budget year. The approach taken in the development of the FY 2018 budget was to focus on the needs of both the County and the Schools through continued collaboration between the two Boards and to provide equitable increases consistent with available resources. This approach should be continued in the formation of the FY 2019 budget. As in FY 2018, it is likely that many important priorities on both sides will not be able to be funded next year. However, it is important that work continue through the Joint Budget Development Workgroup and the Boards continue to hold more frequent discussions on budget issues, utilizing the joint budget development timeline presented to the Boards in February. For example, at the upcoming Public Safety Committee meeting in June, the Boards will have an opportunity to discuss the impact of gang violence in our community. As part of this discussion, the Board of Supervisors should consider funding a reserve for gang prevention using balances available at the *FY 2017 Carryover Review*. The Boards, as well as staff from both the County and Schools, should also continue collaborative work regarding shared services, joint capital initiatives (and their impact on the Capital Improvement Program), early childhood development, the opioid use epidemic, and possible additional cost saving and space efficiency opportunities in the School-Age Child Care (SACC) program. This work includes the efforts of SCYPT (Successful Children and Youth Policy Team). These discussions, as well as the presentation of updated revenue projections and forecasts in the fall, should help shape the joint list of County priorities and provide for a more well-informed backdrop as FY 2019 budget decisions are made.

Employee Pay

Based on funding for performance, merit, and longevity increases included in the FY 2018 budget, almost 80 percent of employees will receive a pay adjustment in the coming fiscal year. Due to constrained resources, however, the Market Rate Adjustment (MRA) could not be funded. The Board appreciates the hard work and dedication of all of our County employees and is concerned about the competitiveness of the County's pay scales, which the MRA is designed to maintain. As part of the development of the FY 2019 Advertised budget, the County Executive is directed to prioritize employee pay in the context of impacts on employees and the market position of County pay scales.

Employee Pensions

In FY 2012, the County conducted a comprehensive study of the County's three retirement systems and implemented benefit changes for new employees hired on or after January 1, 2013. As part of the FY 2016 Adopted Budget Plan, the Board of Supervisors adopted a multi-year strategy to increase contributions to the systems and to manage liability growth. Although these steps have been vital in strengthening the financial position of the retirement plans, it is important that we continue to examine our plans in light of changes in the Virginia Retirement System (VRS) and other local plans, a challenging investment environment, and evolving employee and retiree demographics.

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As part of the Lines of Business (LOBs) exercise, the Board received a presentation on employee pay and benefits, including retirement. Subsequent to that presentation, a thorough reexamination of the County's systems was requested as a LOBs Phase 2 project, directing staff to return to the Board with detailed information on hiring and retirement trends, the VRS mandate, and benefit levels. As part of this review, the Board will examine plan provisions and benefits such as the minimum retirement age, Rule of 85, and pre-Social Security supplement. A review of the County's DROP (Deferred Retirement Option Plan) will also be included in the analysis, including such items as the program's utilization and effect on succession planning and the guaranteed interest rate given recent market conditions. The Board commits that any adjustments will apply only to new hires, except in the case of possible adjustments related to DROP.

The first discussion is expected to take place at an upcoming Personnel Committee meeting in June. Additional discussions should take place so that the Board's review can be completed in time to make recommendations for inclusion in the FY 2019 Advertised Budget. Feedback from staff, employee groups, and residents will be considered as part of the Board's deliberations.

Length of Service Award Program for Volunteer Firefighters

The Board of Supervisors is grateful for the support that the County receives from its volunteer firefighters, both in terms of funding and, most especially, the commitment of time from residents in our community. Ensuring that we maintain an appropriate volunteer force to augment our career firefighters is important to providing adequate coverage across the County. Through the use of grant funding, the Fairfax County Volunteer Fire and Rescue Association began funding a Length of Service Award Program (LOSAP) in 2014, providing a defined benefit pension plan to eligible volunteer firefighters. As part of the FY 2019 budget development, staff is directed to work with the Fire and Rescue Department and the Volunteer Association to determine how the County can assist in continuing the LOSAP program to help recruit and retain qualified volunteer firefighters. This work should include an analysis of the funding needs of the LOSAP program, investment options, and oversight structure, especially if County funds are required.

