Long-Term Financial Policies and Tools

Overview

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.

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 was established at 1 percent of General Fund Disbursements (revising the total for these primary reserves from 5 to 10 percent), as well as funding other replacement reserves. Thus, the County reserve policy will be more in-line with other triple-A jurisdictions. The FY 2021 Advertised Budget Plan reflects full funding for the Managed Reserve, the Revenue Stabilization Fund and the Economic Opportunity Reserve at 4.0 percent, 5.0 percent and 1.0 percent, respectively.

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.

For the FY 2019 Adopted Budget Plan, the County agreed to sell 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 took place in January 2019, with the debt service beginning in FY 2020. Discussions on this increase occurred with the Board of Supervisors as part of Budget Committee meetings in spring 2018. Annual County bond sale limits were increased by

$25 million from $275 million or $1.375 billion over a five-year period to $300 million or $1.5 billion over a five-year period. These changes are reflected in the *Ten Principles of Sound Financial Management*, and the impact on the debt ratios with respect to capacity and affordability will continue to be monitored.

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 using 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 accelerated 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 2019, the County has approved $5.10 billion of new debt via referendum, with $3.30 billion for Schools and $1.80 billion for the County.

Since 1975, the savings associated with the County's "triple-A" bond rating is estimated at $579.52 million. Including savings of $332.27 million from the various refunding sales, the total benefit to the County equates to $911.79 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.

The *Ten Principles* full text is as follows:

Ten Principles of Sound Financial Management
April 24, 2018

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.

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 $300 million per year, or $1.5 billion over five years, with a technical limit of $325 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 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 2020, Fairfax County is one of only 48 counties in the country with "triple A" bond ratings from all three rating agencies.

As of January 2020, 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 48 of the nation's 3,069 counties**
- **only 13 of the nation's 50 states**
- **only 34 of the nation's 35,000+ cities and towns**

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 2020 and FY 2021

Strategic Planning

The Board endorses the current Strategic Planning process being undertaken by the County. Consistent with discussions at the March 26, 2019 joint meeting with the School Board, staff should proceed as planned with the next phases of the Strategic Plan. This will include continued opportunities for community engagement. The work that is underway, which will be guided by the One Fairfax policy, is designed to define the key challenges facing the County in each of the nine priority areas and identify core factors that influence the desired outcomes in each priority area. In addition, key metrics to measure and report progress will be defined to ensure that the plan is a living and flexible tool that enhances future performance management and decision-making. One of the critical elements of the Strategic Plan is recognition that new business models and organizational requirements will achieve greater collaboration across County agencies and FCPS to achieve priorities. Future capital and operating budgets will also be aligned with the Strategic Plan and its priorities. The Board commends the County Executive's initiative and anticipates the robust discussion which will ensue once the recommended Strategic Plan is presented.

Schools Operating Support and Board of Supervisors/School Board Collaboration

The Board appreciates the collaboration that has taken place over the past several years between the Board of Supervisors and the School Board, as well as between the management and staff of both organizations, particularly between the County Executive and School Superintendent. This spirit of cooperation will be important as the County and Schools continue to identify resources for their joint priorities in FY 2021 and beyond. The County Executive is encouraged to build his FY 2021 proposal assuming equal growth of County disbursements and School transfers, as has been done in recent years, while balancing spending with maintaining affordability for taxpayers. With the County and Schools working in partnership, this practice has allowed for a more positive and constructive budget development process. Continued joint discussions on important budget issues, including shared services and shared use capital opportunities, as well as initiatives examined through the new Joint Environmental Task Force, will help to inform all decision-makers and set the stage for productive discussions in the Fall when updated forecasts are presented to both boards. Issues for examination should include joint work by the Schools and Park Authority to develop a multi-year approach to fund the construction of permanent restroom facilities at major Schools fields and Park facilities.

SCYPT/School Readiness

One of the most effective collaborations between the County and Schools has been the Successful Children and Youth Policy Team (SCYPT). Strategies endorsed by SCYPT have led to the implementation of initiatives to improve the behavioral health system of care for children, expand school readiness opportunities, and address absenteeism in schools. For example, since FY 2015, the County has added just under $6.5 million in funding and 234 early childhood education slots. Continuing the progress made to improve services for the County's youth is of paramount importance to the Board. Therefore, staff is directed to return to the Board in the Fall for a discussion and update on next steps to continue to reduce waiting lists and expand school readiness and childcare opportunities.

