

| Financial |
|--------------------------|
| School Board Funds |
| Combined Fund Statements |
| Fund Statements |
| Operating Revenue |
| Operating Expenditures |
| Special Revenue Funds |
| Capital Projects Fund |
| Internal Services Funds |
| Pension Trust Fund |
| Financial Forecasts |

School Board Funds

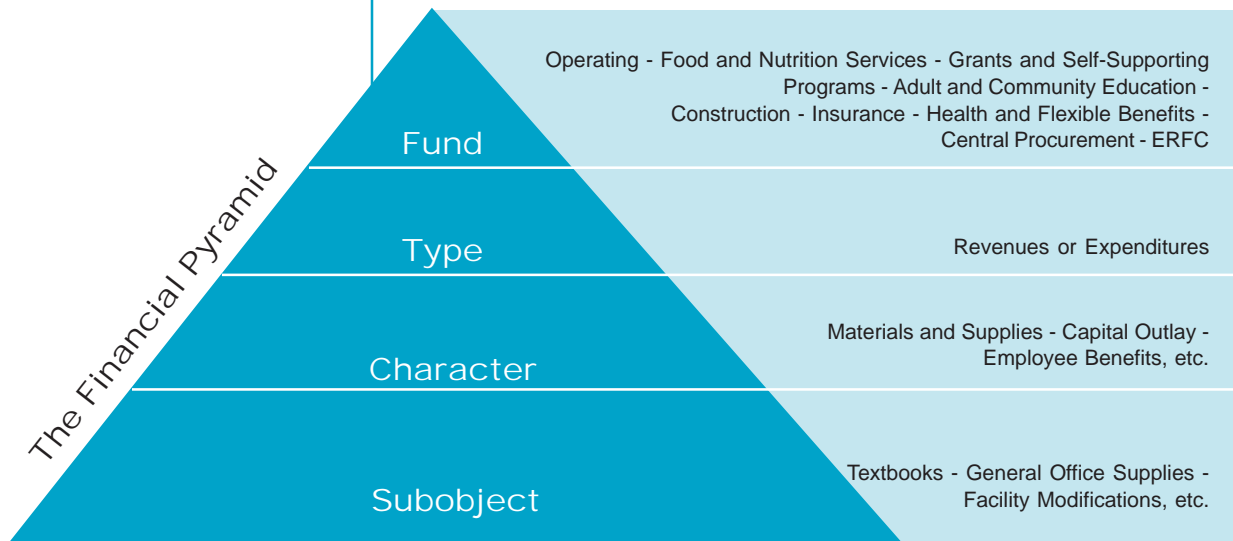
School Board Funds

The FY 2006 budget consists of the nine major funds under control of the School Board. These funds are:

| | |
|------------------|--|
| General | Operating Fund |
| Special Revenue | Food and Nutrition Services Fund |
| | Grants and Self-Supporting Programs Fund |
| | Adult and Community Education Fund |
| Capital Projects | Construction Fund |
| Internal Service | Insurance Fund |
| | Health and Flexible Benefits Fund |
| | Central Procurement Fund |
| Pension Trust | Educational Employees' Supplementary Retirement System of Fairfax County Fund (ERFC) |

Classification Structure

The primary elements used to classify revenues and expenditures are: fund, type, character, and subobject. Funds represent the highest level of the classification structure. Types refer to revenues and expenditures. Characters serve as a means for classifying revenues and expenditures into broad categories. Subobject codes represent the lowest level of the classification structure for classifying revenues and expenditures. As shown in the chart, these elements can be viewed as a pyramid, with fund being the top level and subobject being the lowest level of detail. This pyramid approach is reflected in all of the financial summaries that follow.



School Board Funds

School Board Funds

The FY 2006 budget consists of the nine major funds under the control of the School Board.

School Operating Fund

This fund provides for the day-to-day operations and maintenance of the schools and is funded primarily by county and state funds.

Food and Nutrition Services Fund

This fund provides for all food services' operating and administrative costs. It is totally self-supported, primarily by food sales and federal and state subsidies.

Grants & Self-Supporting Programs Fund

This fund accounts for federal grants, state grants, private grants, summer school, and SOL remediation.

Adult & Community Education Fund

This fund contains adult education revenues and expenditures.

School Construction Fund

This fund provides for new facilities and all facility renewals, expansions, building modifications, and capital expenditures. Funds are primarily from the sale of bonds.

School Insurance Fund

This fund provides administration for workers' compensation insurance, self-insurance funds for automobile and general liability, and commercial insurance for other liabilities.

Health & Flexible Benefits Fund

This fund is for the administration of health care benefits for employees and retirees and payment of eligible health care and dependent care expenses for employees participating in the flexible spending account program. Primary sources of revenue are employer/employee contributions.

Central Procurement Fund

This fund accounts for centrally procured orders for textbooks, supplies, and equipment. It is a clearing account for items purchased centrally and does not increase the total budget for the school division.

Educational Employees' Supplementary Retirement System of Fairfax County (ERFC)

This fund provides payments to employees retired from FCPS. The primary sources of revenue are employee and employer contributions and investment income.

There are nine major funds under the control of the School Board.

| School Board Funds | | | |
|--|-------------------------|-------------------------|---------------|
| (\$ in millions) | | | |
| Fund | FY 2005 Estimate | FY 2006 Approved | Change |
| School Operating | | | |
| Budget | \$1,853.9 | \$1,931.4 | \$77.5 |
| Positions | 21,564.1 | 21,859.4 | 295.3 |
| Food & Nutrition | | | |
| Budget | \$66.9 | \$69.5 | \$2.6 |
| Positions | 41.5 | 41.5 | 0.0 |
| Grants & Self-Supporting | | | |
| Budget | \$79.4 | \$68.8 | (\$10.6) |
| Positions | 397.6 | 417.6 | 20.0 |
| Adult & Community Education | | | |
| Budget | \$12.1 | \$11.4 | (\$0.7) |
| Positions | 97.9 | 97.9 | 0.0 |
| School Construction | | | |
| Budget | \$510.7 | \$121.8 | (\$388.9) |
| Positions | 88.3 | 88.3 | 0.0 |
| School Insurance | | | |
| Budget | \$11.4 | \$12.3 | \$0.9 |
| Positions | 10.3 | 10.3 | 0.0 |
| Health and Flexible Benefits | | | |
| Budget | \$207.3 | \$233.8 | \$26.5 |
| Positions | 13.5 | 13.5 | 0.0 |
| Central Procurement | | | |
| Budget | \$14.0 | \$14.0 | \$0.0 |
| Positions | 1.0 | 1.0 | 0.0 |
| ERFC (Retirement) | | | |
| Budget | \$139.5 | \$151.8 | \$12.3 |
| Positions | 32.3 | 32.3 | 0.0 |

Combined Fund Statement

| | General | Special Revenue | Capital Projects | Total Budgeted FY 2006 |
|---|----------------------|--------------------|--------------------|------------------------|
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Fairfax County | \$ 1,431,337,820 | \$ - | \$ - | \$ 1,431,337,820 |
| Commonwealth of Virginia | 386,329,484 | 11,064,523 | 928,965 | 398,322,972 |
| Federal government | 42,235,577 | 48,180,357 | - | 90,415,934 |
| Charges for services: | - | - | - | - |
| Tuition and fees | 4,695,774 | 10,737,062 | - | 15,432,836 |
| Food sales | - | 41,532,886 | - | 41,532,886 |
| Other | 5,664,200 | 455,877 | 286,000 | 6,406,077 |
| Recovered costs | 31,104,363 | - | 150,000 | 31,254,363 |
| Total revenues | 1,901,367,218 | 111,970,705 | 1,364,965 | 2,014,702,888 |
| Expenditures: | | | | |
| Instruction programs | 1,620,295,000 | 67,473,061 | - | 1,687,768,061 |
| Support programs | 275,925,100 | 12,726,557 | - | 288,651,657 |
| Food service | - | 69,494,036 | - | 69,494,036 |
| Capital outlay | - | - | 121,847,187 | 121,847,187 |
| Total expenditures | 1,896,220,100 | 149,693,654 | 121,847,187 | 2,167,760,941 |
| Excess (deficiency) of revenues over (under) expenditures | 5,147,118 | (37,722,949) | (120,482,222) | (153,058,053) |
| Other financing sources (uses) | | | | |
| Operating transfers in | - | 24,109,875 | 10,791,022 | 34,900,897 |
| Operating transfers out | (35,147,118) | - | - | (35,147,118) |
| Bond Proceeds | - | - | 109,691,200 | 109,691,200 |
| Total other financing sources (uses) | (35,147,118) | 24,109,875 | 120,482,222 | 109,444,979 |
| Excess of revenues and other financing sources over expenditures and other financing uses | (30,000,000) | (13,613,074) | - | (43,613,074) |
| Beginning Fund balances July 1 | 30,000,000 | 13,613,074 | - | 43,613,074 |
| Increases in reserve for inventories of supplies | - | - | - | - |
| Ending Fund balances June 30 | \$ - | \$ - | \$ - | \$ - |