Uniformed Police Pay and Staffing

Based on Board guidance for FY 2016 and FY 2017, a comprehensive consultant analysis of the rank, organizational, and pay structure for the Police Department and Office of the Sheriff was completed last fall. Based on the scale of the overall study and estimated costs, recommendations resulting from the study were expected to be implemented in stages over multiple years. In line with study recommendations, additional Police positions were included in the FY 2018 budget, with more expected to be included in future budgets, to decrease the span of control for supervisory positions. For recommendations involving Police employee pay, the FY 2018 budget includes funding to standardize the uniformed Police (O-Scale) pay plan but defers funding related to increasing pay grades of specific job classes based on budgetary limitations. It is important that we continue to implement the recommendations resulting from the analysis, particularly in regards to employee pay, to ensure that pay remains competitive in the region and the County continues to be able to recruit and retain highly skilled Police Officers. As part of the FY 2019 Advertised Budget Plan, the County Executive is directed to utilize updated market data to determine the appropriate pay grades for Police positions and to include the necessary funding to continue implementation of the study's recommendations.

Recommendations of the Ad-Hoc Commission on Police Use of Force

The recommendations of the Ad-Hoc Commission on Police Use of Force recommended a number of items with significant financial costs, which have been endorsed by the Board of Supervisors. The Board was unable to fund most of the costs of these recommendations in the FY 2018 budget and, under current budget projections, will have significant difficulty funding all of these recommendations in the near future. Therefore, staff is directed to develop for the Board a five-year, fiscally-constrained plan for the implementation of the most important and beneficial recommendations of the Ad-Hoc Commission and to brief the Board on this revised plan by the end of the calendar year.

Fire and Rescue Compensation and Organization Study

Consistent with the comprehensive study recently conducted to review the rank, organizational, and pay structure of the Police Department and Office of the Sheriff, funding is included in the *FY 2017 Third Quarter Review* to conduct

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a similar study for the Fire and Rescue Department. This analysis should be completed by the fall to allow recommendations to be included in the County Executive's FY 2019 Advertised Budget Plan.

Public Safety Staffing Plan

In 2014, County staff developed the Five-Year Public Safety Staffing Plan. Since its adoption by the Board of Supervisors, limited funding has been available to meet the priorities as originally identified. Since 2014 staff has had the opportunity to review the plan in light of evolving circumstances, and is better able to prioritize programs and estimate costs. Therefore, staff is directed to develop a revised five-year, fiscally-constrained public safety staffing plan that is realistic in light of current budget projections and meets the most pressing public safety needs of the County, including a plan to fully staff the new South County Police Station by 2021.

Pre-Notification 9-1-1

The procurement and implementation of a pre-notification 9-1-1 data repository would allow residents to voluntarily log personal details into the 9-1-1 system prior to an emergency incident. These details would then be immediately available to first responders if and when a call is received from a registered phone number. Data such as any mental or physical limitations, required medications, and/or identifying characteristics of family members are among the numerous types of information that could be registered through a system of this nature. Staff is directed to continue to explore options related to this functionality as it relates to the next generation 9-1-1 system and opportunities for regional cooperation in procuring and implementing such a system. Staff should report back to the Board of Supervisors at a future Public Safety Committee meeting as new information becomes available.

Diversion First

Diversion First is a key priority of the Board of Supervisors. However, given current revenue projections and competing priorities, it may be difficult for the Board to fund this program at the pace originally envisioned. As the program has developed staff is learning more about costs and priorities and is better able to estimate costs now than when the program originated. Therefore, staff is directed to develop a five-year, fiscally-constrained implementation plan for Diversion First that continues significant forward progress, while operating within realistic fiscal goals. Staff is directed to present this revised implementation plan to the Board of Supervisors by the end of this calendar year, so it may be included in the FY 2019 budget.

Employment and Day Services for Individuals with Developmental Disabilities

During FY 2017, the Board directed the Fairfax-Falls Church Community Services Board (CSB) to analyze the resource and service impacts of the various Employment and Day Services options for individuals with Intellectual and Developmental Disabilities and return to the Health, Housing, and Human Services (HS) Committee with a recommendation creating an equitable and sustainable service model. Staff continues to evaluate the model presented at the February 21, 2017 HS Committee meeting in the context of experience to date and is directed to return to the Board with an update by the end of September 2017 so that the Board can provide direction on how to proceed with service delivery in FY 2019 to accommodate advance planning for June 2018 graduates and others in the community who come forward for service. The evaluation and implementation process should include continued collaboration and consultation with service providers, advocacy groups, and impacted residents. Additionally, the County Executive is directed to fully fund Employment and Day Services in the FY 2019 Advertised Budget consistent with the direction to be provided by the Board in the fall.