Affordable Housing

The Board commends the work of the community in response to the Board motion to develop a plan for meeting the long-term goals of affordable housing in Fairfax. The Affordable Housing Resources Panel (AHRP) responded with a thorough review of the issue and identified actionable recommendations to be incorporated into Budget Guidance so the Board could direct staff to include recommendations for FY 2021. The Board is pleased to be able to make a down payment on these longer-term commitments in the form of the FY 2019 Third Quarter Review one-time funding for the Housing Blueprint and the addition of a Housing in All Policies position for the Department of Housing and Community Development (DHCD) in FY 2020. In addition, staff is directed to facilitate the transfer of properties appropriate for affordable housing as soon as possible as opposed to waiting for FY 2021. This includes the West Ox/Route 50 property in Sully District.

The Board further directs the County Executive to focus on the five strategic areas identified by the AHRP:

- Need, new production goals, and resources
- Preservation of affordable units
- Land use policies and regulations
- Institutional capacity
- Community awareness and legislative priorities

Specifically, the Board recognizes the need for 15,000 new housing units over the next 15 years that are affordable to households earning 60 percent of Area Median Income (AMI) or less and endorses the AHRP recommendation that the County assist in the production of at least 5,000 new affordable units over the next 15 years using public financial resources. Staff is directed to develop a plan that identifies the equivalent of one additional cent on the Real Estate Tax rate (in addition to the current half-penny) for this purpose. It should be noted that the current half-penny does not reflect the County's total commitment to affordable housing. In FY 2020, including the $5 million added as part of the FY 2019 Third Quarter Review, total resources in the budget for affordable housing will total more than $140 million including County, federal and all other revenue sources.

The Board also reaffirms its commitment to no net loss of existing market affordable units to be achieved through public financing and land use policy, with the current funding of a half a penny in the Penny for Affordable Housing Fund prioritized to support preservation.

The approach to develop affordable housing is not limited to funding. Therefore, the Board directs the County Executive, the Deputy County Executive for Planning and Development, and staff to develop a package of innovative land use policies to further facilitate the development of affordable housing beyond the stated goal of 5,000 units. Additional investments in staff resources to facilitate these options should be identified for the Board.

The County should also fully explore all opportunities to better utilize all public space in the County in support of the goal of developing affordable housing. Exploring opportunities with other entities, such as houses of worship, and all public private partnership options should be a top priority of DHCD.

The Board anticipates that affordable housing will be a critical focus area in the Countywide Strategic Plan and therefore incorporated into long-term planning and budgeting for the County.

Staff should ensure that affordable housing has a prominent place in the Board's legislative program and promote community awareness of affordable housing needs and opportunities.

Finally, the Board additionally directs the County Executive and staff to refer to the Panel report (https://www.fairfaxcounty.gov/housing/sites/housing/files/assets/documents/ahrp/ahrp%20recommendations%20final.pdf), and return to the Board with a plan to respond to all the recommendations in the Fall of 2019, including incorporation into the FY 2021 budget discussion. This should include long-term options for community involvement and monitoring of progress and opportunities for providing ongoing advice and updates to the Board. The monitoring of progress should be based on metrics and a dashboard should be developed to track progress.

Retiree Health

Advances in medicine have led to new treatments and practices that increase our lifespans and provide better management of chronic diseases; but improved longevity and more expensive treatments have also increased the cost of health care. Rising health care costs impact retirees more than other groups, as retirees bear a greater share of health insurance premiums and incur more out of pocket health expenses. The health insurance landscape is also changing, with the availability of new approaches to the provision of enhanced Medicare coverage, the introduction of private and public health care exchanges, and the growing use of tax-advantaged vehicles such as health savings accounts to allow employees to save for future health expenses. Staff is directed to review the County's retiree health benefits and return to the Board at a future Personnel Committee meeting with recommendations to improve the retiree health program based on the evolving health care environment. This review should include the potential impact on the County's OPEB (Other Post-Employment Benefit) liability.

Uniformed Fire and Rescue Compensation

Based on Board direction, and on the heels of a similar study for Police and Sheriff, a consultant study of the uniformed Fire and Rescue compensation plan and organizational structure was undertaken, and results were presented at the Board's Personnel Committee meeting on April 2, 2019. Although some of the recommendations of the study were included in the FY 2020 Advertised Budget Plan for implementation, the Board feels that it is important to take the time to more fully understand the analysis and recommendations of the study before moving forward. Staff is directed to come back to the Board's Personnel Committee meeting before the August recess to provide a thorough briefing of the information included in the study. Before returning to the Board, it is imperative that staff engage with employee group representatives and work with leadership of the Fire and Rescue Department on the development of recommendations coming out of the report. Funding of $2.68 million is available in the FY 2020 budget to support these recommendations.