Combined Fund Statement

| | Totals | | | |
|---|----------------------|-----------------------|-----------------------|----------------------|
| | Estimate FY 2005 | Actual FY 2004 | Actual FY 2003 | Actual FY 2002 |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Fairfax County | \$1,322,374,187 | \$ 1,240,850,321 | \$ 1,168,875,267 | \$ 1,079,911,756 |
| Commonwealth of Virginia | 378,339,125 | 324,767,143 | 307,738,657 | 331,341,941 |
| Federal government | 97,086,299 | 76,845,990 | 66,448,450 | 58,127,566 |
| Charges for services: | | | | |
| Tuition and fees | 14,576,956 | 15,660,044 | 15,044,339 | 14,728,582 |
| Food sales | 39,402,306 | 38,441,309 | 34,494,436 | 35,142,395 |
| Other | 7,332,761 | 11,753,373 | 9,623,045 | 14,779,058 |
| Recovered costs | 28,694,499 | 27,321,689 | 27,230,956 | 27,028,915 |
| | - | - | - | - |
| Total revenues | <u>1,887,806,133</u> | <u>1,735,639,869</u> | <u>1,629,455,150</u> | <u>1,561,060,213</u> |
| Expenditures: | | | | |
| Instruction programs | 1,618,652,168 | 1,424,972,451 | 1,324,754,062 | 1,270,192,502 |
| Support programs | 295,993,414 | 236,964,305 | 206,177,274 | 197,027,195 |
| Food service | 66,920,336 | 54,489,502 | 49,991,770 | 50,836,085 |
| Capital outlay | <u>142,641,611</u> | <u>137,835,731</u> | <u>158,267,891</u> | <u>198,648,252</u> |
| Total expenditures | <u>2,124,207,529</u> | <u>1,854,261,989</u> | <u>1,739,190,997</u> | <u>1,716,704,034</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(236,401,396)</u> | <u>(118,622,120)</u> | <u>(109,735,847)</u> | <u>(155,643,821)</u> |
| Other financing sources (uses) | | | | |
| Operating transfers in | 37,195,642 | 33,027,378 | 30,484,834 | 28,990,820 |
| Operating transfers out | (30,777,748) | (31,764,210) | (29,153,500) | (26,101,844) |
| Bond Proceeds | <u>125,590,000</u> | <u>130,000,000</u> | <u>136,400,000</u> | <u>130,000,000</u> |
| Total other financing sources (uses) | <u>132,007,894</u> | <u>131,263,168</u> | <u>137,731,334</u> | <u>132,888,976</u> |
| Excess of revenues and other financing sources over expenditures and other financing uses | <u>(104,393,502)</u> | <u>12,641,048</u> | <u>27,995,487</u> | <u>(22,754,845)</u> |
| Beginning Fund balances July 1 ¹ | 134,393,502 | 121,445,310 | 93,465,839 | 116,366,688 |
| Increases in reserve for inventories of supplies | <u>-</u> | <u>307,144</u> | <u>(16,016)</u> | <u>(146,004)</u> |
| Ending Fund balances June 30 | <u>\$ 30,000,000</u> | <u>\$ 134,393,502</u> | <u>\$ 121,445,310</u> | <u>\$ 93,465,839</u> |

¹ As a result of an accounting change per the GASB Statement Number 34, a one time adjustment of \$2.5 million was made in the annual leave liability, resulting in an increase in the FY 2002 beginning balance.

Fund Statements

School Operating Fund Statement

| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
|---|----------------------|-----------------------|-----------------------|----------------------|-----------------------------|
| BEGINNING BALANCE, July 1 | \$ 52,746,527 | \$ 77,622,846 | \$ 110,747,182 | \$ 113,382,753 | \$ 30,000,000 ^{1/} |
| RECEIPTS: | | | | | |
| Sales Tax | 104,422,309 | 108,484,574 | 120,800,001 | 141,483,579 | 154,162,657 |
| State Aid | 215,098,818 | 189,940,199 | 194,278,028 | 223,658,255 | 232,166,827 |
| Federal Aid | 31,486,890 | 34,643,996 | 36,872,769 | 45,400,588 | 42,235,577 |
| City of Fairfax Tuition | 25,950,550 | 26,927,421 | 27,069,379 | 28,544,499 | 31,104,363 |
| Tuition, Fees, and Other | 10,975,181 | 11,762,296 | 12,849,520 | 9,065,806 | 10,359,974 |
| Total Receipts | 387,933,748 | 371,758,486 | 391,869,697 | 448,152,727 | 470,029,398 |
| TRANSFERS IN: | | | | | |
| Combined County General Fund | 1,078,290,392 | 1,167,253,903 | 1,239,228,957 | 1,320,752,823 | 1,429,716,456 |
| Teacher Liability Payment | 1,621,364 | 1,621,364 | 1,621,364 | 1,621,364 | 1,621,364 |
| School Insurance Fund | 1,516,947 | - | - | - | - |
| Total Transfers In | 1,081,428,703 | 1,168,875,267 | 1,240,850,321 | 1,322,374,187 | 1,431,337,820 |
| Total Receipts & Transfers | 1,469,362,451 | 1,540,633,753 | 1,632,720,018 | 1,770,526,914 | 1,901,367,218 |
| Total Funds Available | 1,522,108,978 | 1,618,256,599 | 1,743,467,200 | 1,883,909,667 | 1,931,367,218 |
| EXPENDITURES: | 1,416,762,924 | 1,476,734,553 | 1,596,698,873 | 1,813,510,555 | 1,894,598,736 |
| School Board Reserve | - | - | - | 8,000,000 | - |
| Teacher Liability Payment | 1,621,364 | 1,621,364 | 1,621,364 | 1,621,364 | 1,621,364 |
| TRANSFERS OUT: | | | | | |
| School Construction Fund | 13,350,351 | 13,172,173 | 11,152,388 | 13,412,549 | 10,791,022 |
| Grants & Self-Supporting Fund | 11,382,456 | 13,687,954 | 19,071,530 | 15,798,823 | 20,791,585 |
| Adult & Community Education Fund | 1,100,131 | 2,000,131 | 1,200,131 | 1,200,131 | 1,200,131 |
| Consolidated County & Schools Debt Fund | - | - | - | - | 1,958,711 |
| Health and Flexible Benefits Fund | 268,906 | 293,242 | 340,161 | 366,245 | 405,669 |
| Total Transfers Out | 26,101,844 | 29,153,500 | 31,764,210 | 30,777,748 | 35,147,118 |
| Total Disbursements | 1,444,486,132 | 1,507,509,417 | 1,630,084,447 | 1,853,909,667 | 1,931,367,218 |
| ENDING BALANCE, June 30 | \$ 77,622,846 | \$ 110,747,182 | \$ 113,382,753 | \$ 30,000,000 | \$ - |

^{1/} Reflects \$30.0 million from the FY 2005 ending balance to be carried over to fund the FY 2006 budget.

Fund Statements

| Food and Nutrition Services Fund Statement | | | | | |
|---|---------------------|---------------------|----------------------|---------------------|---------------------|
| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
| BEGINNING BALANCE, July 1 | \$ 10,395,824 | \$ 9,791,528 | \$ 9,797,485 | \$ 10,614,164 | \$ 9,674,476 |
| RECEIPTS: | | | | | |
| Food Sales | 35,142,395 | 34,494,436 | 38,441,309 | 39,402,306 | 41,539,163 |
| Federal Aid | 14,254,508 | 14,635,920 | 15,720,374 | 16,113,383 | 17,444,399 |
| State Aid | 776,707 | 759,288 | 758,851 | 717,873 | 770,535 |
| Other Revenue | 204,183 | 124,099 | 78,503 | 72,610 | 65,464 |
| Total Receipts | 50,377,793 | 50,013,743 | 54,999,037 | 56,306,172 | 59,819,561 |
| Total Funds Available | 60,773,617 | 59,805,271 | 64,796,522 | 66,920,336 | 69,494,037 |
| EXPENDITURES | 50,836,085 | 49,991,770 | 54,489,502 | 57,245,860 | 59,818,837 |
| Food and Nutrition Services General Reserve | - | - | - | 9,674,476 | 9,675,200 |
| Total Disbursements | 50,836,085 | 49,991,770 | 54,489,502 | 66,920,336 | 69,494,037 |
| Change in Inventory | (146,004) | (16,016) | 307,144 | - | - |
| ENDING BALANCE, June 30 | \$ 9,791,528 | \$ 9,797,485 | \$ 10,614,164 | \$ - | \$ - |

Fund Statements

Grants and Self-Supporting Programs Fund Statement

| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------------|
| BEGINNING BALANCE, July 1 | \$ 3,751,539 | \$ 3,294,954 | \$ 5,326,446 | \$ 6,764,980 | \$ 3,302,888 ^{1/} |
| RECEIPTS: | | | | | |
| State Aid | 8,081,338 | 6,800,343 | 7,148,332 | 10,636,631 | 9,394,728 |
| Federal Aid | 11,711,405 | 16,224,675 | 23,213,517 | 34,478,391 | 29,970,155 |
| Tuition | 3,150,056 | 3,134,414 | 3,169,985 | 3,298,577 | 3,020,513 |
| Industry, Foundation, Other | 1,638,505 | 2,424,588 | 484,162 | 1,611,294 | 183,600 |
| Total Receipts | 24,581,304 | 28,584,020 | 34,015,996 | 50,024,893 | 42,568,996 |
| TRANSFERS IN: | | | | | |
| School Operating Fund (Grants) | - | - | 5,055,379 | 5,220,768 | 7,037,684 |
| School Operating Fund (Summer School) | 11,382,456 | 13,262,415 | 14,016,151 | 10,578,055 | 13,753,901 |
| County General Fund | - | - | - | 5,000,000 | - |
| Cable Communication Fund | 1,640,935 | 2,050,115 | 1,603,329 | 1,784,140 | 2,118,159 |
| Total Transfers In | 13,023,391 | 15,312,530 | 20,674,859 | 22,582,963 | 22,909,744 |
| Total Receipts & Transfers | 37,604,695 | 43,896,550 | 54,690,855 | 72,607,856 | 65,478,740 |
| Total Funds Available | 41,356,234 | 47,191,504 | 60,017,301 | 79,372,836 | 68,781,628 |
| EXPENDITURES | 38,061,280 | 41,865,058 | 53,252,321 | 79,372,836 | 68,781,628 |
| ENDING BALANCE, June 30 | \$ 3,294,954 | \$ 5,326,446 | \$ 6,764,980 | \$ - | \$ - |

^{1/} Reflects an additional \$3.3 million from the FY 2005 ending balance to be carried over to balance the FY 2006 budget.

Fund Statements

Adult and Community Education Fund Statement

| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|--------------------------|
| BEGINNING BALANCE, July 1 | \$ 3,782,283 | \$ 2,565,113 | \$ 2,051,626 | \$ 1,660,148 | \$ 635,710 ^{1/} |
| RECEIPTS: | | | | | |
| State Aid | 871,024 | 820,761 | 845,868 | 911,127 | 899,260 |
| Federal Aid | 674,762 | 943,859 | 1,039,330 | 1,138,921 | 765,803 |
| Tuition | 6,804,260 | 6,364,665 | 6,859,140 | 7,131,772 | 7,716,548 |
| Industry, Foundation, Other | 106,781 | 67,458 | 28,250 | 98,729 | 200,536 |
| Total Receipts | 8,456,827 | 8,196,743 | 8,772,588 | 9,280,549 | 9,582,147 |
| TRANSFERS IN: | | | | | |
| School Operating Fund | 1,100,131 | 2,000,131 | 1,200,131 | 1,200,131 | 1,200,130 |
| Total Transfers In | 1,100,131 | 2,000,131 | 1,200,131 | 1,200,131 | 1,200,130 |
| Total Receipts & Transfers | 9,556,958 | 10,196,874 | 9,972,719 | 10,480,680 | 10,782,277 |
| Total Funds Available | 13,339,241 | 12,761,987 | 12,024,345 | 12,140,828 | 11,417,987 |
| EXPENDITURES | 10,774,128 | 10,710,361 | 10,364,197 | 12,140,828 | 11,417,987 |
| ENDING BALANCE, June 30 | \$ 2,565,113 | \$ 2,051,626 | \$ 1,660,148 | \$ - | \$ - |

^{1/} Reflects an additional \$0.6 million from the FY 2005 ending balance to be carried over to balance the FY 2006 budget.

