

# 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 issuance, 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 a 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 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 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. The County reserve policy is now more in-line with other triple-A jurisdictions. The [FY 2023 Adopted 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.

## Long-Term Financial Policies and Tools

As part of the [FY 2019 Adopted Budget Plan](#) and future budgets, the County included 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. The County's total annual bond sale limits were revised as part of the *Ten Principles*.

In February 2020, the Board of Supervisors and the School Board established a joint Capital Improvement Program (CIP) Committee (Committee) to allow for information sharing, prioritizations, and planning by both the County and Fairfax County Public Schools. The Committee spent its time reviewing the County's existing financial policies, considering the financing options available for capital projects, understanding the capital project requirements identified for both the County and Schools, and evaluating the current CIP Plan and processes. Following these discussions over several months, the Committee issued its final report in October 2021. The report was then presented to the Budget Committee in November before the full Board of Supervisors and the School Board and approved by the Board of Supervisors in December 2021. The Committee made three notable funding recommendations as part of its report. First, the County's General Obligation Bond Sale limit would increase from \$300 million to \$400 million annually. Bond sale limits had not increased since 2007 for the County and 2019 for the Schools. A gradual approach to reach the revised bond limit is provided as follows. As part of the [FY 2023 Adopted Budget Plan](#), the County has included an additional \$25 million in general obligation bonds for Schools and an additional \$25 million in general obligation bonds for the County, thereby increasing the annual total from \$300 million to \$350 million. This amount will be applicable in FY 2023 and FY 2024. Starting in FY 2025, the County will include an additional \$25 million in general obligation bonds for Schools and an additional \$25 million in general obligation bonds for the County, thereby increasing the annual total from \$350 million to \$400 million.

	FY 2022	FY 2023	FY 2024	FY 2025
County	\$120m	\$145m	\$145m	\$170m
Schools	\$180m	\$205m	\$205m	\$230m
<b>Total</b>	<b>\$300m</b>	<b>\$350m</b>	<b>\$350m</b>	<b>\$400m</b>

The County's annual bond sale limits are thus revised as part of the *Ten Principles* coupled with updates to the description for the Economic Opportunity Reserve (EOR) given its fully funded status. These changes to the *Ten Principles* were presented to the Board of Supervisors as part of Budget Markup and reflected in the [FY 2023 Adopted Budget Plan](#) based on Board approval. Debt ratio impact with respect to capacity and affordability will continue to be reviewed on an annual basis.

Second, the Committee recommended dedicating the equivalent value of one penny on the Real Estate Tax Rate (approximately \$28 million) to the capital program. This will be supported through Pay-As-You-Go (PAYGO) and debt service allocations. As part of the [FY 2023 Adopted Budget Plan](#), additional PAYGO of \$5.0 million is provided (evenly divided between the County and Schools). Investment in this recommendation will need to grow gradually over time to accommodate future debt service cost increases with the revised annual bond sale limits. Funding will continue to be subject to revenue availability as determined through annual and quarterly budget reviews.

Third, the County will increase the percentage allocated to the Capital Sinking Fund at year-end from 20 percent to 30 percent of balances not needed for critical year-end items. Schools would receive 25 percent of this allocation, and the County will evaluate the percentages to each of the remaining areas (County facilities, Parks, Walkways, and County-owned roads and Revitalization). This is anticipated to begin as part of the *FY 2022 Carryover Review*.

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 2021, the County has approved \$5.89 billion of new debt via referendum, with \$3.66 billion for Schools and \$2.23 billion for the County.

Since 1975, the savings associated with the County's "triple-A" bond rating is estimated at \$618.44 million. Including savings of \$395.44 million from the various refunding sales, the total benefit to the County equates to just over \$1.00 billion. 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 26, 2022

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. This reserve is equal to one percent of total General Fund disbursements. Funding for this reserve occurred after the Managed Reserve and the Revenue Stabilization Fund were fully funded at their new levels of four percent and five percent, respectively. Criteria for funding, utilization, and replenishment of the reserve were approved by the Board of Supervisors as part of the Eight Principles of Investment in Economic Opportunities. The criteria for use include financial modeling analysis (e.g., cost-benefit, etc.) to determine the fiscal impact to the County of the proposed investment opportunity and requires 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 \$400 million per year, or \$2.0 billion over five years, with a technical limit of \$425 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 2022, Fairfax County is one of only 49 counties in the country with "triple A" bond ratings from all three rating agencies.