Tax Relief for Surviving Spouses of First Responders Killed in the Line of Duty

In November, Virginia voters approved a constitutional amendment which allows localities the option to grant real estate tax relief for surviving spouses of first responders killed in the line of duty. While it is difficult to estimate the potential revenue loss from implementing this change, it is important that we recognize the potential financial difficulties suffered by those who lose a loved one in the course of protecting the community overall. Therefore, staff is directed to pursue implementation, developing a proposal for the Board's approval, making the necessary system changes, and working to identify qualified residents in time for an effective implementation date of January 1, 2018. The estimated revenue impact should be included in the FY 2019 Advertised Budget Plan.

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Inova Translational Medicine Institute

In FY 2015, the County entered into a partnership with Inova to support the Inova Translational Medicine Institute, providing \$500,000 annually to advance research in the application of genomics in personalized health care. The Board believes that this investment will generate significant returns on investment both in terms of economic development in the County and improved health outcomes for our residents and others. In order to ensure accountability and transparency of the use of County funding, staff is directed to continue to work with Inova to schedule an annual presentation before the Economic Advisory Commission to update the Board on the work being supported by County dollars, progress made in the Institute's research programs, and the economic benefit of that work.

Visit Fairfax

The Board will be meeting with the Board of Visit Fairfax this fall. The tourism industry presents a significant opportunity for expanding a sector of the Fairfax County economy that is not dependent on the federal government. Tourism growth is an important component of the County's Economic Success Plan. Opportunities for enhancing our tourism industry may require changes in state legislation and additional local funding, perhaps through means other than the General Fund. Staff is directed to work with the staff of Visit Fairfax to present the Board of Supervisors with options for growing our tourism industry.

Opioid Use Epidemic

As staff has reported previously to the Board, there are several efforts underway to combat the opioid epidemic including national, state, regional, and local initiatives. The summary included in the recent Budget Q&A indicated that due to the dynamic nature of the situation and ongoing efforts, these efforts would be subject to change. The Board directs that staff continue to provide ongoing updates of the work being done and any changes in the impact that the epidemic is having on the community. Staff is also directed, consistent with the recommendation of the Human Services Council, to continue to work with our national, state, and regional partners on strategies to combat the epidemic and to identify funding needs that the Board should consider during FY 2018 as these updates and recommendations are provided. The Board will also consider a reserve at the *FY 2017 Carryover Review* to provide flexibility for these potential requirements.

Human Service System Resources

The needs assessment developed for the Human Service System last year is a roadmap for the system in the coming years. Using this roadmap the Board directs that staff and the Human Services Council identify priority funding needs over the next five years. The plan should recognize that the County will be fiscally constrained during this period. The plan should also take into account the priorities already established by the Board and the Human Service System. At the same time the plan should be flexible enough to respond to changing priorities, the impact of changes in programming and County demographics, and shifts in federal funding.

Metro

The level of ongoing commitment to funding Metro will be a significant policy discussion in future years. Historically, the County has relied on modest General Fund support, state aid and gas tax receipts, and General Obligation bonds to meet our share of operating and capital expenses for WMATA (Washington Metropolitan Area Transit Authority). State aid and gas tax represent the County's share of these revenues held on behalf of the County by the Northern Virginia Transportation Commission (NVTC). It is anticipated that FY 2019 and future years will require significant increases in County contributions which are not sustainable within existing revenue resources. The County's growing and future transportation needs to support our economic growth will only be met by a safe and reliable Metro system. Given the urgency of Metro funding and need for reforms, staff is directed to continue to monitor this situation, participate in regional discussions on funding options to include federal and state commitments to Metro funding, and brief the Board as necessary at upcoming Budget Committee and Transportation Committee meetings on the options available for future year funding decisions.