Fund Statements

School Construction Fund Statement

| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
|---------------------------------------|--------------------|-----------------------|---------------------|---------------------|---------------------|
| BEGINNING BALANCE, July 1 | \$ 45,690,515 | \$ 191,398 | \$ (6,477,429) | \$ 1,971,457 | \$ - |
| RECEIPTS: | | | | | |
| Bond Sales | 130,000,000 | 136,400,000 | 130,000,000 | 125,590,000 | 109,691,200 |
| State Construction Grant | 2,091,745 | 933,492 | 936,063 | 931,660 | 928,965 |
| PTA/PTO Receipts | 665,564 | 431,722 | 693,746 | 150,000 | 150,000 |
| City of Fairfax | 1,078,366 | 303,535 | 252,310 | 150,000 | 150,000 |
| Insurance Proceeds | - | 200,000 | 1,819,491 | 299,945 | - |
| Other Revenue | 5,963,109 | 158,142 | 1,430,619 | 136,000 | 136,000 |
| Total Receipts | 139,798,784 | 138,426,891 | 135,132,229 | 127,257,605 | 111,056,165 |
| AUTHORIZED BUT UNISSUED BONDS | - | - | - | 368,061,986 | - |
| TRANSFERS IN: | | | | | |
| School Operating Fund | | | | | |
| Building Maintenance | 8,500,000 | 6,464,072 | 6,633,729 | 9,000,000 | 6,800,000 |
| Classroom Equipment | 3,456,550 | 4,871,209 | 3,422,014 | 3,258,000 | 3,391,022 |
| Facility Modifications | 1,393,801 | 1,336,892 | 1,096,645 | 1,154,549 | 600,000 |
| Floris Elementary School Roof Project | - | 500,000 | - | - | - |
| Total Transfers In | 13,350,351 | 13,172,173 | 11,152,388 | 13,412,549 | 10,791,022 |
| Total Receipts and Transfers | 153,149,135 | 151,599,064 | 146,284,617 | 508,732,140 | 121,847,187 |
| Total Funds Available | 198,839,650 | 151,790,462 | 139,807,188 | 510,703,597 | 121,847,187 |
| EXPENDITURES AND COMMITMENTS: | | | | | |
| Expenditures | 198,648,252 | 158,267,891 | 137,835,731 | 147,051,611 | 121,847,187 |
| Additional Contractual Commitments | - | - | - | 363,651,986 | - |
| Total Disbursements | 198,648,252 | 158,267,891 | 137,835,731 | 510,703,597 | 121,847,187 |
| ENDING BALANCE, June 30 | \$ 191,398 | \$ (6,477,429) | \$ 1,971,457 | \$ - | \$ - |

FINANCIAL

Fund Statements

| School Insurance Fund Statement | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
| BEGINNING BALANCE, July 1 | \$ 23,919,070 | \$ 19,132,775 | \$ 16,956,380 | \$ 14,726,537 | \$ 14,717,655 |
| RECEIPTS: | | | | | |
| Workers' Compensation | | | | | |
| School Operating Fund | 2,975,116 | 2,975,116 | 2,975,116 | 4,375,116 | 5,266,150 |
| School Food & Nutrition Serv. Fund | 218,124 | 218,124 | 218,124 | 218,124 | 277,166 |
| Other Insurance | | | | | |
| School Operating Fund | 333,896 | 2,680,000 | 4,700,000 | 6,700,000 | 6,700,000 |
| Insurance Proceeds | - | - | 345,752 | 50,000 | 50,000 |
| Total Receipts | 3,527,136 | 5,873,240 | 8,238,992 | 11,343,240 | 12,293,316 |
| Total Funds Available | 27,446,206 | 25,006,015 | 25,195,372 | 26,069,777 | 27,010,971 |
| EXPENDITURES: | | | | | |
| Workers' Compensation | | | | | |
| Administration | 351,654 | 429,811 | 481,160 | 644,274 | 538,316 |
| Claims Paid | 2,184,195 | 3,040,819 | 3,803,626 | 4,221,455 | 4,380,000 |
| Claims Management | 708,402 | 452,955 | 639,142 | 600,000 | 625,000 |
| Other Insurance | 3,552,233 | 4,126,050 | 5,544,907 | 5,886,393 | 6,750,000 |
| Subtotal Expenditures | 6,796,484 | 8,049,635 | 10,468,835 | 11,352,122 | 12,293,316 |
| Net Change in Accrued Liability - Worker's Comp | (3,206,313) | (1,415,058) | (10,195) | - | - |
| Net Change in Accrued Liability - Other Insurance | 258,644 | 1,390,325 | (872,971) | 3,000 | - |
| Total Expenditures | 3,848,815 | 8,024,902 | 9,585,669 | 11,355,122 | 12,293,316 |
| TRANSFERS OUT: | | | | | |
| School Operating Fund | 1,516,947 | - | - | - | - |
| Total Disbursements | 5,365,762 | 8,024,902 | 9,585,669 | 11,355,122 | 12,293,316 |
| ENDING BALANCE, June 30 | \$ 19,132,775 | \$ 16,956,380 | \$ 14,726,537 | \$ 14,717,655 | \$ 14,717,655 |
| Restricted Reserves: | | | | | |
| Worker's Comp Accrued Liability | 12,379,253 | 10,964,195 | 10,954,000 | 10,954,000 | 10,954,000 |
| Other Insurance Accrued Liability | 3,246,300 | 4,636,625 | 3,763,654 | 3,763,655 | 3,763,655 |
| Reserve for Catastrophic Occurrences | 3,507,222 | 1,355,560 | 8,883 | - | - |
| Total Reserves | \$ 19,132,775 | \$ 16,956,380 | \$ 14,726,537 | \$ 14,717,655 | \$ 14,717,655 |

Fund Statements

Health and Flexible Benefits Fund Statement

| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
|--|---------------------|----------------------|----------------------|---------------------|---------------------|
| BEGINNING BALANCE, July 1 | \$ 8,279,428 | \$ 8,958,466 | \$ 14,689,825 | \$ 23,648,990 | \$ 23,462,659 |
| RECEIPTS: | | | | | |
| Employer Contributions | 72,960,137 | 88,064,077 | 103,940,287 | 121,973,293 | 143,553,256 |
| Employee Contributions | 21,523,717 | 26,334,644 | 30,301,908 | 34,517,077 | 38,794,000 |
| Retiree/Other Contributions | 15,782,035 | 18,319,870 | 21,485,588 | 21,400,316 | 21,668,000 |
| Aetna Stop-Loss Refund | 939,172 | - | - | - | - |
| Interest Income | 337,477 | 329,691 | 345,727 | 560,000 | 575,000 |
| Subtotal | 111,542,538 | 133,048,282 | 156,073,510 | 178,450,686 | 204,590,256 |
| Flexible Accounts Withholdings | 3,903,593 | 4,342,417 | 4,938,207 | 4,787,515 | 5,302,859 |
| Total Receipts | 115,446,131 | 137,390,699 | 161,011,717 | 183,238,201 | 209,893,115 |
| TRANSFERS IN: | | | | | |
| School Operating Fund | 268,906 | 293,242 | 340,161 | 366,245 | 405,669 |
| Total Receipts and Transfers | 115,715,037 | 137,683,941 | 161,351,878 | 183,604,446 | 210,298,784 |
| Total Funds Available | 123,994,465 | 146,642,407 | 176,041,703 | 207,253,436 | 233,761,443 |
| EXPENDITURES/PAYMENTS: | | | | | |
| Health Benefits Paid | 74,931,037 | 86,119,102 | 102,287,276 | 122,663,420 | 145,812,386 |
| Premiums Paid | 28,893,144 | 31,838,350 | 36,916,182 | 45,009,985 | 49,137,870 |
| Claims Incurred but not Reported (IBNR) | 10,461,561 | 13,200,000 | 14,394,000 | 18,735,252 | 20,815,000 |
| IBNR Prior Year Credit | (9,000,000) | (10,400,000) | (13,200,000) | (15,904,104) | (17,914,000) |
| Health Administrative Expenses | 5,915,569 | 6,716,581 | 7,382,970 | 8,446,544 | 9,223,340 |
| Subtotal | 111,201,311 | 127,474,033 | 147,780,428 | 178,951,097 | 207,074,596 |
| Flexible Accounts Reimbursement | 3,735,886 | 4,373,324 | 4,505,430 | 4,723,669 | 4,909,725 |
| FSA Administrative Expenses | 98,802 | 105,225 | 106,855 | 116,011 | 108,943 |
| Subtotal | 3,834,688 | 4,478,549 | 4,612,285 | 4,839,680 | 5,018,668 |
| Claims Stabilization Reserve ^{/1} | - | - | - | 23,462,659 | 21,668,179 |
| Total Disbursements | 115,035,999 | 131,952,582 | 152,392,713 | 207,253,436 | 233,761,443 |
| ENDING BALANCE, June 30 | \$ 8,958,466 | \$ 14,689,825 | \$ 23,648,990 | \$ - | \$ - |

^{/1} The Claims Stabilization Reserve is appropriated for budgeting purposes to offset fluctuations in health insurance costs during the fiscal year. This reserve is projected to be carried forward as FY 2006 beginning balance.

