

Joint CIP Committee Report

Report and Recommendations of the Fairfax County Board
of Supervisors and Fairfax County School Board Joint CIP
(Capital Improvement Program) Committee

OCTOBER 2021

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TABLE OF CONTENTS

- Establishment of the Joint CIP Committee 3
- Acknowledgements..... 3
- Background and Conclusions 3
 - Reviewing the County’s existing Financial Policies 4
 - Considering the financing options available for capital projects 5
 - Understanding the capital project requirements identified for both the County and Schools 5
 - Evaluating the Current CIP Plan and processes 7
- Recommendations 8
- Timeline for Changes..... 10
- Other Suggestions for the Future 10
- Conclusion 11

ESTABLISHMENT OF THE JOINT CIP COMMITTEE

The Joint Board of Supervisors/School Board Capital Improvement Program (CIP) Committee was established following a Board of Supervisors/School Board retreat on February 3, 2020. The two Boards discussed several opportunities for continued collaboration and goals for the future, including scheduling a joint meeting between the School Board and Planning Commission to discuss the CIP and work done by the Commission in its CIP Committee. On February 25, 2020, Chairman McKay further defined that request to include a joint CIP working group to allow for information sharing, prioritizations, and planning by both the County and Fairfax County Public Schools.

On September 24, 2020, representatives from the School Board and the Planning Commission met to discuss the County and Schools CIP. The majority of the discussion focused on colocation/joint use facilities and current renovation schedules. The participants also emphasized continued work on integrating the One Fairfax initiative into the CIP process, considering available space for repurposing of facilities, and the potential for workforce housing on school sites.

ACKNOWLEDGEMENTS

The Committee wishes to acknowledge and recognize the work of County and School staff in the preparation of materials for Committee review and in the development of the Committee's recommendations. Special thanks to: County Executive Bryan Hill; FCPS Superintendent Scott Brabrand; former County Chief Financial Officer, Joe Mondoro; Chief Financial Officer and Director of the Department of Management and Budget, Christina Jackson, FCPS Assistant Superintendent of Facilities and Transportation Services, Jeffrey Platenberg; County Capital Programs Coordinator, Martha Reed; FCPS Special Projects Administrator, Capital Improvements and Planning, Jessica Gillis; County Debt Manager, Joe LaHait; and staff from the Department of Planning and Development, Fairfax County Park Authority, Department of Public Works and Environmental Services and the Facilities Management Department.

BACKGROUND AND CONCLUSIONS

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

Ultimately, the Committee spent its time 1) reviewing the County’s existing Financial Policies, 2) considering the financing options available for capital projects, 3) understanding the capital project requirements identified for both the County and Schools, and 4) evaluating the current CIP Plan and processes. Following these discussions, the Committee arrived at the series of recommendations outlined later in this report.

Reviewing the County’s existing Financial Policies

Several County policies were reviewed by the Committee. These policies provide the background and guidance that staff use to develop the CIP each year.

CIP Financial Policies and Guidelines

<p>Ten Principles of Sound Financial Management</p> <ul style="list-style-type: none"> • Statement of Board’s commitment to the County’s financial policies • Adopted in 1975, last amended in 2018 • Essential for maintaining the Triple A credit rating • Debt as a percentage of market value should be below 3 percent (currently 1.10 percent) • Debt as a percentage of General Fund Disbursements should be below 10 percent (currently 8.03 percent) • Total bond sale limit is \$300 million per year • Debt Service affordability 	<p>Adopted Principles of Sound Capital Planning</p> <ul style="list-style-type: none"> • Comprehensive Plan is the basis for capital planning • Public participation in the CIP process is encouraged • Long-term maintenance, renewal and replacement requirements should be adequately addressed • Supports efforts to promote economic vitality • Supports the development of affordable and effective multi-use public facilities as feasible • Provides for facilities that are cost effective and consistent with appropriate best practice standards • Guided by the County’s adopted Ten Principles of Sound Financial Management
<p>PPEA Guidelines adopted in October 2005, Updated in FY 2008</p> <ul style="list-style-type: none"> • Has project already been identified as a Board priority and included in the CIP? • What kind of budgetary resources will be required? • Is timing of the essence to take advantage of the opportunity? • Will this proposal interfere with projects currently identified in the CIP? • Can any required debt be accommodated? 	<p>Cooperation between County and Schools Resolution adopted in September 2007</p> <ul style="list-style-type: none"> • County and Schools will share information about service delivery requirements • Consider joint and compatible uses during CIP development • The Park Authority will also share information and consider joint and compatible uses