Federal Budget Issues

The potential impact of the federal budget on the County is significant both in terms of the next round of sequestration that is looming in the fall and on long term changes proposed to programs ranging from the environment to human services. The local economy is also going to be affected as federal employees are eliminated

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and funding for federal contractors is reduced. The County does not have the ability to replace federal funding given the size and scope of the impacts. Staff is therefore directed to monitor the federal budget as it progresses through the process to ensure that the Board has a complete understanding of the impacts. The County strategy as it relates to lobbying Congress as well as to developing contingency plans for the reductions of the highest priority to the County can then be discussed by the Board. The Department of Housing and Community Development has already begun providing updates and other departments are directed to do the same as appropriate. Staff should recommend putting in place reserves as part of the *FY 2017 Carryover Review* based on the information available at that time and based on the successful use of reserves when we were last faced with sequestration.

I now move the Budget Guidance that I just reviewed which will help direct the FY 2019 Budget process.

A Copy Teste:



Catherine A. Chianese,

Clerk to the Board of Supervisors

Reserve Policies

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

- Annual budgets be balanced between projected total funds available and total disbursements including funding for established reserves;
- It is imperative that positive cash balances exist in the General Fund at the end of each fiscal year; and
- If an operating deficit appears to be forthcoming in the current fiscal year wherein total disbursements will exceed the total funds available, the Board will take appropriate action to balance revenues and expenditures as necessary so as to end each fiscal year with a positive cash balance.

In FY 2016, the Board of Supervisors updated the *Ten Principles of Sound Financial Management* to increase the County's overall reserve target from 5 percent to 10 percent of General Fund Disbursements. Since the reserve targets were adjusted, the County has made significant progress in increasing reserve funding. As of the FY 2019 Advertised Budget Plan, total reserve funding is estimated at 8.19 percent of General Fund Disbursements. Additional allocations to reach the 10 percent target will be made through a combination of annual appropriations, by applying one-time resources such as bond refunding, and setting aside 40 percent of year-end balances after funding critical requirements.

There are three primary General Fund reserves:

Managed Reserve

- Policy target of 4 percent of General Fund Disbursements.
- Per the FY 2019 Advertised Budget Plan, funding equates to 3.19 percent or \$136.65 million.
- From the *Ten Principles*: A Managed Reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than four percent of total General Fund disbursements in any given fiscal year.

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Revenue Stabilization Fund

- Policy of 5 percent of General Fund Disbursements.
- Per the FY 2019 Advertised Budget Plan, funding is expected to reach the target of 5.00 percent or \$214.41 million.
- From the *Ten Principles*: A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. This Fund shall be maintained at five percent of total General Fund disbursements in any given fiscal year. Use of the RSF should only occur in times of severe economic stress. Accordingly, a withdrawal from the RSF will not be made unless the projected revenues reflect a decrease of more than 1.5 percent from the current year estimate and any such withdrawal may not exceed one half of the RSF fund balance in that year. A drawdown of this Fund should be accompanied with expenditure reductions.

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

Economic Opportunity Reserve

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

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

Replacement Reserve Policies: The Board of Supervisors has repeatedly reaffirmed the policy that the County budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property 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,

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mileage and condition criteria have been met. General Fund monies are 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.

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 a subsequent quarterly review. An additional reserve is also currently identified by County policy for catastrophic loss above and beyond the identified accrued liability. Beginning in FY 2008, the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits. This standard addresses how local governments should account for and report their costs related to post-employment health care 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.

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: 69000, Sewer Revenue; 69030, Sewer Bond Debt Reserve; and 69040, 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 consistent with the policy that positive cash balances are available at year end.

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

Third Quarter/Carryover Reviews

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

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

Cash Management/Investments

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

The County maintains cash and temporary investments in several investment portfolios. A general investment portfolio holds investments purchased by the County for the pooled cash and General Obligation Bond funds. Investments for this portfolio are held by a third-party custodian. Other portfolios are managed to meet the specific needs of County entities, such as, the Fairfax County Economic Development Authority Parking Revenue Bond (the Vienna Metrorail Parking Garage Project), Sewer Revenue Bonds, Fairfax County Redevelopment and Housing Authority Bonds. Investments for all portfolios are held by a third-party custodian.