Police Pay and Organizational Adjustments

Over the past years, a number of recommendations from the 2016 consultant study on Police compensation and the organizational structure have been implemented. This has included pay scale adjustments to make the increases between steps and grades more consistent, as well as adding Relief Sergeant positions. The last portion of funding for the Relief Sergeants is included in the FY 2020 budget. The County has been implementing recommendations over a multi-year period, and this is expected to continue in FY 2021. These issues include continuing to examine pay competitiveness relative to the market, looking at options related to supervisory pay levels, and addressing pay concerns for Animal Protection Police Officers. Although some of these issues may be addressed with additional resources in future budgets, the department is also encouraged to look at options to address these issues, if possible, within current appropriation levels.

Body Worn Cameras

The Board is scheduled to receive an update on the results of the body worn camera pilot program at a July Public Safety Committee meeting. Direction to staff on next steps will follow this discussion. Consistent with the discussions that have occurred already concerning body worn cameras, the Board has identified non-recurring funding of $5.57 million as the initial source of funding for implementation. This funding will accommodate any FY 2020 requirements determined by the Board for next steps. Any recurring funding requirements will be included in the FY 2021 budget.

Welcoming Inclusion Network Recommendations

The Board appreciates the excellent work by the Fairfax-Falls Church Community Services Board (CSB) and the Welcoming Inclusion Network (WIN) which resulted in the recommendations for expanded employment and day service options for adults with developmental disabilities presented to the Board at the December 11, 2018 Health, Housing and Human Services Committee meeting. While some of the recommendations, such as offering a transition to community-based older adult day services, should result in cost savings in the long-term, others may require additional resources. These include marketing incentives to increase group-supported employment options and expanding opportunities for self-directed services. Therefore, the County Executive is directed to include as part of the FY 2021 Advertised Budget Plan resources necessary to allow for the implementation of the CSB-supported WIN recommendations for employment and day services.

Diversion First

FY 2020 marks the fourth year of the County's Diversion First initiative, which was established to offer treatment options to individuals with mental illness, developmental disabilities or co-occurring substance abuse disorders rather than sending them to jail for low-level offenses. Since its inception in January 2016, over 1,300 individuals have been diverted to treatment rather than incarceration through the program. It is important that the County continue to implement the multi-year strategy for this successful initiative in future years, and the County Executive is directed to include Diversion First funding in his FY 2021 proposal.

Library Hours

The Fairfax County Public Library (FCPL) system is the educational institution at the center of many neighborhood communities across the County. FCPL has 22 branch locations: eight larger regional and 14 smaller community library branches. Significant public investments have been made in renovating and expanding these great facilities. However, due to operating budget restraints, the hours the community has access to these facilities, and the services and activities available in our libraries, are limited. The populations served by the libraries range from pre-school to older adults, as well as those with visual impairments and other physical disabilities, non-native English speakers, children with autism, and individuals of various economic means. Our library system is one of the most obvious and potentially productive tools for implementing the County's commitment to One Fairfax. Therefore, the County Executive is directed to work with Library staff to evaluate the service and fiscal impacts of various options for increasing library hours through additional funding in the FY 2021 budget. The County Executive should report back to the Board with the results of this analysis to allow for discussion before the development of the FY 2021 Advertised Budget Plan.

State Employee Compensation Supplements

Board members continue to hear the concerns of state employees who believe that their state salaries are inadequate based on their responsibilities and the cost of living in northern Virginia. Providing appropriate compensation for these employees is the responsibility of the state. In some circumstances, however, the County has approved salary supplements for state employees who work in support of County activities, such as clerks in the General District Court and Juvenile and Domestic Relations District Court, employees in the Office of the Commonwealth's Attorney, and employees in the Office of the Public Defender. Before approving changes to current supplements – or the addition of new supplements – it is important for the Board to be provided with further information. Therefore, staff is directed to return to the Board in the Fall – for discussion at a Budget or Public Safety committee meeting – with more detail on supplements currently provided, supplements provided in other jurisdictions, legal limitations, and compensation comparisons with similar County staff. This information should specifically include data for Probation and Parole Officers, as well as Public Defenders. Additionally, this issue should be added to a Legislative Committee agenda for discussion.

Machinery and Tools Tax

As the County continues to focus on economic development opportunities, staff is directed to look at small-scale production and how County policies, practices, and taxing structures could be adjusted to encourage new businesses, as well as the expansion of current ones. As an example, the Machinery and Tools Tax (M&T) is higher than a number of surrounding jurisdictions and includes a less aggressive depreciation schedule. In addition, staff should analyze other components of the County's competitive position of attracting these businesses in the region. The results of this review and analysis should be provided to the Board in advance of the FY 2021 budget discussion to solicit Board guidance for possible actions which could be included in FY 2021.

Lake Accotink

The County Executive, the Park Authority, Stormwater Management and the Department of Management and Budget are directed to refine the options and timeline, and appropriate funding mechanisms, to address the critical environmental issues at Lake Accotink. The FY 2020 Capital Improvement Program identifies the current anticipated timeline and scope of the project. The updated staff recommendation, including a specific funding strategy and timeline, should be presented to the Board of Supervisors during the Fall of 2019 for action.