Fund Statements

| Central Procurement Fund Statement | | | | | |
|---|---------------------|-------------------|-------------------|---------------------|---------------------|
| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
| BEGINNING BALANCE, July 1 | \$ 1,591,243 | \$ 1,176,028 | \$ 835,200 | \$ 477,953 | \$ 477,953 |
| RECEIPTS: | | | | | |
| Sales to Schools/Departments | 11,220,582 | 10,351,051 | 10,766,960 | 14,000,000 | 14,000,000 |
| Total Funds Available | 12,811,825 | 11,527,079 | 11,602,160 | 14,477,953 | 14,477,953 |
| EXPENDITURES: | | | | | |
| Purchase for Resale | 11,635,797 | 10,691,879 | 11,124,207 | 14,000,000 | 14,000,000 |
| Total Disbursements | 11,635,797 | 10,691,879 | 11,124,207 | 14,000,000 | 14,000,000 |
| ENDING BALANCE, June 30 | \$ 1,176,028 | \$ 835,200 | \$ 477,953 | \$ 477,953 | \$ 477,953 |

Fund Statements

| Educational Employees' Supplementary Retirement System of Fairfax County Fund Statement | | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | FY 2002 Actual | FY 2003 Actual | FY 2004 Actual | FY 2005 Estimate | FY 2006 Approved |
| BEGINNING BALANCE, July 1 | \$ 1,488,764,682 | \$ 1,369,372,874 | \$ 1,349,792,227 | \$ 1,528,120,115 | \$ 1,579,225,180 |
| RECEIPTS: | | | | | |
| Contributions | 49,321,779 | 53,487,922 | 59,672,073 | 73,154,572 | 77,140,920 |
| Investment Income | (60,706,645) | 39,286,159 | 240,546,922 | 117,450,000 | 120,500,000 |
| Total Receipts | (11,384,866) | 92,774,081 | 300,218,995 | 190,604,572 | 197,640,920 |
| Total Funds Available | 1,477,379,816 | 1,462,146,955 | 1,650,011,222 | 1,718,724,687 | 1,776,866,100 |
| EXPENDITURES | 108,006,942 | 112,354,728 | 121,891,107 | 139,499,507 | 151,825,260 |
| ENDING BALANCE, June 30 | \$ 1,369,372,874 | \$ 1,349,792,227 | \$ 1,528,120,115 | \$ 1,579,225,180 | \$ 1,625,040,840 |

FINANCIAL

Operating Revenue

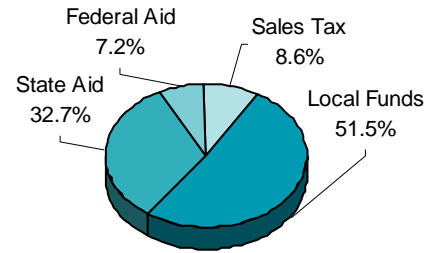
Revenue Overview

In FY 2006, all sources of revenue are expected to increase \$47.5 million, or 2.5 percent, over the FY 2005 estimate, including a \$30.0 million beginning balance. The primary source of operating revenue, the County General Fund transfer, will increase 8.24 percent. State aid, another major funding source, is projected to increase 3.8 percent. Together, these two funding sources comprise 86.0 percent of all revenue projected for FY 2006.

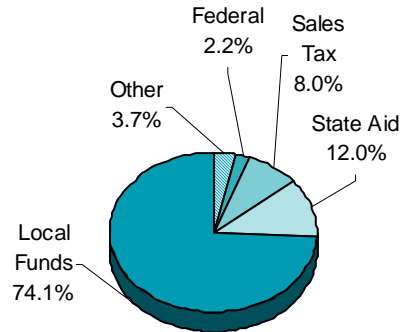
When compared with other school divisions in Virginia, Fairfax County funds a much larger portion of its school budget with local funds. The average Virginia school division receives approximately half of its financial support from its local government, while FCPS must rely on local funds for three-fourths of its budget. Conversely, FCPS only receives 20.0 percent of its funding from the state, significantly less than the 41.0 percent share other Virginia school divisions receive.

An additional source of revenue for FCPS is the federal entitlement funding from the No Child Left Behind Act (NCLB). This funding is accounted for in the Grants and Self-Supporting Programs Fund (see Special Revenue Funds). It is estimated FCPS will receive \$24.5 million in FY 2006. This is a 35 percent increase over FY 2005. This increase is primarily due to additional funding expected for Title I as a result of the most current census data used to allocate these funds to school districts.

**Funding Source Breakdown
All Virginia School Divisions**



**FCPS Revenue Breakdown
by Source**



| Revenue Comparison (\$ in millions) | | | | | | | |
|--|---------------------|---------------------|---------------------|------------------------------------|---------------|------------------------------------|---------------|
| Category | FY 2005 Approved | FY 2005 Estimate | FY 2006 Approved | Comparison Approved to Approved | | Comparison Approved to Estimate | |
| | | | | Amount | Percent | Amount | Percent |
| Beginning Balance | \$41.9 | \$113.4 | \$30.0 | (\$11.9) | -28.4% | (\$83.4) | -73.5% |
| County Transfer | \$1,322.4 | \$1,322.4 | \$1,431.3 | \$109.0 | 8.2% | \$109.0 | 8.2% |
| Revenue | | | | | | | |
| State Aid | \$224.9 | \$223.7 | \$232.2 | \$7.3 | 3.2% | \$8.5 | 3.8% |
| Sales Tax | 140.7 | 141.5 | 154.2 | 13.5 | 9.6% | 12.7 | 9.0% |
| Federal Aid | 37.5 | 45.4 | 42.2 | 4.8 | 12.7% | (3.2) | -7.0% |
| City of Fairfax | 29.1 | 28.5 | 31.1 | 2.0 | 6.7% | 2.6 | 9.0% |
| Other | 9.1 | 9.1 | 10.4 | 1.3 | 14.3% | 1.3 | 14.3% |
| Subtotal Revenue | \$441.3 | \$448.2 | \$470.0 | \$28.8 | 6.5% | \$21.9 | 4.9% |
| Total School Operating Fund | \$1,805.5 | \$1,883.9 | \$1,931.4 | \$125.8 | 7.0% | \$47.5 | 2.5% |

*Numbers may not add due to rounding

Operating Revenue

Seventy-four percent of all operating revenue comes from local county taxpayers.

FINANCIAL

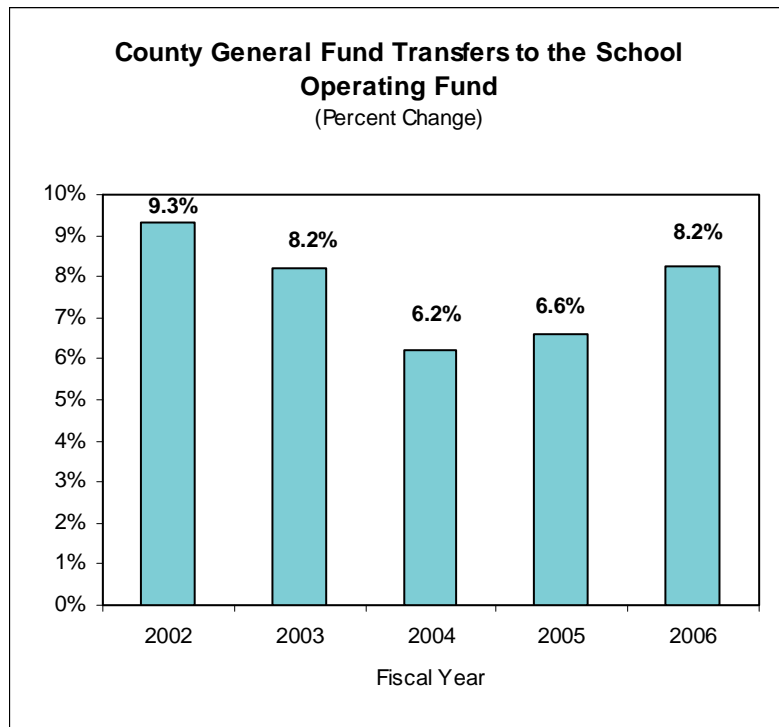
Beginning Balance \$30.0 million

A \$30.0 million beginning balance is budgeted for FY 2006. This balance is the result of savings generated in FY 2004 and FY 2005. The FY 2004 Final Budget Review set aside \$15.0 million to be used a part of the FY 2006 beginning balance. The remaining \$15.0 million amount was identified from additional savings in FY 2005. Although the beginning balance is not revenue, it is included with revenue in determining total funds available.

Transfers In - County General Fund \$1.4 billion

Real and personal property tax dollars are the primary revenue sources for Fairfax County. The Board of Supervisors approves a transfer from county funds to FCPS to finance the Operating Fund.

In FY 2006, the County General Fund transfer (local tax dollars) will provide approximately 74.1 percent of the Operating Fund's revenue. Included in this total is \$1.6 million to eliminate the teacher salary liability. The transfer is an 8.24 percent increase over FY 2005.



Operating Revenue

State Aid \$232.2 million

State aid will increase from \$223.7 million in FY 2005 to a projected level of \$232.2 million in FY 2006, an increase of \$8.5 million. This increase is primarily due to routine updates to the Standards of Quality (SOQ) funding rates and membership growth. State aid is divided into three types of accounts: Standards of Quality, Incentive, and Categorical. A summary of each type is included below.

Standards of Quality (SOQ) Accounts

The Standards of Quality prescribe the minimum foundation program that all public schools in Virginia must meet. Standards are set by the Board of Education, subject to revision only by the General Assembly. The state Constitution gives the General Assembly the responsibility to determine the manner in which state funds are to be distributed to school divisions for the cost of maintaining an education program that meets the SOQ.

The General Assembly also apportions the cost of funding the SOQ between state and local governments. Since FY 1993, the State has implemented a policy of paying 55 percent of the shared SOQ cost, adjusted for each locality by an equalization formula. Equalization is accomplished by the use of the Local Composite Index (LCI), the State's measure of local ability to pay. The LCI mathematically combines three separate measures of local fiscal capacity into a single index, which weighs a locality's ability-to-pay relative to other localities in the state. Counties and cities with a lower composite index receive more state funding, while those with a higher index receive less. The LCI is based on true values of real estate and public service corporations (weighted 50 percent), adjusted gross income (weighted 40 percent), and taxable retail sales (weighted 10 percent), divided by average daily membership (ADM) and population. The LCI is recalculated every two years for the State's biennium budget. Because FY 2006 is the second year of the biennium, the LCI will remain at .7489.

Basic Aid, the primary component of the SOQ, establishes standards for personnel, instructional materials, program and systemwide planning and management, as well as performance objectives for the Virginia Board of Education and local school divisions. In FY 2006, the Basic Aid entitlement for FCPS, after equalization by the LCI, is estimated to be \$1,260 for each student included in ADM. In comparison, the FY 2006 FCPS average cost per pupil is \$11,915. Based on an ADM projection of 158,206 students, total Basic Aid is estimated to be \$160.1 million in FY 2006.

| State Aid (\$ in millions) | |
|-------------------------------|----------------|
| • SOQ/Equalized | \$215.0 |
| • Incentive | 13.3 |
| • Categorical | 3.9 |
| Total | \$232.2 |

| SOQ/ Equalized Accounts (\$ in millions) | |
|---|----------------|
| • Basic Aid | \$160.1 |
| • Compensation | 3.2 |
| • Special Education | 20.2 |
| • ESOL | 7.6 |
| • State Retirement | 7.9 |
| • Social Security | 8.4 |
| • Textbooks | 2.5 |
| • Vocational Education | 1.6 |
| • Gifted Education | 1.7 |
| • Remedial Education | 1.8 |
| Total | \$215.0 |

Operating Revenue

Included in SOQ funding for FY 2006 is a 3 percent compensation supplement of \$3.2 million for all positions funded in the Standards of Quality and other state-funded positions. This supplement was not received in FY 2005.