In addition to the review of existing County Financial policies, the County’s Financial Advisor, PFM Financial Advisors LLC, conducted a debt policy review of Fairfax County with comparisons to neighboring jurisdictions. This review included an evaluation of the County’s entire debt program, and the following conclusions were reached:

- ✓ Fairfax County’s existing debt policies and practices are sound
- ✓ Fairfax has additional borrowing capacity it can tap into without jeopardizing its bond ratings
- ✓ Debt service is a non-discretionary item in the operating budget
 - ✓ More debt service requires flexibility in the operating budget to be able to manage through downturns and the unexpected

- ✓ Expanded use of pay-go (Paydown) sources adds flexibility
- ✓ Additional sensitivity analysis can be used to test results of higher borrowing levels
- ✓ Fairfax can explore possible ways to increase funding for the capital program but must:
 - ✓ Maintain affordability of annual debt service in the operating budget
 - ✓ Consider debt policies and the need to remain in compliance
 - ✓ Assume protection of triple-A ratings
 - ✓ Continue positive credit agency views of the County's debt burden

Considering the financing options available for capital projects

Many financing options for capital projects were discussed with the objective of addressing current and future capital needs. The Committee recognizes that all capital funding is supported by the General Fund or general tax dollars. Cash payments for capital projects are budgeted annually for selected projects and are referred to as Pay-go or Paydown projects. The more common financing method supporting the County's Capital Program is the use of General Obligation Bonds. This form of borrowing is commonly used by municipal and state governments and uses an amortization period of 20-30 years. This financing uses the Equity Principle, spreading the debt repayment over multiple generations of users. In addition, the interest rate on municipal and state bonds may be tax-exempt from federal and state taxes. Fairfax County also uses Economic Development Authority (EDA) Revenue Bonds, Sewer Revenue Bonds, and Virginia Resources Authority Bonds.

Additional information concerning the use of EDA bonds for both County and Schools capital projects in recent years can be found at: [list of past and future Fairfax County Economic Development Authority - Q&A](#).

Understanding the capital project requirements identified for both the County and Schools

The Committee comprehensively reviewed both the Paydown (cash financed) and Bond capital programs as the most important financial tools in supporting both County and School capital projects.

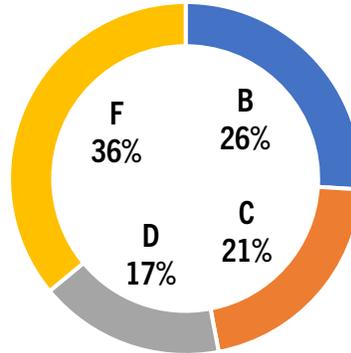
Paydown: The Paydown Program typically includes infrastructure replacement and upgrades (Major Maintenance/Capital Renewal), ADA compliance, athletic field improvements, and other facility improvements of a capital nature.

A significant backlog of infrastructure replacement projects (Major Maintenance/Capital Renewal) was determined in both the County and Schools programs based on limited funding for Paydown projects. School funding for Paydown projects has been in the \$25 million range for the past several years, with \$13.1 million provided from the County based on the recommendations of the Infrastructure Financing Committee. This funding level has not changed since FY 2016. In addition, funding for the Schools program is supplemented with approximately \$10 million per year for critical projects. Although best practices suggest that "maintenance and repair should be in the range of 2 to 4 percent of the Current Replacement Value (CRV) of facilities," the school system maintenance and repair funding is approximately 1.2 percent of the CRV.

The 5-year average for County Paydown annual funding has been approximately \$5.8 million. The County has been successful at redirecting General Fund balances at quarterly reviews, specifically using year-end balances to supplement the Paydown Program. The 5-year average funding applied to the Paydown Program at quarterly

reviews has been \$8.9 million, for a total 5-year average annual program of \$14.7 million. This practice, in addition to the Capital Sinking Fund program, has enabled many critical projects to move forward. The Capital Sinking Fund was established in FY 2014 as a mechanism to direct onetime year-end savings to critical infrastructure replacement projects. However, the County still operates with a significant backlog of projects identified as Category F: urgent/safety related, or endangering life and/or property; and Category D: critical systems beyond their useful life or in danger of possible failure which are unfunded on an annual basis. The following graphics demonstrates the breakdown of existing County projects by Category.