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

Debt Management/Capital Improvement Planning

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

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Debt Service Requirements as a Percentage of Combined General Fund Disbursements

<u>Fiscal Year Ending</u>	<u>Debt Service Requirements¹</u>	<u>General Fund Disbursements²</u>	<u>Percentage</u>
2015	313,968,578	3,729,624,836	8.42%
2016	323,859,385	3,860,655,340	8.39%
2017	313,389,406	4,005,844,810	7.82%
2018 (est.)	360,022,005	4,199,144,574	8.57%
2019 (est.)	364,552,763	4,288,101,414	8.50%

¹ The amount includes total principal and interest payments on the County's outstanding tax supported debt obligations, including General Obligation Bonds, economic development authority bonds, and other tax supported debt obligations budgeted in other funds. Source: FY 2015 to FY 2017 Comprehensive Annual Financial Report; FY 2018 and FY 2019 Fairfax County Department of Management and Budget.

² Source: Fairfax County Department of Management and Budget.

Net Debt as a Percentage of Market Value of Taxable Property

<u>Fiscal Year Ending</u>	<u>Net Bonded Indebtedness¹</u>	<u>Estimated Market Value²</u>	<u>Percentage</u>
2015	2,863,139,000	233,351,721,357	1.23%
2016	2,875,166,000	241,306,896,262	1.19%
2017	2,895,516,000	248,802,572,781	1.16%
2018 (est.)	2,916,652,000	253,634,562,936	1.15%
2019 (est.)	2,990,672,000	262,013,605,895	1.14%

¹ The amount includes outstanding General Obligation Bonds and other tax supported debt obligations as of June 30 in the year shown and is from the Fairfax County Department of Management and Budget. Source: FY 2015 to FY 2017 Comprehensive Annual Financial Report and Fairfax County Department of Tax Administration; FY 2018 and FY 2019 Fairfax County Department of Management and Budget and Department of Tax Administration.

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

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

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

It is County policy to balance the need for public facilities, as expressed by the countywide land use plan, with the fiscal capacity of the County to provide for those needs. The five-year Capital Improvement Program (CIP), submitted annually to the Board of Supervisors, is the vehicle through which the stated need for public facilities is analyzed against the County's ability to stay within its self-imposed debt

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guidelines as articulated in the *Ten Principles*. The CIP is supported largely through long-term borrowing that is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.

Pay-as-you-go Financing

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

Risk Management

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

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

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

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

Pension Plans

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

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At the end of FY 2001, the funding ratios for the County's three retirement systems ranged from 97 percent to 102 percent. In FY 2002, the Board of Supervisors adopted a corridor approach to employer contributions, which was designed by the County's actuaries to set annual contributions at the level necessary to maintain strong funding ratios in each of the plans while reducing the volatility in the employer contribution rates that is typical for plans that are near fully-funded. 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. If the funding ratio falls below 90 percent, the unfunded actuarial accrued liability below 90 percent is amortized over a conservative 15-year period, and this amount is included in the annual employer contribution for each fund.

The corridor approach cushioned the County from dramatic rate adjustments for several years. However, the global financial crisis during FY 2009 resulted in significant losses in the value of the invested assets of all three retirement systems. Because only 90 percent of the unfunded liability is amortized and included in the employer contribution under the corridor approach, the funding ratios have improved, but at a slower pace than desired. As a result, the County has taken multiple steps to improve the financial position of the retirement systems. These steps include increasing contribution levels and limiting increases in liabilities:

- In FY 2010, the requirements regarding the award of ad-hoc Cost-of-Living Adjustments (COLAs) were tightened. Retirees are eligible to receive an annual base COLA which is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year's March 31, or 4.0 percent. If certain conditions are met, an additional 1.0 percent ad-hoc COLA can be awarded at the discretion of each retirement system's Board of Trustees. This additional ad-hoc COLA is considered a benefit enhancement and results in an increase in the employer contribution rate. Staff reviewed the ad-hoc COLA policy at the Board of Supervisors' direction in FY 2010, and it was determined that the financial conditions that must be met in order for a Board of Trustees to consider granting an ad-hoc COLA should be strengthened, especially since the granting of such a COLA impacts the employer contribution rates and, thus, requires County funding. As a result, the Fairfax County Code was changed to require that the retirement system must have an actuarial surplus, demonstrated by having a funding ratio exceeding 100 percent, before an ad-hoc COLA can be considered.
- In FY 2011, the employer contribution rates were increased by adjusting the amortization level of the unfunded liability from 90 percent to 91 percent.
- In FY 2012, the Department of Human Resources, as directed by the Board of Supervisors, contracted with a benefits consultant to conduct a comprehensive review of the retirement plans. The consultant's report was presented in February and March 2012. Based on the results of this study, the Board of Supervisors adopted several modifications to the retirement systems, which apply only to new employees who are hired on or after January 1, 2013. These changes include increasing the minimum retirement age for normal service retirement from 50 to 55 in the Employees' system; increasing the rule of 80 (age plus years of service) to the rule of 85 in the Employees' system; placing a cap on the use of sick leave for purposes of determining retirement eligibility and benefits at 2,080 hours for all three retirement systems; and, for the Deferred Retirement Option Plan (DROP), removing the pre-Social Security supplement from balances accumulated during the DROP period in the Employees' and Uniformed systems. No changes were made to benefits for current employees. The savings resulting from these changes have been

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incorporated in the employer contribution rates. Although initial savings are minimal, savings are expected to grow as more employees are hired under these new plan provisions.

- In FY 2017, the employer contribution rates were increased to adjust the amortization level of the unfunded liability from 95 percent to 97 percent.
- In FY 2018, the employer contribution rates were increased to adjust the amortization level of the unfunded liability from 97 percent to 98 percent.

Despite the changes made both to the retirement systems and the employer funding levels, mixed investment returns in recent years have resulted in the funding ratios for each of the retirement systems decreasing slightly, and currently range from 70 percent to 83 percent. The County is committed to further strengthening the financial position of the systems, and has established a goal to reach a 90 percent funded status for all plans by FY 2025. In order to meet this goal, the Board of Supervisors approved, as part of the adoption of the FY 2016 Adopted Budget Plan, the following multi-year strategy:

- Increases in the employer contribution rates will continue so that the County will include amortization of 100 percent of the unfunded liability in the actuarially determined contributions for all systems by FY 2020 at the latest. The County will continue to use a conservative 15-year amortization period.
- Until each system reaches 100 percent funded status, employer contributions to that system will not be reduced. Various factors, such as the historical trend of the County's investment returns exceeding the assumed rate of return, could allow employer contribution rates to be reduced from current levels. However, the County is committed to maintaining the rates and redirecting any potential savings into further improvement in the systems' funded positions.
- Any additional unfunded liability created as a result of approved benefit enhancements, such as ad-hoc COLAs, will be fully funded. It is the intent that no adjustments to benefit levels will reduce the funded status of any of the systems.

In keeping with this strategy, the employer contribution rates in the FY 2019 Advertised Budget Plan include increases to adjust the amortization level of the unfunded liability to 99 percent. Additional increased funding required as a result of this multi-year approach will be included in the County's financial forecasts. The County continues to use conservative assumptions regarding its funding approach including a 15-year amortization period and a discount rate of 7.25 percent, which was lowered from 7.5 percent following a FY 2016 experience study.

The Board of Supervisors continues to take a proactive stance in regards to the County retirement systems, directing a review as part of the Lines of Business (LOBs) Phase 2 process and including additional direction in the FY 2018-2019 Budget Guidance. Following the investment impact of the Great Recession and changes in comparator pension plans (especially the Virginia Retirement System) since the County's last comprehensive review, and on the heels of the multi-year funding strategy approved in 2015, the review is necessary to continue to strengthen the long-term viability of the systems. A workgroup composed of Board of Supervisors members and employee group representatives is exploring possible adjustments to benefit levels, employee contributions, and eligibility requirements based on demographics of the County's systems and trends nationwide. The Board has committed that any changes will not impact current employees. The group's work is expected to wrap up by mid-March, with recommendations anticipated to be made to the Board's Personnel Committee in the spring. Although no short-term budgetary savings

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are expected, adjustments for new hires should place downward pressure on future pension liability calculations, allowing the County to move towards full funding of its systems at a faster pace.