In addition to Basic Aid and the compensation supplement, smaller amounts of SOQ funding are received for special education, vocational education, gifted education, remedial education, English as a second language, textbooks, state retirement, and social security. Like Basic Aid, each of the SOQ categories is funded by an individual per pupil rate, and equalized by the LCI. Based on an ADM projection of 158,206 students, the total SOQ funding from non-Basic Aid categories is estimated to be \$54.9 million in FY 2006.

Incentive Accounts

Incentive-based payments from the state are not required by law but are intended to target resources for specific student or school needs statewide. In order to receive funding from this category, each school division must provide certification to the State that they will meet the requirements that are unique to each category. For example, the largest incentive category is funded by lottery proceeds. In order to qualify for these funds, a school division must agree to provide a local match, based on the LCI. In addition, at least 50 percent of the lottery funds must be spent on school construction, technology, and modernizing classroom equipment. No more than 50 percent can be spent on recurring costs. Other incentive categories of funding include at-risk students, primary class size, early reading intervention, and SOL algebra readiness. The total FY 2006 funding from incentive accounts is estimated to be \$13.3 million.

Categorical Accounts

The various categorical programs focus on particular needs of special student populations or fulfill particular state obligations. State or federal law or regulation typically requires these programs. Included in this section is funding for foster home, homebound, governor's school, vision, career and technical education, and adult secondary education. Also included here is funding from wine tax receipts that are distributed to localities based on the latest U.S. census of the population.

Incentive Accounts (\$ in millions)

| | |
|------------------------------|---------------|
| • Lottery | \$9.7 |
| • At-Risk | 0.9 |
| • Primary Class Size K-3 | 1.5 |
| • Early Reading Intervention | 0.9 |
| • SOL Algebra Readiness | 0.3 |
| Total | \$13.3 |

Categorical Accounts (\$ in millions)

| | |
|----------------------------------|--------------|
| • Wine Tax | \$0.7 |
| • Foster Home | 0.5 |
| • Homebound | 0.2 |
| • Thomas Jefferson High School | 1.3 |
| • Vision Program | 0.1 |
| • Career and Technical Education | 1.0 |
| • Adult Secondary Education | 0.1 |
| Total | \$3.9 |

Operating Revenue

Sales Tax \$154.2 million

Sales tax revenue is projected to be \$154.2 million in FY 2006, based on a 9.0 percent increase in sales tax receipts. Of the 5.0 cent sales-and-use tax levied in Virginia, one cent of the amount collected is returned directly to the local government for General Fund use and one and one-quarter cent is dedicated to K-12 education. Of the amount collected for K-12 education, one and one-eighth is returned to school districts as sales tax revenue and one-eighth is used to fund the state's share of the Standards of Quality (SOQ). However, when distributing the sales tax revenue to school districts, the state equalizes the funds among the school divisions based on each locality's number of school-age children. If sales tax revenues were distributed to public schools using the same methodology used for local government, FCPS would receive over \$30.0 million in additional revenue in FY 2006.

Federal Aid \$42.2 million

Federal aid is projected to be \$42.2 million in FY 2006. Federal funds are provided through the Impact Aid Program as well as for specific purposes, such as special education and telecommunication programs. Federal programs, except for Impact Aid, are budgeted by the federal government a year in advance of actual use by localities. Actual entitlements, however, are not known until the beginning of the school year.

Impact Aid

Federal Impact Aid provides revenue to local educational agencies for the operating costs of educating children in areas impacted by federal activity. The purpose of the program is to minimize the fiscal inequities caused by both the presence of federal tax-exempt property and the increased burden of providing education to large numbers of children whose parents reside on federal property and/or work on federal installations. Under this program, the majority of funds is provided for pupils whose parents live and work on federal property, primarily Fort Belvoir, and a minimal amount for pupils whose parents live or work on federal property. Impact aid is projected to be \$3.0 million in FY 2006.

Special Education – Individuals with Disabilities Education Act

The Individuals with Disabilities Education Act (IDEA) provides federal aid to ensure that all school-age handicapped children are provided a free, appropriate public education. Federal funds are used only for the excess cost of educating handicapped students. No locality may spend less on the education of handicapped students than it does for nonhandicapped students. Further, federal funds may not supplant existing locally-funded programs. IDEA funding is projected to be \$32.4 million in FY 2006.

| Federal Aid (\$ in millions) | |
|--|---------------|
| • Impact Aid | \$3.0 |
| • IDEA | 32.4 |
| • Federal E-Rate | 3.9 |
| • Miscellaneous | 2.9 |
| Total | \$42.2 |

FINANCIAL

Operating Revenue

Tuition, Fees, and Other (\$ in millions)

| | |
|-----------------------------|---------------|
| • Tuition and Fees | \$4.7 |
| • Miscellaneous Revenue | 3.8 |
| • Use of Money and Property | 1.9 |
| Total | \$10.4 |

Federal E-Rate

FCPS participates in the federal E-rate program that provides a fund to discount telecommunication and other technology products and services used by public schools, libraries, and other selected entities. The annual discount for eligible expenditures is based on the percentage of students receiving free or reduced lunch prices. The total E-rate revenue anticipated in FY 2006 is \$3.9 million.

City of Fairfax Tuition \$31.1 million

Fairfax County Public Schools operates the schools owned by the City of Fairfax. The School Services Agreement between the City of Fairfax and FCPS determines the tuition due to FCPS from the City of Fairfax for educating city students. FCPS is projected to receive \$31.1 million from the City of Fairfax to provide educational services to 2,714 City of Fairfax students projected for FY 2006.

Tuition, Fees, and Other \$10.4 million

Included in this category is tuition for students who reside outside of Fairfax County including students from neighboring school divisions who attend Thomas Jefferson High School for Science and Technology. Fees include parking permits, musical instrument rentals, and fees for staff development and dues collection. Other revenue is also received for community use of school facilities and the sale of vehicles and equipment.

A five-year revenue detail chart can be found in the Appendix.

Operating Expenditures

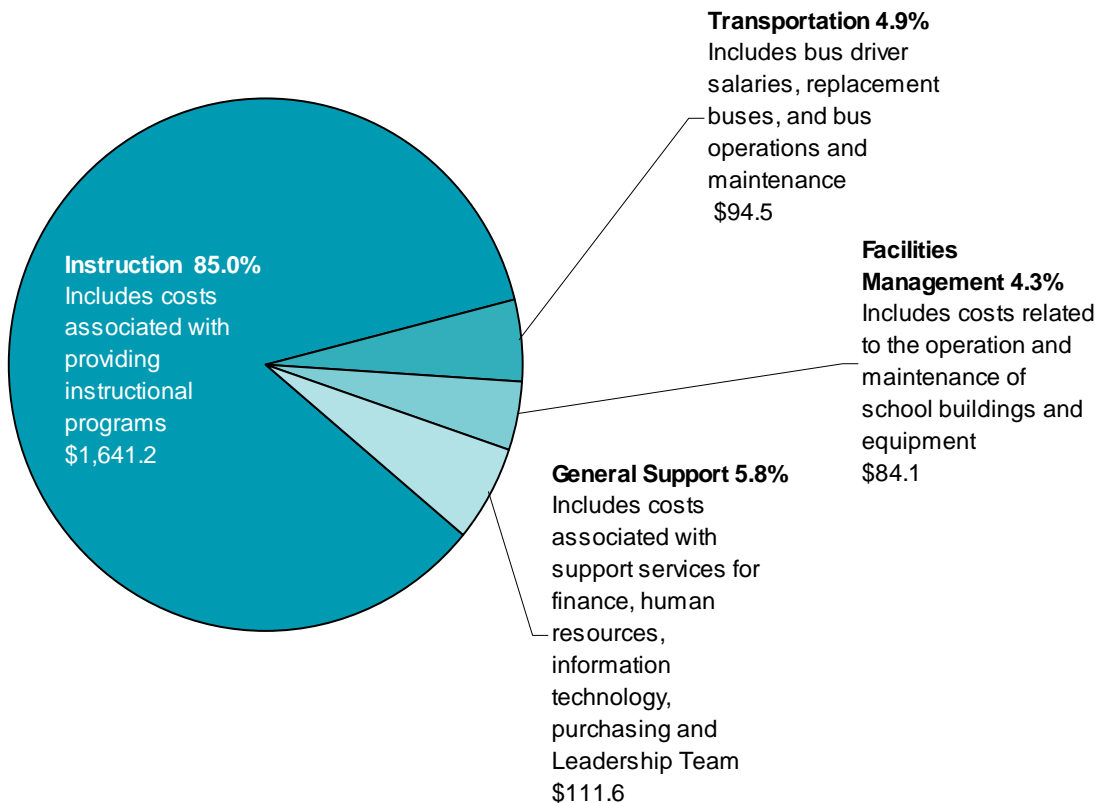
Operating Fund Overview

The FY 2006 approved expenditures in the Operating Fund total \$1.9 billion, an increase of approximately \$125.8 million, or 7.0 percent, over the FY 2005 approved budget.

The Operating fund provides for the day-to-day operations and maintenance of the schools. In this section, details are provided on the major categories of expenditures funded through the Operating Fund.

Over 86 percent of operating expenses are for employee compensation.