**As of January 2022, 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 49 of the nation's 3,069 counties**
- **only 13 of the nation's 50 states**
- **only 31 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 2023 and FY 2024**

**April 26, 2022**

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 26, 2022, the Board approved the following Budget Guidance for FY 2023 and FY 2024:

#### **Fairfax County Public Schools (FCPS)**

Over the next fiscal year, and as we prepare for FY 2024, the focus of both the County and Fairfax County Public Schools (FCPS) will continue to be recovery – providing assistance for residents, students, and businesses who may have been negatively impacted by the COVID-19 pandemic. As we have been doing since the start of the pandemic, the County and Schools will continue to partner to best support the needs of our community. With the impending retirement of Dr. Scott Brabrand, the Board looks forward to working with the new FCPS Superintendent, Dr. Michelle Reid, and anticipates the same level of positive collaboration with leadership staff in both organizations.

Although we have been fortunate that the financial impact of the pandemic has not been as severe as that experienced in other jurisdictions, balancing resources against our joint needs as part of the FY 2024 budget will still be a difficult task. The Board anticipates the FY 2024 joint fiscal forecast will be presented by County and Schools staff in the Fall, providing insight into available revenues and initial expenditure pressures. As we have directed in prior years, the County Executive is encouraged to build his FY 2024 proposal seeking equal growth of both County disbursements and School transfers. Additionally, the proposal should include increased investments as recommended by the Joint County/Schools Capital Improvement Program (CIP) Committee. These investments of County resources to add capacity to the respective capital programs will accelerate school and facility renovations and new construction and provide an opportunity for continued collaboration on joint priorities. For example, the Board anticipates continued cooperation for the shared responsibility to identify new space for early childhood education programs.

#### **Employee Pay and Collective Bargaining**

As directed by the Board as part of the FY 2023 budget guidance, full funding of the County's compensation program was prioritized as part of the budget development process, and the Board is pleased that the FY 2023 budget provides significant pay increases to County employees. Throughout the pandemic, the County has taken steps to support our employees, through flexible scheduling, new leave programs, and enhanced teleworking options. Despite our best efforts, the County is still struggling to recruit and retain employees, as are many employers across the country. The Board appreciates the creative and targeted strategies being employed by leadership to address these issues, such as the recommendations recently outlined to boost recruitment and retention of employees with Commercial Drivers Licenses. The Board encourages the County Executive to continue to develop focused solutions in those areas of greatest concern.

Following the Board's action to approve a collective bargaining ordinance in the Fall, FY 2024 will be the first budget developed following collective bargaining negotiations and agreements. With increased employee involvement, the Board anticipates the development of collaborative solutions to acknowledge and reward employees, as well as further improve the quality of services delivered to residents, while understanding the fiscal constraints of the budget.

### **Affordable Housing**

As has been shown through the allocation of resources in recent quarterly reviews, including the *FY 2022 Third Quarter Review*, as well as additional baseline funding added in the FY 2023 budget, expanding the inventory of affordable housing in the County continues to be one of the Board's greatest priorities. With the action taken by the Board last month, the County's new goal is 10,000 net new affordable housing units by 2034. Meeting this lofty challenge will require additional resources, and the Board remains committed to the allocation of additional Real Estate Tax revenue. The FY 2023 budget adds \$15 million in baseline funding towards this initiative, bringing total baseline County funding to just over one penny on the Real Estate Tax rate. Support for affordable housing in FY 2022 and FY 2023 combined totals over \$85 million, including \$40.6 million in FY 2022 (\$15 million from the American Rescue Plan Act (ARPA), \$13.6 million in baseline County funds as part of the existing half-penny, and \$12 million in one-time County funds) as well as \$44.7 million allocated for FY 2023 (including \$29.7 million in baseline County funds and \$15 million allocated from ARPA funds).

However, the Board also recognizes the unique opportunity that federal funds – such as those received through ARPA – provide. Therefore, the County Executive is encouraged to maximize these one-time resources to augment County funds for affordable housing. Recognizing that these funds will not be available in the long-term, the County should work to build baseline County funds over the next few years to reach a total investment of two pennies on the Real Estate Tax rate for the preservation of existing and the development of new affordable housing units.

### **Parks**

The Board heard from residents as part of feedback on the budget regarding the importance of the Parks system for our community, and Board members could not agree more. The Board has been steadfast in its support for the Fairfax County Park Authority (FCPA) by providing significant resources for operating expenses, environmental projects, capital support for athletic fields and maintenance, and debt service requirements, among others. In the current fiscal year alone, the County has provided over \$80 million in support for FCPA, and an additional \$7.5 million was allocated to support Parks from the County's federal stimulus funds, with additional funds expected to be allotted. This support is in addition to fees generated by the Parks system and does not include funding provided by other revenue sources, such as the County's Stormwater fund, where annual support is estimated at over \$20 million.