The School Board reviews the Educational Employees' Supplementary Retirement plan annually and takes action to fund the County's obligation based on actuarial valuations that are usually performed annually. Benefits are defined in each system according to the requirements of an ordinance of the Fairfax County Code. Each retirement system is governed by a Board of Trustees whose function is the general administration and operation of the system. Each Board has full power to invest and reinvest the accumulated monies created by the systems in accordance with the laws of the Commonwealth as they apply to fiduciaries investing such funds. Investment managers are hired by each Board and operate under the direction of the Boards' investment objectives and guidelines. Each Board meets once a month to review the financial management of the funds and to rule on retirement applications.

Other Post-Employment Benefits (OPEB)

Beginning in FY 2008, the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for OPEB. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits. Currently, the County offers retirees the option to participate in County group health insurance, life insurance, and dental plans. These benefits are offered to retirees at premium rates established using the blended experience of the active and retiree populations. As such, retirees receive an "implicit" benefit, as these premium rates are typically lower than if they were set solely using the experience of the retiree group. In addition, County retirees receive an explicit benefit through the retiree health benefit subsidy. The County provides monthly subsidy payments to eligible County retirees to help pay for health insurance. The current monthly subsidy, approved in FY 2006, commences at age 55 and varies by length of service. The monthly subsidy is provided to retirees on a discretionary basis, and the Board of Supervisors reserves the right to reduce or eliminate the benefit in the future if the cost of the subsidy becomes prohibitive or an alternative is chosen to aid retirees in meeting their health insurance needs.

GASB 45 requires that the County accrue the cost of post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. The County established the OPEB Trust Fund in FY 2008 to pre-fund the cost of post-employment healthcare and other non-pension benefits. Establishing such a trust fund allows the County to capture long-term investment returns and make progress towards eliminating the unfunded liability over a 30-year period. This methodology mirrors the funding approach used for pension benefits. As a result, the County is required to make an annual contribution towards the long-term liability. This includes an amount for benefits accrued by active employees during the fiscal year, as well as an additional amount in order to address the unfunded actuarial accrued liability.

In FY 2016, the County implemented an Employer Group Waiver Plan (EGWP) for Medicare retiree prescription drug coverage. The EGWP is a standard Medicare Part D plan with enhanced coverage. By implementing an EGWP, the County is able to maximize prescription drug subsidies from the federal government and pharmaceutical manufacturers. This plan replaces the prescription drug coverage that was previously provided to Medicare retirees through the County's self-insured health plans and the Retiree Drug Subsidy (RDS) that the County previously received from the Centers for Medicare and Medicaid Services. This change has had a significant impact on the County's GASB 45 liability, as GASB accounting rules allow EGWP revenue to directly offset plan costs in the GASB valuation, impacting the Actuarial Accrued Liability (AAL), whereas the RDS could not be reflected in the liability calculations. As

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a result, the fund status of the plan will show notable improvements in the coming years. Progress towards funding the liability is reported in the County's Comprehensive Annual Financial Report (CAFR).

The actuarial accrued liability is calculated annually as part of the actuarial valuation and includes adjustments due to benefit enhancements, medical trend experience, and normal growth assumptions. Before approving additional benefit enhancements, the County must carefully consider not only the impact on the current fiscal year budget, but also the long-term impact on the County's OPEB liability and annual required contribution.

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

Grants

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

Effective September 1, 2004, the Board of Supervisors established a new County policy for grant applications and awards that meet certain requirements. If a grant is \$100,000 or less, with a required Local Cash Match of \$25,000 or less, with no significant policy implications, and if the grantor does not require Board of Supervisors' approval, the agency can work directly with the Department of Management and Budget to receive the award and reallocate funding from the anticipated/unanticipated reserve directly to the agency. If an award exceeds these limitations but was listed in the Anticipated Grant Awards table in the Adopted Budget for the current fiscal year, Board of Supervisors' approval is not required unless the actual funding received differs significantly from the projected funding listed in the budget. For any grant that does not meet all of the specified criteria, the agency must obtain Board of Supervisors' approval in order to apply for or accept the grant award.