Where it goes..... FY 2006 Approved Operating Expenditures (\$ in millions)



Operating Expenditures

Expenditures by Category

The chart below illustrates total expenditures by category:

| Expenditure Comparison (\$ in millions) | | | | | |
|--|---------------------|---------------------|---------------------|------------------------------------|------------------------------------|
| | FY 2005 Approved | FY 2005 Estimate | FY 2006 Approved | Change Over FY 2005 Approved | Change Over FY 2005 Estimate |
| Compensation | | | | | |
| Regular Salaries | \$1,092.6 | \$1,084.4 | \$1,163.3 | 6.5% | 7.3% |
| Hourly Salaries-Contracted | 45.1 | 48.1 | 52.3 | 16.0% | 8.7% |
| Hourly Salaries-Noncontracted | 41.4 | 45.3 | 40.9 | -1.2% | -9.6% |
| Salary Supplements | 21.8 | 15.0 | 17.1 | -21.6% | 14.0% |
| Reimbursable Salaries | (1.5) | (3.0) | (1.9) | 26.7% | -34.0% |
| Employee Benefits | 343.5 | 348.4 | 391.6 | 14.0% | 12.4% |
| Subtotal Compensation | \$1,542.9 | \$1,538.2 | \$1,663.2 | 7.8% | 8.1% |
| Logistics | | | | | |
| Materials/Supplies | \$71.0 | \$90.0 | \$72.4 | 2.0% | -19.6% |
| Utilities | 51.9 | 51.5 | 49.5 | -4.6% | -3.9% |
| Other Operating Expenses | 15.8 | 16.9 | 12.5 | -20.9% | -26.0% |
| Privatized Services | 29.5 | 44.2 | 33.8 | 14.6% | -23.4% |
| County Services | 20.3 | 21.9 | 23.3 | 14.8% | 6.5% |
| Capital Outlay | 37.2 | 45.9 | 34.8 | -6.5% | -24.1% |
| Other Funds | 6.7 | 6.7 | 6.7 | 0.0% | 0.0% |
| School Board Reserve | 0.0 | 8.0 | 0.0 | 0.0% | 0.0% |
| Subtotal Logistics | \$232.4 | \$285.1 | \$233.1 | 0.3% | -18.2% |
| Transfers | \$30.2 | \$30.8 | \$35.1 | 16.2% | 14.2% |
| Total * | \$1,805.5 | \$1,853.9 | \$1,931.4 | 7.0% | 4.2% |

* May not add due to rounding.

Compensation

The majority of the budget, over 86 percent, is for employee compensation, reflecting the fact that education is a labor-intensive enterprise. The FY 2006 compensation portion of the budget totals nearly \$1.7 billion. This includes salaries for full-time equivalent accounts, hourly salaries, supplements, and employee benefits.

Salaries

\$1,163.3 million

Position salary accounts total \$1,163.3 million for 21,859.4 full-time equivalent salaried employees, an increase of \$78.9 million, or 7.3 percent over the FY 2005 estimate. This increase is due to an average salary adjustment of 6.0 percent for eligible employees, which includes step increments and position growth of 295.3. The net increase of \$78.9 million also includes enhancements to the teacher and instructional assistant salary scales as well as savings from position reductions and anticipated savings from employee turnover and vacancy.

Operating Expenditures

- **Turnover:** Position turnover represents the savings realized when experienced employees retire or leave the system and are replaced by workers with less experience earning a lower salary. For FY 2006, the savings resulting from turnover is budgeted at \$22.1 million.
- **Vacancy:** The FY 2006 budget has also been reduced by \$11.5 million to recognize position vacancies anticipated throughout the year.

Annual savings from position turnover and vacancy can fluctuate as a result of changes in the economy, compensation adjustments, and other employee initiatives by FCPS. The FY 2006 total adjustment for anticipated turnover and vacancy is \$33.6 million, of which \$6.6 million is budgeted employee benefits, representing approximately 2.1 percent of the compensation base.

Hourly Salaries/Supplements \$108.3 million
 The budget for this category totals \$108.3 million, an increase of \$2.9 million, or 2.8 percent over the FY 2005 estimate. This increase is primarily the result of increased bus driver salaries for step, market scale adjustment, and salary enhancements to aid in driver recruitment and retention.

Employee Benefits \$391.6 million
 Employee benefits total \$391.6 million, an increase of \$43.1 million, or 12.4 percent over the FY 2005 estimate. This increase includes turnover and vacancy savings and is primarily due to the following:

- The employer cost for health and dental insurance is increasing \$15.3 million due to rate increases in most plans.
- In FY 2006, total employer contributions to VRS will increase by \$18.1 million. This includes a rate increase of 0.59 percent and an additional 0.5 percent to continue FCPS' commitment to phase out the employee share of VRS contributions. The employer contribution rate to ERFC will remain at 3.37 percent. The employer contribution rate to FCERS will increase by 0.16 percent due to a revised actuarial valuation and the implementation of a Deferred Retirement Option (DROP) program.

| Step & Market Scale Adjustment (\$ in millions) | |
|---|---------------|
| • Step Increments | \$35.2 |
| • Market Scale Adjustment (3.0 percent) | 43.2 |
| Total | \$78.4 |

| Employee Benefits (\$ in millions) | |
|--|-----------------|
| • Health Insurance | \$132.1 |
| • Retirement | 161.0 |
| • Workers' Compensation | 5.3 |
| • Social Security | 98.9 |
| • Life Insurance | 0.5 |
| • Unemployment Compensation | 0.4 |
| • Turnover/Vacancy | (6.6) |
| Total | \$ 391.6 |

Operating Expenditures

| Health and Dental Insurance Actives - Enrollment History | | | |
|---|---------------|---------------|---------------|
| Plan | FY 2004 | FY 2005 | FY 2006 |
| Health | 17,646 | 17,857 | 18,592 |
| Dental | 15,939 | 16,839 | 17,087 |
| Total | 33,585 | 34,696 | 35,679 |

Effective January 1, 2004, the pharmacy benefits included in the CareFirst BlueCross BlueShield PPO and POS plans and the Aetna EPO plan were consolidated into one program through Express Scripts, Inc. Better management of the pharmacy costs have resulted because of increased use of mail order services and the full return of rebates and savings on discounts based on the direct contracting for these services.

| Employee Benefits Summary | | | | |
|--|--|--------------------------|--------------------------|-------|
| | | Employer Contribution | Employee Contribution | |
| Educational Employees' | | | | |
| Supplementary Retirement | | | | |
| System of Fairfax County (ERFC) | | 3.37% | 4.00% | |
| Virginia Retirement System | | 10.67% | 1.50% | |
| Fairfax County Employees' | | | | |
| Retirement System (FCERS) | | Plan A | 8.24% | 4.00% |
| | | Plan B | 8.24% | 5.33% |
| Social Security | | 7.65% | 7.65% | |
| Health Insurance ^{1/, 2/} | | | | |
| Family Plan | | \$10,334/year | \$3,443/year | |
| Individual Plan | | \$4,684/year | \$826/year | |
| Dental Insurance ^{3/, 4/} | | | | |
| Family Plan | | \$728/year | \$312/year | |
| Individual Plan | | \$302/year | \$129/year | |
| County Life Insurance | | \$3.48/\$1,000 | 0.0 | |
| State Life Insurance | | 0.00% | 0.00% | |
| Long-Term Disability | | 0.0 | \$.25/\$100 | |
| ^{1/} Based on Blue Card (PPO) Insurance | | | | |
| ^{2/} Health insurance rates based on calendar year 2005 | | | | |
| ^{3/} Based on Aetna Dental (DPPO) Insurance | | | | |
| ^{4/} Dental insurance rates based on calendar year 2005 | | | | |

FCPS offers a comprehensive benefits package to meet the needs of those beginning new careers, starting second careers, or continuing to seek the challenges and rewards of knowing that what they do has a tremendous impact.

Operating Expenditures

Logistics

The FY 2006 logistics portion of the budget totals \$233.1 million, an increase of \$0.7 million, or 0.3 percent over the FY 2005 approved budget. This amount consists of the following major categories:

Materials and Supplies \$72.4 million

This category includes major expenditures for instructional materials and supplies, custodial and maintenance supplies, additional equipment, testing allocations, and library materials. The total expenditure of \$72.4 million represents an increase of \$1.4 million, or 2.0 percent, over the FY 2005 approved budget. The increase is due primarily to science and social studies textbook adoptions and additional NCLB-related instructional materials.

The chart below provides examples of budgets for instructional and textual materials for an average elementary, middle and high school. These budgets are based on per-pupil allocations. Details on the standard allocation rates are provided in the Appendix.

| Instructional Materials Budget for an Average School | | | |
|--|------------|----------|-----------|
| Level | Enrollment | Supplies | Textbooks |
| High | 1,900 | \$96,900 | \$246,696 |
| Middle | 1,000 | \$49,000 | \$127,770 |
| Elementary | 600 | \$29,400 | \$63,834 |

The Thomas Jefferson High School for Science and Technology textbook and supply allotment is calculated at a higher rate than the other high school allotments.

Both instructional supply and textbook accounts have been reduced by a 15 percent set-aside held in a central account. After an assessment of revenue and expenditure trends prior to the FY 2006 Midyear Budget Review, a determination will be made to either return the funds to the schools and centers or to reallocate them to address other school system needs.

Utilities \$49.5 million

The utilities budget totals \$49.5 million, a decrease of \$2.4 million, or 4.6 percent from the FY 2005 approved and \$1.9 million over the FY 2005 estimate. This budget provides for the divisionwide use of electricity, fuel oil, natural gas, telephone, water, sewer, and refuse collection. The Department of Facilities and

| Logistics (\$ in millions) | |
|-------------------------------|----------------|
| • Materials & Supplies | \$72.4 |
| • Utilities | 49.5 |
| • Other Operating Expenses | 12.5 |
| • Privatized Services | 33.8 |
| • County Services | 23.3 |
| • Capital Outlay | 34.8 |
| • Other Funds | 6.7 |
| Total | \$233.1 |

Operating Expenditures

| Utilities (\$ in millions) | |
|-------------------------------|---------------|
| • Telephones | \$12.6 |
| • Electricity | 22.0 |
| • Fuel Oil & Natural Gas | 10.0 |
| • Water, Sewer, & Refuse | 4.9 |
| Total | \$49.5 |

Transportation Services has aggressively instituted several energy and cost-saving measures in recent years. FCPS participates in contracts negotiated on behalf of a consortium of governmental agencies in the metropolitan area to obtain the most favorable pricing available, and has also locked in rates on some escalating utilities to secure prices and more accurately budget for long-term needs. When funds allow, facilities have been retrofitted to improve energy efficiency, and conservation efforts and energy performance award programs are in place to further reduce costs.

The telephone budget for FY 2006 is \$12.6 million. This funding provides for per-call charges and line charges for all phones, faxes, and modems. This budget has been reduced to reflect savings from a new data networking service and a reduction in telecommunication accounts.

The electricity budget of \$22.0 million is an increase of approximately \$0.3 million, or 1.0 percent over the FY 2005 estimate and provides heating, air conditioning, building and field lighting, and power throughout FCPS.

The fuel oil and natural gas allocation for FY 2006 is budgeted at \$10.0 million, which is a \$1.3 million increase over the FY 2005 estimate. The water, sewer, and refuse budgets totaling \$4.9 million reflect a minimal increase over the FY 2005 estimate. This level of funding is adequate based on industry analysts' predictions of fuel oil, gas, water, sewer, and refuse prices. The budgets for electricity, fuel oil, and gas are all budgeted assuming normal weather.

Other Operating Expenses \$12.5 million
This category includes funding for school initiatives, staff development, duplication and copyright fees, and travel.

