

Response to Questions on the FY 2027 Budget

Request By: Supervisor Storck

Question: Please provide a history and update on the Capital Sinking Fund.

Topic: Debt and Capital

Response:

The establishment of the Capital Sinking Fund was one of the recommendations approved as part of the Infrastructure Financing Committee (IFC), a 2014 joint County Board and School Board Committee tasked with reviewing both the County and School's Capital Improvement Program (CIP) and infrastructure upgrade requirements. The Board of Supervisors first approved the establishment of the Capital Sinking Fund as part of the *FY 2014 Carryover Review*. These funds are intended to support prioritized capital improvement projects throughout the County. The goal was to populate the Sinking Fund by allocating 20 percent of year-end General Fund balances, not needed for other critical requirements. At that time, the Board also approved the allocation of the total sinking fund based on specific percentages for each infrastructure area, including 55 percent for the Facilities Management Department (FMD), 20 percent for Parks, 10 percent for walkways, 10 percent for County roads and service drives, and 5 percent for revitalization area improvements.

Several years later, the Joint Board of Supervisors/School Board Capital Improvement Program Committee established in February 2020, further refined the Capital Sinking Fund. This Committee recommended that the percentage allocated to the Capital Sinking Fund at year-end be increased from 20 percent to 30 percent and that Fairfax County Public Schools (FCPS) be included in the allocation of funds. Since the *FY 2022 Carryover Review*, 30 percent of the County's year-end General Fund balances after funding other critical requirements has been dedicated to the Sinking Fund and FCPS has been included in the allocation formula. The current distribution of funds is as follows: 45 percent for FMD, 25 percent for FCPS, 15 percent for the Park Authority, 7 percent for walkways, 5 percent for County maintained roads and service drives, and 3 percent for Revitalization area improvements.

Since FY 2014, a total of \$219,178,810 has been dedicated to the capital sinking fund and allocated for infrastructure replacement and upgrades in the following areas:

Program Area	Total Allocated to Date
County Roads	\$14,652,292
FCPS	32,463,678
FMD	107,562,878
Parks	37,343,028
Revitalization	7,780,271
Walkways	19,376,663
Total	\$219,178,810

The allocations to the Sinking Fund are directly impacted by the amount of year-end balances available. The largest amount dedicated to the Sinking Fund was approximately \$39 million as part of the *FY 2023 Carryover Review*. The average annual amount dedicated to the Sinking Fund since its inception is approximately \$18 million. Recent budget reductions have impacted the funding available at year-end, resulting in a Sinking Fund amount of approximately \$14 million as part of the *FY 2025 Carryover Review*.

Each agency maintains a prioritized list of needed infrastructure replacement and upgrade projects and reviews these lists throughout the year. Once the Board approves the Sinking Fund allocation at the Carryover Review, funds become available for prioritized projects. The Sinking Fund is dedicated to projects that are capital in nature and considered an asset improvement. Sinking Fund dollars are not used for preventative maintenance, cleaning, debris removal or snow removal which are more operational in nature. The benefits of the sinking fund allocations can be seen in significant accomplishments throughout the County that would otherwise not have been able to be completed with baseline funding. For example, the FMD capital renewal baseline budget was \$2.5 million for many years, with supplemental funding provided at quarterly reviews when possible. The Sinking Fund provided an additional \$9 million (on average) for FMD renewal projects. This additional funding allowed FMD to replace and repair building systems, avoiding emergency repairs and potential disruptions to user agencies.

For FMD, the Sinking Fund has supported renewal projects including repair or replacement of roofs, electrical systems, HVACs, plumbing systems, windows, fire alarm systems, sprinkler systems, emergency generators, elevator/escalator systems and building envelop repairs. Building envelop repairs include replacing exterior caulking, joint materials and exterior doors to prevent moisture from entering the building. This also reduces energy costs by preventing the escape and entrance of air and moisture. As the inventory of County facilities age, reinvestment in buildings and building systems becomes critical. Over the past year, FMD has initiated or completed several larger scale projects with funding from the Sinking Fund, including HVAC component replacement at the Herrity Building, fire alarm system replacement at the Fire Training Academy, and building envelope repairs at the Fairfax County Courthouse, Herrity Building and Pennino Building.

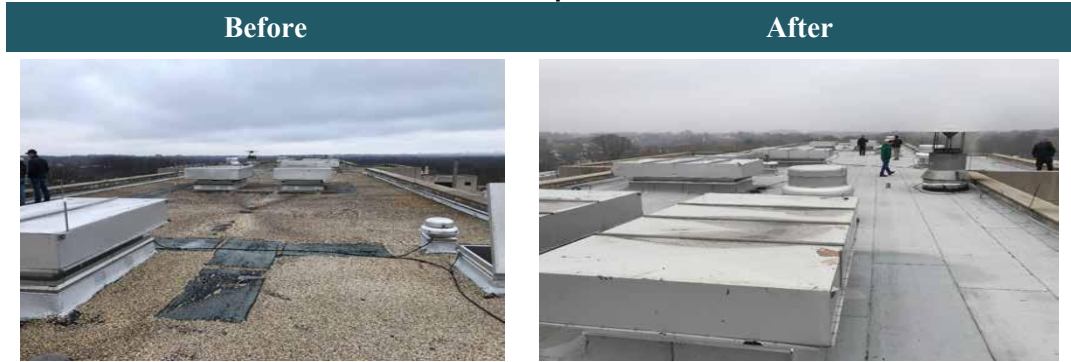
Each year, the Facilities Management Department prioritizes and classifies infrastructure replacement and upgrade projects into five categories. Projects are classified as Category F: urgent/safety related, or endangering life and/or property; Category D: critical systems beyond their useful life or in danger of possible failure; Category C: life-cycle repairs/replacements where repairs are no longer cost effective; Category B: repairs needed for improvements if funding is available, and Category A: good condition. At the time of the IFC in 2014, the requirement for County capital renewal was estimated at \$26 million per year which was based on building assessment data at the time, as well as industry standards (2 percent of the current replacement value). Based on staffing levels and the complexity of many of the projects, it was estimated that approximately \$15 million per year would be a target funding goal. This goal is now over 10 years old and as County facilities continue to age, that goal has increased to between \$30 and \$35 million annually. In FY 2027, baseline funding of \$10 million, supplemented by quarterly review funding and the sinking fund allocation will get close to the current goal; however, these projects are all Category F, with many Category F projects still unfunded. It should be noted that FMD has identified a backlog of over \$200 million in all categories of capital renewal projects. With this large of a backlog, staff have focused on Category F projects only and prioritize Category F projects to those facilities that house critical services and cannot be closed for extended periods.