Contributory Policies

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

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Information Technology

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

Ten Fundamental Principles of Information Technology

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

1. Our ultimate goal is to provide citizens, the business community, and County employees with timely, convenient access to appropriate information and services through the use of technology.
2. Business needs drive information technology solutions. Strategic partnerships will be established between the stakeholders and County so that the benefits of IT are leveraged to maximize the productivity of County employees and improve customer services.
3. Evaluate business processes for redesign opportunities before automating them. Use new technologies to make new business methods a reality. Exploit functional commonality across organizational boundaries.
4. Manage Information Technology as an investment.
 - Annually allocate funds sufficient to cover depreciation to replace systems and equipment before life-cycle end. Address project and infrastructure requirements through a multi-year planning and funding strategy.
 - Manage use of funds at the macro level in a manner that provides for optimal spending across the investment portfolio aligned to actualized project progress.
 - Look for cost-effective approaches to improving "legacy systems". Designate systems as "classic" and plan their modernization. This approach will help extend investments and system utility
 - Invest in education and training to ensure the technical staffs in central IT and user agencies understand and can apply current and future technologies.
5. Implement contemporary, but proven, technologies. Fairfax County will stay abreast of emerging trends through an ongoing program of technology evaluation. New technologies often will be introduced through pilot projects where both the automation and its business benefits and costs can be evaluated prior to any full-scale adoption.
6. Hardware and software shall adhere to open (vendor-independent) standards and minimize proprietary solutions. This approach will promote flexibility, inter-operability, cost effectiveness, and mitigate the risk of dependence on individual vendors.
7. Provide a solid technology infrastructure as the fundamental building block of the County's IT architecture to support reliability, performance and security of the County's information assets. Manage and maintain the enterprise network as an essential communications channel connecting people to information and process via contemporary server platforms and workstations. It will provide access for both internal and external connectivity; will be flexible, expandable, and maintainable; be fully integrated using open standards and capable of providing for the unimpeded movement of data, graphics, image, video, and voice.
8. Approach IT undertakings as a partnership of central management and agencies providing for a combination of centralized and distributed implementation. Combine the responsibility and knowledge of central

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management, agency staff, as well as outside contract support, within a consistent framework of County IT architecture and standards. Establish strategic cooperative arrangements with public and private enterprises to extend limited resources.

9. Consider the purchase and integration of top quality, commercial-off-the-shelf (COTS) software requiring minimal customization as the first choice to speed the delivery of new business applications (this includes Software as a Service cloud solutions). This may require redesigning some existing work processes to be compatible with beneficial common practice capabilities inherent in many off-the-shelf software packages, while achieving business goals. Based on agency business requirements and/or statutory mandates, custom development remains a feasible option.
10. Capture data once in order to avoid cost, duplication of effort and potential for error and share the data whenever possible. Establish and use common data and common databases to the fullest extent. A data administration function will be responsible for establishing and enforcing data policy, data sharing and access, data standardization, data quality, identification and consistent use of key corporate identifiers.

Financial Management Tools and Planning Documents

This section is intended to provide a brief description of some of the financial management tools and long-range planning documents used by the County.

Budget

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

Capital Improvement Program (CIP)

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

The CIP is an integral element of the County's budgeting process. The Capital Budget is the foundation for the first year of the adopted five-year CIP. The remaining four years in the CIP serve as a general planning guide. Future planning requirements five years beyond the CIP period are also included. The CIP is supported largely through long-term borrowing, which is budgeted annually in the debt service fund or from General Fund revenues on a pay-as-you-go basis.

The Board of Supervisors has approved Principles of Sound Capital Improvement Planning and Criteria for Recommending Capital Projects which are applied every year in the development of the CIP. The principles establish the County's Comprehensive Plan as the basis for capital planning requirements and emphasize the principle of life-cycle planning for capital facilities. The CIP is an integral part of the annual budget plan and is included on the County's website.

In October 2005, Fairfax County adopted revised guidelines for review of unsolicited Public Private Educational Facilities and Infrastructure Act (PPEA) proposals. In FY 2008, project screening criteria as presented in the CIP was approved for determining when an unsolicited PPEA project should be pursued or rejected. It is anticipated that other refinements, including any required legislative updates to the PPEA

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evaluation and review process will be developed and presented to the Board of Supervisors as needed. As of January 28, 2008, the County will only pursue an unsolicited PPEA project if, based on minimal analysis; the project offers a significant contribution to near term CIP goals, it offers significant savings to the General Fund or a significant positive effect on our debt capacity.

Revenue Forecast

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

Financial Forecast

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

Fiscal Impact Review

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