Privatized Services \$33.8 million
Major expenditures in this category include equipment maintenance contracts including copiers, professional/consulting services, private transportation costs, and equipment and building rental fees. The total budget for this category in FY 2006 is \$33.8 million, a decrease of \$10.3 million, or 23.4 percent from the FY 2005 estimate.

Energy Cost-Saving Measures

- Energy efficient building design in new construction and renovation using Leadership in Energy and Environmental Design (LEED) design criteria/concepts
- Competitive Utility Procurement Contracts enable FCPS to actively pursue the best rate/price for utilities (gas and oil) to control costs and address energy market changes
- The energy performance program is a self-funded capital improvement program that reduces FCPS' energy and operating costs by replacing inefficient and antiquated building system equipment. The new or updated equipment reduces energy costs, and those cost savings fund the new energy-efficient systems. After the school system has paid for the facilities improvements, FCPS will continue to realize significant energy cost savings that can be applied to instructional programs.
- A web-based utility bill consumption tracking system, Energy Watchdog, enables technical staff to monitor and analyze energy usage of natural gas, electricity, water and sewer

Operating Expenditures

County Services \$23.3 million

Expenditures in this category result in a net increase of 1.4 million, or 6.5 percent over the FY 2005 estimate. Increases in the county's Department of Vehicle Services (DVS) charges for fuel, labor, and parts increased by \$1.8 million with a decrease of \$0.3 million in fire inspections, police services, and printing charges. All of FCPS' vehicles are maintained, repaired, and fueled by DVS.

Capital Outlay \$34.8 million

Major expenditures in this category include replacement vehicles and buses, temporary buildings, replacement and additional equipment, equipment and software leases, and facility modifications.

- **Replacement Buses:** The FY 2006 budget includes \$11.3 million in lease/purchase payments for buses. This includes \$10.1 million for the FY 2002 through FY 2005 lease/purchases, and \$1.2 million for the FY 2006 lease/purchase of replacement buses. This budget was reduced \$1.0 million to balance the FY 2005 approved budget. Funding is expected to be restored at year-end to provide the lease/purchase of 93 buses for \$2.2 million. The budget for replacement buses increased \$1.3 million, or 13.4 percent over the FY 2005 estimate and \$1.7 million, or 18.1 percent over the FY 2005 approved.
- **Replacement Equipment:** The FY 2006 budget of \$2.4 million reflects a decrease of \$7.1 million, or 74.8 percent from the FY 2005 estimate; and a \$3.7 million, or 60.4 percent decrease from the FY 2005 approved. The reduction in the replacement equipment account was made to balance the FY 2006 approved budget. This funding is expected to be restored at the FY 2005 year-end review.
- **Replacement Vehicles:** Funding of \$1.6 million will provide \$1.1 million for the payments due for vehicles obtained through lease/purchase in FY 2001 and FY 2005, and \$0.5 million for purchase or lease/purchase of 70 replacement vehicles in FY 2006. Vehicle replacement accounts decreased \$0.6 million, or 28.9 percent from the FY 2005 estimate; however, this is a \$0.2 million, or 17.3 percent increase over the FY 2005 approved.
- **Temporary Buildings:** The FY 2006 budget includes \$6.3 million for temporary buildings, a decrease of \$1.8 million, or 22.2 percent from the FY 2005 estimate and \$0.7 million, or 10.2 percent decrease from the FY 2005 approved. FCPS educates 12,250 students in 700 trailers.

Bus Facts

| | |
|------------------------|------------|
| • Total Riders | 125,400 |
| • Number of buses | 1,570 |
| • Average age of buses | 6.8 years |
| • Annual miles driven | 18,800,000 |

Capital Outlay (\$ in millions)

| | |
|-------------------------------|---------------|
| • Replacement Buses | \$11.3 |
| • Replacement Vehicles | 1.6 |
| • Replacement Equipment | 2.4 |
| • Temporary Buildings | 6.3 |
| • Equipment & Software Leases | 11.0 |
| • Facility Modifications | 2.2 |
| Total | \$34.8 |

Operating Expenditures

- **Equipment and Software Leases:** Equipment leases increased \$0.2 million over the FY 2005 estimate, and computer and software leases decreased \$0.7 million.

However, the level of funding for equipment leases is the same as the FY 2005 approved, and computer and software leases decreased \$0.4 million.

- **Facility Modifications:** The FY 2006 budget is reduced \$2.3 million from the FY 2005 estimate; however, this is a \$0.4 million increase over the FY 2005 approved.

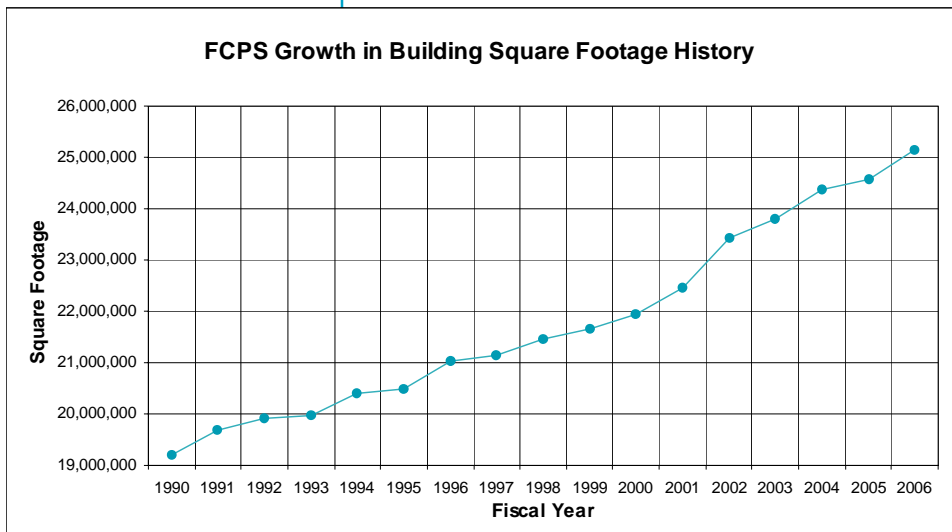
Other Funds \$6.7 million
 Funding is provided for FCPS' self-insurance accounts for liability and for the purchase of commercial insurance.

Transfers

Transfers in FY 2006 total \$35.1 million, an increase of \$4.3 million, or 14.2 percent over the FY 2005 estimate. Transfers include \$10.8 million to the Construction Fund, \$1.2 million to Adult and Community Education Fund, \$13.8 million to the Summer School and SOL Remediation Subfund, \$0.4 million to the Health and Flexible Benefits Fund, \$7.0 million to the Grants Subfund, and \$2.0 million to the consolidated County and Schools Debt Fund.

Construction \$10.8 million
 In FY 2006, the transfer to the Construction Fund is \$10.8 million. Transfers are made for the following categories:

- **Equipment Transfer:** Equipment funding for new construction, renewals, and additions is provided through a transfer from the Operating Fund to the Construction Fund. In FY 2006, the transfer of \$3.4 million represents one-third of the projected



Operating Expenditures

requirement. School bond funding is used to address the balance of the equipment funding needs.

- **Facility Modifications:** A transfer of \$0.6 million from the Operating Fund to the Construction Fund supports facility modifications to schools. The modifications only include remarking parking lots, installing electrical switches, replacing windows, and other minor improvements.
- **Building Maintenance:** Funding for building maintenance is \$6.8 million, a \$2.2 million decrease from the FY 2005 estimate. A reduction in building maintenance was made to balance the FY 2006 approved budget. This funding is expected to be restored at the FY 2005 year-end review. Funding for major infrastructure maintenance is required to prevent failure of critical systems, deterioration of major capital investments, and significant health and safety hazards. Due to recent budget constraints, maintenance programs have been seriously restricted. These funding reductions have, among other things, deferred repair of boilers; maintenance of ball fields, outdoor bleachers, and running tracks; replacement of auditorium seats; resurfacing of roads, parking lots, and play areas; carpet replacement; chalkboard refinishing; security systems upgrades; replacement of deteriorating light poles; and other upgrades, replacements, and maintenance programs.

Grants \$7.0 million
 The transfer to the Grants Subfund is \$7.0 million, an increase of \$1.8 million, or 34.0 percent over the FY 2005 estimate. This represents the School Operating Fund portion of the Early Childhood Education Program at \$6.0 million, the Fairfax City Equipment Purchase Account at \$1.0 million, and the special services programs Project Hope and ISAEP at \$16,409.

Summer School \$13.7 million
 To support the cost of summer school, \$13.7 million is transferred to the Summer School and SOL Remediation Subfund from the Operating Fund. This represents an increase of \$3.2 million, or 30.1 percent over the FY 2005 estimate. Among the activities funded by the Summer School and SOL Remediation Subfund are opportunities to enhance skills, prepare for the Virginia Standards of Learning, and gain credits for high school completion. The total cost of summer school is \$20.5 million. The FY 2006 budget includes \$2.5 million to expand community-based summer school from 5 to 13 elementary schools and from 1 to 4 middle schools. The projected FY 2006 summer school enrollment is 20,293.

| Transfers (\$ in millions) | |
|--------------------------------------|---------------|
| • Construction | \$10.8 |
| • Grants | 7.0 |
| • Summer School | 13.7 |
| • Adult & Community Ed | 1.2 |
| • Health & Flexible Benefits | 0.4 |
| • Debt | 2.0 |
| Total | \$35.1 |

Operating Expenditures

Adult and Community Education \$1.2 million
The transfer to the Adult and Community Education (ACE) Fund is \$1.2 million. Of this amount, \$1.1 million is used to support the adult ESOL programs, and \$0.1 million is used to fund the After-School Thomas Jefferson High School for Science and Technology admissions test preparation course offered to the students who attend under represented schools. The total budget for ACE is \$11.4 million. No increase is projected for FY 2006. The projected FY 2006 Adult and Community Education enrollment is 51,220.

Health and Flexible Benefits \$0.4 million
This funding represents the employer FICA savings that result from employees electing to reduce their taxable earnings by participating in the Flexible Spending Account Program. The transfer to the Health and Flexible Benefits Fund totals \$0.4 million.

County and Schools Consolidated \$2.0 million
Debt Fund
The FY 2006 budget includes funding for the lease payment on the consolidated administrative building. The building was purchased by the county using Economic Development Authority bonds. FCPS will make a yearly transfer to the county to fund the debt service beginning in FY 2006 and ending in FY 2035.

A five-year expenditure detail chart for the Operating Fund can be found in the Appendix.

Special Revenue Funds

Food and Nutrition Services Fund

The Food and Nutrition Services Fund totals \$69.5 million for all operational and administrative costs. This fund is totally self-supporting.