Similarly, FCPS utilizes the Sinking Fund to keep pace and provide effective stewardship of FCPS capital assets. FCPS uses the Sinking Fund primarily to address the backlog in HVAC equipment replacements, followed by elevator maintenance and sustainability projects to support the school division's Joint Environmental Task Force (JET) directives. The inclusion of FCPS in the Sinking Fund allocation has helped offset the growing backlog but does not address the backlog of projects that have accrued since the mid-1990s.

The Sinking Fund for Parks helps address some of the prioritized backlog of reinvestment requirements at deteriorating facilities, athletic courts, pedestrian bridges, parking lots, and trails located throughout the County. Park priorities are based on the assessment of current repair needs including safety and health issues, facility protection, facility renewal, and improved services. On-going road reinvestments often include pothole repair, pavement rehabilitation, sidewalk and curb repairs, traffic and pedestrian signage, hazardous tree removal, grading, patching, and stabilization of shoulders. Walkway project reinvestment projects are prioritized based on condition as well as pedestrian usage. Finally, reinvestment in revitalization areas includes projects such as bus shelter replacement, bus shelter panel repair, bus shelter painting, sidewalk replacement, tree box replacement, bench repair, sign repair, paver repairs and irrigation repairs.

The following before/after pictures provide a visual of some of the reinvestment projects completed to date:

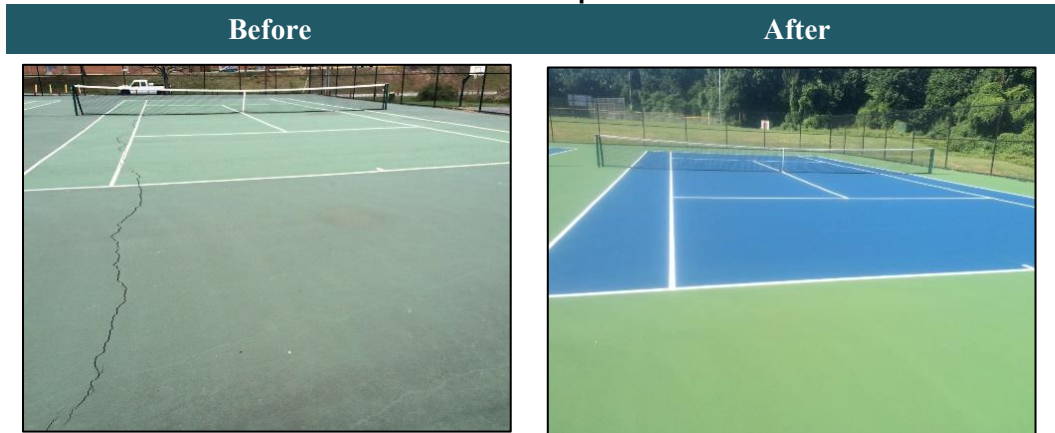
FMD Roof Replacement



FMD Generator Replacement



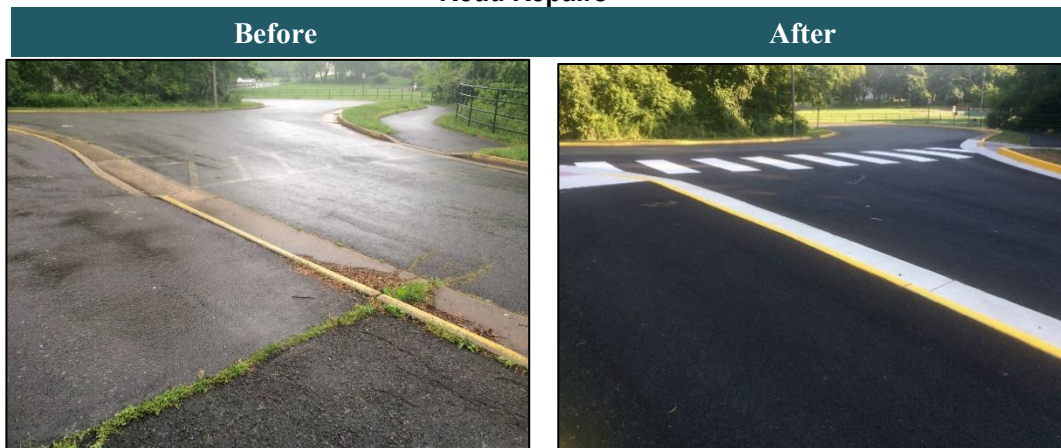
Athletic Court Repairs



Park Trail Reinvestment



Road Repairs



Trail Repairs

