County Board of Supervisors/School Board Joint CIP Committee Recommendations

November 23, 2021

Joint CIP Committee Members

Kathy L. Smith, Fairfax County Board of Supervisors (Chair)

John W. Foust, Fairfax County Board of Supervisors

Laura Jane Cohen, Fairfax County School Board

Abrar Omeish, Fairfax County School Board

Timothy Sargeant, Planning Commission (ex-officio)

Phillip Niedzielski-Eichner, Planning Commission (ex-officio)

Joint CIP Committee Background

- The Committee met approximately every six weeks for a year beginning in November 2020.
- All meeting materials and presentations can be found at:

  https://www.fairfaxcounty.gov/budget/joint-board-supervisorsschool-board-cip-committee.
- Although the Committee considered several topics for evaluation, ultimately the following topics were discussed:
  - ✓ Review of the County and Schools CIP and the CIP processes
  - ✓ Success/history/outcomes of the last joint CIP Committee (Infrastructure Financing Committee)
  - ✓ Bond funding levels and County/Schools split
  - ✓ Financing Options Available for capital projects
  - ✓ Coordination opportunities between Schools and County CIPs
  - ✓ Prioritization of projects
  - ✓ County/Schools Joint Use projects

Current County and Schools Capital Challenges

- Backlog of infrastructure replacement projects based on limited funding for Paydown
- Increased sales requirements for Metro
- More complex project colocation plans
- Occupied and phased renovations
- Requirement to sell bonds in 8 years (2-year extension available)
- Project delays, supply shortages, and cost increases due to COVID-19 Pandemic
- Environmental/energy initiatives impacting capital projects

Committee Recommendations

- Increase Bond Sale limit from $300 million to $400 million annually
  - Recognizes that sales limits have not increased since 2007 (County) and 2019 (FCPS)
  - Would recommend gradual increase in sales over several years
  - Ultimately both County and FCPS would receive an additional $50 million
  - Ultimate total of $170m for County and $230m for FCPS
- Dedicate the equivalent value of one penny on the Real Estate tax to capital program
  - Recommend as part of the FY 2023 budget, if possible
  - Would support both Paydown and future debt service
  - First year would focus on Paydown and increases would be split evenly between County and FCPS
  - Second year would include first debt service payment with the balance in paydown
  - Investment would need to grow gradually over time as debt service costs increase
- Increase percentage allocated to Sinking Fund at year-end and include FCPS in allocation
  - Overall allocation would increase from 20% to 30% of balances not needed for critical year-end items
  - FCPS would receive 25% of this allocation

Cumulative Impact of Increased Bond Sales

- Example assumes a $50 million General Obligation Bond Sale increase beginning in January 2023 ($25 million each for County and Schools) and $100 million increase beginning in January 2025 ($50 million each)
- Debt service payments begin in the fiscal year following each bond sale
- Assumes 3% interest rate

Fiscal Year	January 2023	January 2024	January 2025	January 2026	Total
FY 2023	$50,000,000				
FY 2024	4,000,000	$50,000,000			**$4,000,000**
FY 2025	3,925,000	4,000,000	$100,000,000		**7,925,000**
FY 2026	3,850,000	3,925,000	8,000,000	$100,000,000	**15,775,000**
FY 2027	3,775,000	3,850,000	7,850,000	8,000,000	**23,475,000**

Allocation of Additional Resources

- In FY 2023, as no debt service payments would be required, the entire dedicated 'penny' would be directed to Capital Paydown
  - If assume penny at $28 million, would equal $14 million each for County/Schools
- In FY 2024, assuming debt service requirements of $2 million each, approximately $12 million would be directed to County/Schools for Paydown
- As debt service requirements grow, Paydown would be reduced until reaching a baseline amount (assumed $10 million)
- Debt/Paydown needs would gradually exceed value of one penny, but would be adjusted as part of annual budget process

Projected Allocations*
(in millions)

	County		Schools		Total
	Debt	**Paydown**	**Debt**	**Paydown**	**Total**
FY 2023	$0.0	$14.0	$0.0	$14.0	**$28.0**
FY 2024	$2.0	$12.0	$2.0	$12.0	**$28.0**
FY 2025	$4.0	$10.0	$4.0	$10.0	**$28.0**
FY 2026	$7.9	$10.0	$7.9	$10.0	**$35.8**
FY 2027	$11.7	$10.0	$11.7	$10.0	**$43.4**
FY 2028	$15.5	$10.0	$15.5	$10.0	**$51.0**

** Assumes $25 million increase each for County and Schools in January 2023 and January 2025; Assumes 3% interest rate*

Benefits of Additional Investment

- Additional investment will allow the County to:
  - Support more critical infrastructure replacements projects and address backlog
  - Support increasing Metro capital obligation
  - Account for increased construction costs and impact of potential Prevailing Wage Ordinance
- Additional investment will allow the Schools to:
  - Design and construct 1-2 additional school capital improvement projects per year
  - Address backlog of critical needs – infrastructure and maintenance
  - Enhance sustainability initiatives
  - Account for increased construction costs and impact of potential Prevailing Wage Ordinance

CIP Process Changes under Consideration

- Timing and size of future referenda – County may want to move away from referendum by purpose every 4 years
- County may consider delaying 2022 County Referendum ($97m)
- Review assumptions used in future year CIP projections
- Account for complexity of co-location projects, provide more flexibility in bond questions
- Provide Paydown funding for feasibility studies to better define colocation opportunities, identify project needs and costs

Timeline for Change

- November 23rd: Discuss Report at Joint BOS/School Board meeting
- December 2021: Discuss proposed changes with rating agencies in advance of January 2022 bond sale (one year in advance of increased sale)
- December 2021: School Board discussion regarding Boundary Change Report and potential next steps
- Spring 2022: BOS approves FY 2023 Budget with change to *10 Principles of Sound Financial Management* Bond Sale limits and increased Paydown
- January 2023: First Bond sale with higher sales
- FY 2024: First year of debt service requirements for higher sales