Percentage of Projects Identified in Deficiency Categories

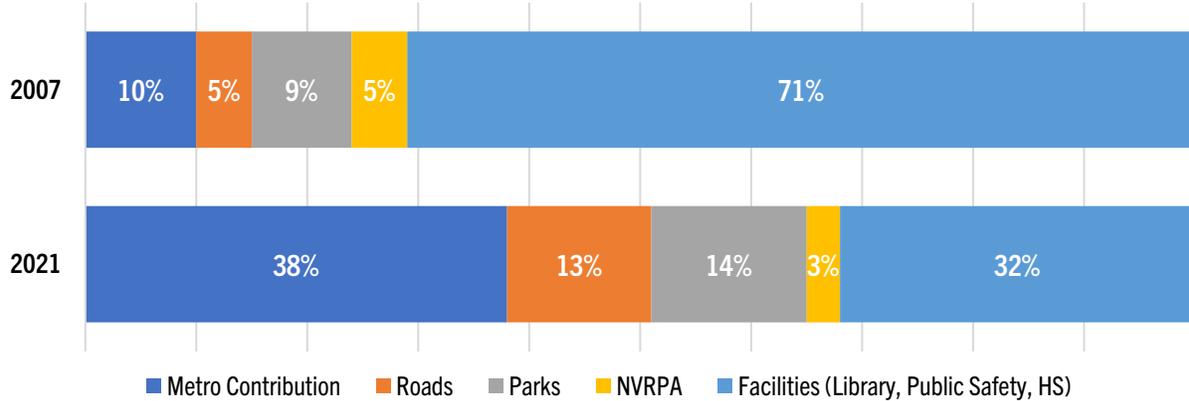


General Obligation Bond Program: The Committee comprehensively reviewed the General Obligation Bond Program as the single most important financial tool. In recent years both the County and Schools Bond programs have been experiencing challenges associated with bond sale limits and annual requirements for projects. The annual bond sale limits have not increased since 2007 for the County and since 2019 for the Schools.

The current annual bond sale limit results in a 37-year renovation cycle for school facilities. This can lead to equipment failures, energy inefficiencies, cost increases and safety concerns. The School Board has adopted the following policy for facility renovations: *It shall be the goal of the Fairfax County School Board to provide for the systematic renovation of the school facilities and other School Board-owned buildings. Further, it shall be the goal of the Fairfax County School Board that school facilities be renovated on a 20- to 25-year cycle. Building renovations shall be designed to meet the needs of the educational program and to extend the useful life of a facility by 20 or more years.* Additional bonding capacity would enable staff to update the renovation queue for the 200+ Schools and Centers spanning over 28 million square feet.

The County General Obligation Bond Program is also experiencing its own unique financing and cost challenges. The primary cost-driving factor is recent increased bond sale requirements for Metro. In 2007, Metro requirements represented 10 percent of the entire program and other County facilities represented 71 percent. In 2021, Metro requirements increased to 38 percent of the entire program and other County facilities decreased to 32 percent. The increased Metro requirements have significantly strained the needs for the remaining County programs. The County bond sales in both 2007 and 2021 totaled \$110 million; however, the allocations within each sale differed vastly, as illustrated in the following chart.

2007 vs 2021 Bond Sale Comparison



Select County projects can change in scope, location, or are added into larger colocation projects (e.g. Kingstowne Complex). Additionally, the timeframe for completion of renovations is affected by the amount of work that can occur annually to minimize operational disruption (e.g. courtroom renovations). These factors have led to slower than initially projected bond cashflow requirements, and a backlog of bond sale amounts while approaching the County’s eight-year bond referendum deadline. In many cases this will require a staff recommendation for the two-year extension to sell the remaining balance of the bonds. Finally, current construction market costs are being impacted by material price increases, material shortages, delivery and shipping delays, supply chain demands, an increase in labor wage rates compounded by a shortage of labor, and compliance with environmental/energy initiatives increasing the cost of capital projects.

Evaluating the Current CIP Plan and processes

Finally, the Committee reviewed the current County capital program, including the long-term bond referendum plan, and the CIP approval process and considered some changes to the program in order to appropriately scope and time future referendum.