Two Parks recommendations included in the Advertised Budget and Capital Improvement Program stirred significant interest in the community. The first was the inclusion of \$0.5 million for a pilot equity program. The Board is incredibly supportive of this initiative and is committed to providing appropriate resources as necessary. As such, utilizing extensive community outreach and supported by consultant services, County and Parks staff should work together on the development and implementation of the pilot program. The Board then directs staff to return to the Board as part of a Health and Human Services Committee meeting to discuss the results of

the pilot and future recommendations, implementation steps, and fiscal requirements based on those results.

The second recommendation that generated significant community feedback was the proposed two-year deferral of the 2024 Park Bond referendum, as well as the accompanying recommendation to shift from a four-year to a six-year referendum cycle. The Board understands that capital support for the Parks system is one piece of a larger County capital program, which includes support for Schools, public safety, transportation (including Metro), libraries, and human services, and that the six-year cycle is already in place or is being recommended for all referendum except for Schools and Metro support. Additionally, the Board understands that projects in all segments of the program have experienced delays, contributing to a backlog of unsold bonds which is putting pressure on annual bond sale limits. As an example, there is currently \$148 million in unsold Park bonds, with \$48 million remaining from the 2016 referendum and no bonds from the 2020 referendum having been sold based on spending requirements. The approved increase in the annual bond sale limit from \$300 million to \$400 million will help to alleviate this pressure but is expected to take several years.

Previously, the County planned Park bond referendum of \$100 million every four years. The proposed CIP shifted the scheduled \$100 million 2024 referendum to 2026, seeming to indicate a reduction in bond support. It is the Board's understanding that the \$100 million figure in 2026 was meant to be a placeholder, and the Board directs staff to work with FCPA to develop a 2026 proposal that meets the Park system's immediate needs and fits within the County's overall limitations. This plan should recognize the higher costs associated with Rec Center renovations, such as at the Audrey Moore and Mount Vernon Rec Centers. The change in the bond referendum schedule should not negatively impact progress on Parks projects, which may require County support outside of the bond program to bridge funding gaps, such as by funding feasibility and design studies prior to referendum. Staff should also collaborate on the development of a flexible, long-term strategy to provide appropriate resources for capital requirements across the Parks system, with bond referendum totals that fluctuate based on need and spending plans that fit within the County's bond sale limits.

### **Office of the Public Defender**

As part of last year's budget, the Board took action to extend 15 percent salary supplements to state Probation and Parole Officers and support staff in the Office of the Public Defender (OPD). This action was an important step in consistently applying the Board's policy to provide equitable salary supplements for state employees who work in support of County activities, including clerks in the General District Court and Juvenile and Domestic Relations District Court, as well as attorneys and office managers in the OPD.

If the state were to appropriately compensate these employees, the need for County-funded salary supplements would be eliminated. However, despite the County's best efforts – and despite the availability of state funding – the state has not taken action to address pay concerns of its own employees, most notably those in the Office of the Public Defender. In fact, the latest legislative solution most recently considered by the General Assembly included mandating the allocation of additional County taxpayer dollars to increase pay supplements for state positions. This legislation would have required pay parity between those in the OPD and the Office of the Commonwealth's Attorney (OCA). While the Board supports the excellent and important work of staff in the OPD – and recognizes the role of the OPD in ensuring equitable access to criminal defense – the funding of this office is inherently a state responsibility. Positions in the OPD are state positions, with

salaries set by the state and employees participating in state benefit and retirement plans. On the other hand, employees in the Office of the Commonwealth's Attorney participate in County pay plans, benefit programs, and retirement systems. While the Board is pleased that the state did approve additional positions for the OPD, which should help to partially alleviate concerns related to workload, it is imperative that the state take additional actions to compensate their employees based on their job responsibilities and their value to the overall criminal justice system, as well as considering the specific job market and cost of living in the jurisdiction in which they work. The County has spent considerable time working on the issue of equitable pay for these employees and, based on conversations with members of the General Assembly, at least a 3% pay increase seems possible as part of the state budget. However, if the state does not take this action, the Board remains open to revisiting this issue in the future.

### **ArtsFairfax**

The Board appreciates the work of ArtsFairfax in supporting arts organizations across the County and is pleased that \$250,000 in additional funds were available as part of the FY 2023 budget to bolster the organization's existing grant program, which is managed through a competitive and transparent process. County support for ArtsFairfax totals \$1.35 million, with just under \$847,000 targeted towards arts grants in FY 2023. The Board anticipates that the supplemental funding in FY 2023 will be used to focus support for those arts organizations which have been negatively impacted by the pandemic. Additionally, it is imperative that ArtsFairfax broadens its outreach efforts to include those organizations which have been historically underrepresented in the existing program, including those groups who represent residents in economically disadvantaged areas of the County. ArtsFairfax is also expected to report back to the Board on the results of the enhanced arts grant program, including the process used to broaden participation and the organizations assisted.