I now move the Budget Guidance that I just reviewed which will help direct the FY 2021 Budget process.

A Copy Teste:

Catherine A. Chianese

Catherine A. Chianese,
Clerk to the Board of Supervisors

Reserve Policies

The reserve policies adopted by the County are complementary 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 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 2021 Advertised Budget Plan, total reserve funding is fully funded at 10 percent of General Fund Disbursements. Additional allocations to maintain 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 of four percent of General Fund Disbursements.

- Per the FY 2021 Advertised Budget Plan, funding equates to 4.0 percent or $185.01 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.

Revenue Stabilization Fund

- Policy of five percent of General Fund Disbursements.

- Per the FY 2021 Advertised Budget Plan, funding equates to 5.0 percent or $231.26 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.
- Per the FY 2021 Advertised Budget Plan, funding equates to 1.0 percent or $46.25 million.
- 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 the 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 to minimize disruption of budgetary planning from irregularly scheduled monetary demands. These reserves are necessary to provide a source of funding for planned replacement of major equipment or infrastructure over several years. For example, the County maintains a vehicle replacement reserve within the Department of Vehicle Services to plan for vehicle replacement once age, mileage and condition criteria have been met. General Fund monies are set aside each year over the life of the existing vehicle 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) statements 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. Therefore, an actuarially determined contribution (ADC) 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.

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 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 Metrorail Parking System Project Revenue Bonds (the Herndon and Innovation Center Station Parking Garages), Sewer Revenue Bonds, and 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:

Debt Service Requirements as Percentage of Combined General Fund Disbursements

Fiscal Year	Debt Service Requirements[1]	General Fund Disbursements[2]	Percentage
2017	$313,389,406	$4,005,844,810	7.82%
2018	337,076,503	4,112,554,168	8.20%
2019	345,310,490	4,300,483,841	8.03%
2020 (Est.)	348,935,780	4,547,454,778	7.67%
2021 (Est.)	349,903,999	4,625,296,824	7.57%

[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. Sources: FY 2017 to FY 2019 Comprehensive Annual Financial Report; FY 2020 and FY 2021 Fairfax County Department of Management and Budget.

[2] Sources: FY 2017 to FY 2019 Comprehensive Annual Financial Report; FY 2020 and FY 2021 Fairfax County Department of Management and Budget.

Net Debt as a Percentage of Market Value of Taxable Property

Fiscal Year	Net Bonded Indebtedness[1]	Estimated Market Value[2]	Percentage
2017	$2,895,516,000	$248,802,572,781	1.16%
2018	2,918,416,000	253,512,049,641	1.15%
2019	2,889,935,000	262,356,806,422	1.10%
2020 (Est.)	2,878,085,000	271,642,694,311	1.06%
2021 (Est.)	3,040,055,000	281,180,505,073	1.08%

[1] The amount includes outstanding General Obligation Bonds and other tax supported debt obligations. Sources: FY 2017 to FY 2019 Comprehensive Annual Financial Report and Fairfax County Department of Tax Administration; FY 2020 and FY 2021 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 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 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 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.

The County is committed to strengthening the financial position of its retirement 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:

- The employer contribution rates will be increased 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. 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 Cost-of-Living Adjustments (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 FY 2020 Adopted Budget Plan included the amortization of 100 percent of the unfunded liability in the actuarially determined contributions for all systems. In addition, the employer contribution rates to all three systems have been maintained or increased each year, and benefit enhancements, when approved by the Board, have been accompanied by one-time contributions to fully fund any associated increase in liability in the year that the benefit enhancement is approved.

The County has also taken multiple steps to limit increases in liabilities:

- In FY 2010, the requirements regarding the award of ad-hoc 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. After a staff review at the Board of Supervisors' direction, 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 2012, the Board of Supervisors adopted 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.

- In FY 2019, the Board of Supervisors adopted modifications to the retirement benefits provided to new employees hired on or after July 1, 2019. These changes included eliminating the pre-Social Security supplement for employees in the Employees' and Uniformed systems and repealing the additional retirement allowance that increases the calculated retirement annuity by 3 percent for all three retirement systems. No changes were made to benefits for current employees.

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) statements that address 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 2018, 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 75 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 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 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 can 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 OPEB 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.

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 actuarially determined 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 the specified criteria, the agency must obtain Board of Supervisors' approval 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.

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.

Ten Fundamental Principles of Information Technology

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 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.

Ten Fundamental Principles of Information Technology

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.

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 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 the 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 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 the County's debt capacity.

Revenue Forecast

Revenue estimates are monitored monthly 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: 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.