The primary components of the County’s capital program and the Board approval process for each component are outlined below:

<p>The General Fund Capital Program is developed as part of the Advertised Budget and included in the CIP.</p> <p>The Board approves the General Fund Capital Program as part of the budget adoption process.</p>	<p>The Capital Sinking Fund is approved by the Board as part of the Carryover Review by committing 20 percent of Carryover balances for critical infrastructure replacement and upgrades projects throughout the County.</p> <p>Since FY 2014, the County has allocated \$64 million to the capital sinking fund.</p>	<p>Rates for self-supporting funds are developed (Stormwater, Wastewater, Solid Waste) as part of the Advertised Budget and support projects in the CIP.</p> <p>The Board approves these rates as part of the budget adoption process.</p>	<p>The General Obligation Bond Referendum Plan is developed as part of the CIP.</p> <p>The Board approves the plan and bond resolutions each summer prior to the fall referendum.</p> <p>The Board reviews and approves a citizen informational pamphlet on the proposed bond referendum projects.</p> <p>GO Bond sales typically occur annually in January following Board approval.</p>	<p>Economic Development Authority Bonds provide opportunities for the County to leverage public and private sector funds to advance major capital investments in infrastructure.</p> <p>These projects are proposed annually in the CIP, discussed in budget committee meetings and in individual Board member briefings. A formal plan of finance is then formally approved by the Board.</p>
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All CIP project funding and schedules are adjusted annually based on the most current information. However, changes in appropriation levels is approved by the Board at quarterly reviews or as part of the annual budget process.

Some of the CIP changes for future consideration include:

- ✓ Reviewing and potentially adjusting the timing and size of future Bond Referenda for the County. The County may want to move away from the current schedule of planning referenda by purpose every 4 years. Based on actual experience, some referendum may not need to occur every 4 years.
- ✓ Reviewing the possibility of delaying the fall 2022 County Referendum. The current CIP includes a \$97 million bond which maybe be recommended for deferral until a later year based on the backlog of bond sale requirements for current approved projects.
- ✓ Reviewing the assumptions used in future year CIP projections.
- ✓ Accounting for the complexity of co-location projects by providing more flexibility in bond referendum questions.
- ✓ Providing Paydown funding for feasibility studies to better define colocation opportunities, identify project needs, and develop better cost estimates.

RECOMMENDATIONS

The Committee's discussions proved to be very beneficial and helpful in developing the group's recommendations. The Committee forwards the following CIP recommendations to the Board of Supervisors and School Board for immediate consideration.

#1 Increase General Obligation Bond Sale limits from \$300 million to \$400 million annually

- ✓ The Committee recognizes that bond sale limits have not increased since 2007 for the County and 2019 for the Schools
- ✓ The Committee recommends a gradual increase to reach the \$400 million sales per year. A bond sale increase of \$50 million would be effective in January 2023 (\$25 million each for County and Schools); and a bond sale increase of \$100 million effective in January 2025 (\$50 million each for County and Schools)
- ✓ Debt service payments would begin in the fiscal year following each bond sale
- ✓ Ultimately both the County and Schools would receive an additional \$50 million
- ✓ The revised total for the County would be \$170 million and for the Schools would be \$230 million
- ✓ This change would be incorporated into the *Ten Principles of Sound Financial Management* as part of the adoption of the FY 2023 budget

#2 Dedicate the equivalent value of one penny on the Real Estate tax to the capital program

- ✓ Recommended as part of the FY 2023 budget to support both Paydown and future debt service
- ✓ In FY 2023, no debt service payments would be required, and the entire dedicated 'penny' would be directed to Capital Paydown
- ✓ First year Paydown increases would be split evenly between the County and Schools
- ✓ Assuming a penny value of \$28 million, \$14 million each would be provided for County/Schools Paydown projects in FY 2023

- ✓ The second year would include the first debt service payment with the balance in Paydown
- ✓ In FY 2024, assuming debt service requirements of \$2 million each, approximately \$12 million would be directed to County and Schools for Paydown
- ✓ As debt service requirements grow, Paydown would be reduced until reaching a baseline amount of \$10 million
- ✓ Debt/Paydown needs would gradually exceed the 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	
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

#3 Increase the percentage allocated to the Capital Sinking Fund at year-end and include Schools in the allocation