**I now move the Budget Guidance that I just reviewed, which will help direct the FY 2024 budget process.**

## 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 2023 Adopted Budget Plan, total reserve funding is funded at 10.0 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 2023 Adopted Budget Plan, funding equates to 4.0 percent or \$191.93 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 2023 Adopted Budget Plan, funding equates to 5.0 percent or \$241.08 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.

## Long-Term Financial Policies and Tools

- 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 2023 Adopted Budget Plan, funding equates to 1.0 percent or \$48.37 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. This reserve is equal to one percent of total General Fund disbursements. Funding for this reserve occurred after the Managed Reserve and the Revenue Stabilization Fund were fully funded at their new levels of four percent and five percent, respectively. Criteria for funding, utilization, and replenishment of the reserve were approved by the Board of Supervisors as part of the Eight Principles of Investment in Economic Opportunities. 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 requires 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 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 Service, to provide one year of principal 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.

### Mid-Year, Third Quarter, and Carryover Reviews

The Department of Management and Budget conducts a Mid-Year and Third Quarter Review on the current year Revised Budget Plan, which include a detailed analysis of expenditure requirements. All agencies and funds are reviewed during the Mid-Year and Third Quarter Reviews 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 <sup>1</sup>	General Fund Disbursements <sup>2</sup>	Percentage
2019	\$347,471,174	\$4,300,483,841	8.08%
2020	334,314,180	4,449,864,870	7.51%
2021	325,402,126	4,545,901,853	7.16%
2022 (Est.)	352,892,448	4,886,071,651	7.22%
2023 (Est.)	355,235,535	4,774,034,947	7.44%

<sup>1</sup> 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 2019 to FY 2021 Annual Comprehensive Financial Report; FY 2022 and FY 2023 Fairfax County Department of Management and Budget. The FY 2020 actual debt service figure reflects a notable decrease from the prior year due primarily to the final payoff of two outstanding County debt issuances (Herrity and Pennino Administrative buildings and Capital Renewal loan). The FY 2021 actual debt service figure again trended lower to prior years due primarily to the planned one-time debt service savings structure as part of the Series 2020B General Obligation Refunding Bonds.

<sup>2</sup> Sources: FY 2019 to FY 2021 Annual Comprehensive Financial Report; FY 2022 and FY 2023 estimates per Fairfax County Department of Management and Budget.

# Long-Term Financial Policies and Tools

## Net Debt as a Percentage of Market Value of Taxable Property

Fiscal Year	Net Bonded Indebtedness <sup>1</sup>	Estimated Market Value <sup>2</sup>	Percentage
2019	\$2,889,935,000	\$262,356,806,422	1.10%
2020	2,887,545,000	271,808,067,475	1.06%
2021	2,931,554,000	280,990,379,555	1.04%
2022 (Est.)	2,964,324,000	289,250,073,353	1.02%
2023 (Est.)	3,149,849,000	312,043,233,242	1.01%

<sup>1</sup> The amount includes outstanding General Obligation Bonds and other tax supported debt obligations. Sources: FY 2019 to FY 2021 Annual Comprehensive Financial Report and Fairfax County Department of Tax Administration; FY 2022 and FY 2023 Fairfax County Department of Management and Budget and Department of Tax Administration.

<sup>2</sup> 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.

## Long-Term Financial Policies and Tools

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 existing 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 include 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 existing employees.

Revenue projections associated with future returns on fund investments for the three separate County retirement systems are based on an assumed actuarial rate of return. As part of the July 1, 2021, actuarial valuation, this rate was reduced from 7.25 percent to 6.75 percent.

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. 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. As part of the July 1, 2021, actuarial valuation, the County made changes to two key assumptions to be more conservative. First, the assumed actuarial rate of return – or discount rate – was reduced from 6.50 percent to 6.25 percent. Second, the amortization period was reduced from 30 to 20 years.

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.

### Ten Fundamental Principles of Information Technology

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 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

## Ten Fundamental Principles of Information Technology

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.

## 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.

In February 2020, the Board of Supervisors and the School Board established a joint CIP working group to allow for information sharing, prioritizations, and planning by both the County and Fairfax County Public Schools. The Committee spent its time reviewing the County's existing Financial Policies, considering the financing options available for capital projects, understanding the capital project requirements identified for both the County and Schools, and evaluating the current CIP Plan and processes. Following these discussions, the Committee arrived at a series of recommendations, which include gradually increasing General Obligation Bond Sale limits from \$300 million to \$400 million annually; dedicating the equivalent value of one penny on the Real Estate tax to the County and School capital program to support both infrastructure replacement and upgrade projects and debt on the increased annual sales; and increasing the percentage allocated to the Capital Sinking Fund at year-end, as well as including Schools in the allocation.

## 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 (BPOL); 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.