- ✓ The overall allocation to the Sinking Fund would increase from 20% to 30% of balances not needed for critical year-end items
- ✓ Schools would receive 25% of this allocation; County staff would reevaluate the percentages to each of the remaining areas (FMD, Parks, Walkways, County-owned Roads and Revitalization)
- ✓ This policy would have resulted in contributions for Schools totaling approximately \$28 million over the past 5 years

These recommendations would allow both the County and Schools to support more critical infrastructure replacements projects and address backlogs, account for increased construction costs and impacts associated with a potential Prevailing Wage Ordinance and provide for enhanced environmental sustainability initiatives. In addition, this increased investment will allow the County to support increasing Metro capital obligations, while sustaining facility requirements and will allow the Schools to design and construct 1-2 additional school capital improvement projects per year.

TIMELINE FOR CHANGES

- ▶ November 23, 2021: Discuss Report at Joint Board of Supervisors/School Board Budget Policy Meeting
- ▶ December 2021: Discuss proposed changes with rating agencies in advance of January 2022 bond sale (to prepare for increased sale in January 2023)
- ▶ December 2021: School Board discussion regarding Boundary Change Report and potential next steps
- ▶ Spring 2022: Board of Supervisors approves FY 2023 Budget with change to *Ten Principles of Sound Financial Management* Bond Sale limits and increased Paydown
- ▶ January 2023: First Bond sale with higher sales (County at \$145 million and Schools at \$205 million)
- ▶ FY 2024: First year of debt service requirements for higher sales
- ▶ January 2025: Second Bond sale increase (County at \$170 million and Schools at \$230 million)
- ▶ FY 2026: First year of debt service requirements for the total \$100 million increase

OTHER SUGGESTIONS FOR THE FUTURE

The Committee further benefited from a number of discussions and recommends the following suggestions for staff consideration in the future.

Refunding savings: If possible, any savings generated from the refunding of existing bonds should be redirected to one-time capital project costs. Staff will review the appropriate allocation of refunding savings in consideration of both County and Schools project needs.

Policy Plan updates: The planning process associated with the development of the CIP will be strengthened by the process currently underway to update the Policy Plan component of the County's Comprehensive Plan. The Planning Commission members of the Committee believe this work will result in additional ties between planning efforts and the CIP. The Planning Commission CIP committee and the Board of Supervisors will work with CIP staff to enhance their roles in the review and development of recommendations for the annual CIP.

Capital Project design: The Planning Commission has long supported the co-location efforts reflected in the CIP. With this in mind, staff should be encouraged to evaluate the use of incremental/modular design or prototype design when possible. Incremental or modular design efforts would include building facilities that can easily be expanded in the future and prototype design would include using the same design plans for several similar projects. This may result in cost savings and efficiencies in the future.

Feasibility Studies: To better define needs and prompt additional co-location projects, staff should consider annual funding for CIP feasibility studies as part of the proposed Paydown increase. These studies would enable staff to define and focus on the most pressing requirements and assess the feasibility of co-locating multiple County programs within one complex and/or co-locating County and Schools programs within one facility or complex. Feasibility studies would provide comprehensive evaluations, cost estimates, and allow for better referendum planning and timing.

Space Opportunities: Staff should continue to examine opportunities to use commercial space for County/School uses. It is anticipated that more space will become vacant as businesses adjust to larger teleworking postures as a result of the COVID-19 pandemic.

Continuous Discussions: The Board of Supervisors and the School Board should discuss the CIP on a continuous basis and not just once a year. The Committee would like to see more transparency in how things get included in the CIP and see closer ties between the CIP, One Fairfax, and the Environmental Agenda.

CONCLUSION

The Committee appreciated the opportunity to review and offer recommendations on these critical issues. The Committee believes that the recommendations included in this Report, if implemented, will help the County and Schools make significant progress in addressing the current capital challenges. The Committee looks forward to working with the full Board of Supervisors, School Board, and county and school staff in implementing these recommendations.

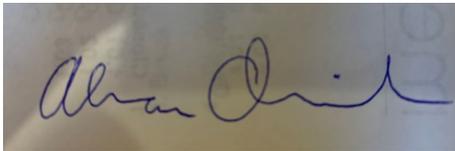
Adopted this 14th day of October 2021



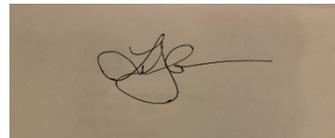
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