The Food and Nutrition Services program provides appealing, nutritious, high quality, safe food at minimum cost in accordance with federal law, state regulation, and local policy. It is operated under the federally-funded National School Lunch and Child Nutrition Acts.

Each day, the Food and Nutrition Services program:

- Procures, prepares, and serves lunches and a la carte items to over 140,000 customers
- Offers breakfasts in 149 schools and centers
- Provides meals to day care, Family and Early Childhood Education Program (FECEP) centers and private schools, and snacks to all School-Age Child Care (SACC) Programs, through contracts with these entities
- Provides meals and dietetic consultation at senior nutrition sites and Meals on Wheels programs

Special emphasis is placed on creating a positive image of food at school through an established marketing program and involvement of students in food selection and menu planning. A variety of salads and lunch options are available in all elementary, middle, and high schools.

Central Distribution

The Food Services Center is located in the Woodson High School complex. The staff is comprised of a supervisor, foreman, storekeeper, and eight truck drivers. Approximately 60 percent of all purchases and federal commodities are delivered to the center and distributed by food service trucks to school kitchens. The center has storage facilities for dry, refrigerated, and frozen foods. To reduce food costs, procurement methods have changed to permit truckload purchases of various high volume food items. Operational and handling costs incurred are more than offset by reduced food costs.

The Food & Nutrition Services program serves lunch to more than 140,000 customers each day.

FY 2006 Prices Will Increase

| | FY 2005 | FY 2006 |
|-----------------|---------|---------|
| Breakfast | | |
| Students | \$1.00 | \$1.00 |
| Reduced-Price* | \$.20 | \$.30 |
| Adults | \$1.30 | \$1.30 |
| Lunch | | |
| Elementary | \$1.70 | \$1.90 |
| Middle and High | \$1.80 | \$2.00 |
| Reduced-Price* | \$.30 | \$.40 |
| Adults | \$2.50 | \$2.75 |

*for qualifying students

Special Revenue Funds

Revenue

The two major sources of revenue for this fund are food sales and federal revenue. Federal aid is based on cash reimbursements and commodities. The reimbursement rate is determined annually by the federal government under the National School Lunch and Child Nutrition Acts. The current subsidy is 21 cents in cash and 17.50 cents in commodities. In addition, the continuing trend of more students becoming eligible for free and reduced-price meals will provide additional federal revenue in FY 2006; however, a reduction in United States Department of Agriculture commodities is expected.

Prices

The reduced-price meals will be raised to 30 cents for breakfast and 40 cents for lunch. This increase reflects prices established by the United States Department of Agriculture. Lunch prices will increase 20 cents for students and 25 cents for adults due to rising labor, benefits, fuel, and food costs. This is the first increase since FY 2004 and reflects comparable prices in several local jurisdictions.

Accounting Basis

The Food and Nutrition Services Fund is a special revenue fund and follows the modified accrual basis of accounting. Under this method, revenues are recognized when they become measurable and available and expenditures are generally recognized when the liability is incurred.

Food and Nutrition Services Fund
(\$ in millions)

| | Amount | Positions |
|------------------|---------------|------------------|
| FY 2006 Approved | \$ 69.5 | 41.5 |
| FY 2005 Estimate | <u>66.9</u> | <u>41.5</u> |
| Change | \$ 2.6 | 0.0 |

Special Revenue Funds

Grants & Self-Supporting Programs Fund

The Grants and Self-Supporting Programs Fund consists of two subfunds: the Grants Subfund and the Summer School and SOL Remediation Subfund. The FY 2006 approved budget for this special revenue fund is \$68.8 million and includes 417.6 positions. When compared to the FY 2005 estimate, this fund is projected to decrease by \$10.6 million. This is primarily due to the appropriation in the current year of prior year unspent grant awards and program balances that are carried forward and reflected in the current year estimate.

Grants Subfund

This portion of the Grants and Self-Supporting Programs Fund consists of programs that are funded from federal, state, and private industry sources, or are self-supporting. The total FY 2006 approved budget totals \$48.3 million and 402.6 positions. Since actual grant awards are unknown at this time, FY 2006 program estimates are based on FY 2005 awards, adjusted to include proposed salary and benefit increases. Due to additional funding expected as a result of the current census data, Title I has been increased for FY 2006 and 22.5 positions have been added to this program. Adjustments based on actual award notifications are made in the first quarter of the fiscal year.

| FY 2006 Grants/Programs | | |
|---|---------------------|--------------|
| | Amount | Positions |
| Federal Funded | | |
| Title I | \$15,300,000 | 131.1 |
| Title I, Part D | 493,073 | 4.9 |
| Title II, Part A | 3,929,281 | 3.0 |
| Title II, Part D | 318,912 | 0.0 |
| Title III | 3,350,921 | 6.5 |
| Title IV | 565,299 | 3.0 |
| Title V | 538,682 | 2.0 |
| Head Start* | 1,718,024 | 34.0 |
| Early Head Start* | 641,468 | 10.5 |
| Medicaid | 225,000 | 3.0 |
| Sliver | 283,987 | 0.0 |
| USDA | 475,000 | 0.0 |
| Others < \$200,000 | 98,000 | 0.8 |
| State Funded | | |
| State Technology Plan | 5,224,000 | 0.0 |
| Juvenile Detention Ctr | 1,336,597 | 15.5 |
| Others < \$200,000 | 839,731 | 9.6 |
| Private/Self-Supporting Funded | | |
| Cox Communications | | |
| Channels 21 & 39 | 2,118,159 | 25.0 |
| Fairfax Network | 150,000 | 0.0 |
| ISA @ Annandale HS** | 0 | 1.0 |
| Heritage Literacy** | 0 | 0.5 |
| LEAD Fairfax** | 0 | 14.0 |
| Local Funded | | |
| FECEP | 4,382,919 | 138.2 |
| Fairfax City Equipment | 1,000,000 | 0.0 |
| FECEP/VPI | 5,380,032 | 0.0 |
| Head Start | 568,738 | 0.0 |
| Early Head Start | 72,504 | 0.0 |
| Project Hope | 8,287 | 0.0 |
| ISAEF | 8,122 | 0.0 |
| Grant Reserve | 6,000,000 | 0.0 |
| Less: WPFO | -6,742,411 | 0.0 |
| Subfund Total | \$48,284,325 | 402.6 |
| *Offset by Work Performed for Others (WPFO) | | |
| **Positions will be funded by carryover | | |

Special Revenue Funds

Summer School and SOL Remediation Subfund

Summer school and SOL remediation operations total approximately \$20.5 million and 15.0 positions, which is partially offset by state aid and tuition revenue of \$3.4 million. The summer school and SOL remediation program receives Operating Fund support of \$13.8 million and access to funds brought forward into FY 2006 in the amount of \$3.3 million. There is an overall increase of \$1.1 million in the Summer School Subfund over the FY 2005 estimate. This increase is due primarily to an increase in expenditures to fund community-based summer school at additional locations.

Accounting Basis

The Grants and Self-Supporting Programs Fund is a special revenue fund and follows the modified accrual basis of accounting. Under this method, revenues are recognized when they become measurable and available and expenditures are generally recognized when the liability is incurred.

Grants and Self-Supporting Programs Fund

(\$ in millions)

| | Amount | Positions |
|------------------|---------------|------------------|
| FY 2006 Approved | \$ 68.8 | 417.6 |
| FY 2005 Estimate | <u>79.4</u> | <u>397.6</u> |
| Change | \$ (10.6) | 20.0 |

Special Revenue Funds

Adult and Community Education Fund

The Office of Adult and Community Education (ACE) provides lifelong literacy and educational opportunities for all residents and students of Fairfax County through creative use of facilities and implementation of best academic and business practices. The office is responsible for adult programs and services in the areas of high school completion, apprenticeship instruction, English for speakers of other languages (ESOL), career development, life enrichment, and volunteer tutoring. The office is also responsible for prekindergarten through grade 12 support programs, including behind-the-wheel driver education, SAT preparation, summer school, before- and after-school enrichment activities, and remediation support.

ACE provides lifelong literacy and educational opportunities for all Fairfax residents.

The Adult and Community Education Fund budget totals \$11.4 million for all operational and administrative costs. Funding for the FY 2006 Adult and Community Education Fund is generated primarily through registrant tuition, along with federal, state, and local support. Support for the adult ESOL programs of \$1.1 million will be transferred from the Operating Fund. The transfer includes an additional \$0.1 million to fund the After School Thomas Jefferson High School for Science and Technology Admissions Test Preparation Course offered to the students who attend under represented schools. The total transfer from the Operating Fund is \$1.2 million.

The FY 2005 approved budget of \$10.5 million for the Adult and Community Education Fund was revised to \$12.1 million during FY 2005. The increase is primarily due to the beginning balance of \$1.7 million and grant awards.

The current ACE plan focuses on continuing the implementation and refinement of the ACE registration system; providing customer service to schools and parents for registration and operations related to adult and prekindergarten through grade 12 remediation and enrichment programs; and proactive planning to meet the community's needs for adult programs.

Accounting Basis

The Adult and Community Education Fund is a special revenue fund and follows the modified accrual basis of accounting. Under this method revenues are recognized when they become measurable and available and expenditures are generally recognized when the liability is incurred.

Adult & Community Education Fund (\$ in millions)

| | Amount | Positions |
|------------------|----------|-----------|
| FY 2006 Approved | \$ 11.4 | 97.9 |
| FY 2005 Estimate | 12.1 | 97.9 |
| Change | \$ (0.7) | 0.0 |

Capital Projects Fund

County and Schools' Debt Service Fund

The county's FY 2006 Adopted Budget Plan provides for the consolidation of the county and schools debt service funds into a single fund, eliminating reporting of the School Board's Debt Service Fund. The following information is provided on the school's level of debt service provided by the county.

| | |
|--|------------------|
| Schools' principal | \$80,849,683 |
| Schools' interest | 48,076,334 |
| Debt service on projected school sales | <u>2,742,250</u> |
| Total | \$131,668,267 |

Bonds for school purposes have been sold at interest rates below market rates reflecting the excellent financial condition of Fairfax County. The County holds a Aaa from Moody's Investor Service (awarded in 1975), a AAA from Standard and Poor's Ratings Service (awarded in 1978), and a AAA from Fitch Ratings (awarded in 1997). Fairfax County is one of only 7 states, 23 counties, and 20 cities to hold a triple-A rating from all three services.

Actual bond sales are based on cash flow estimates prepared immediately prior to each sale and the condition of the bond market.

Debt Level and Future Impact

In Virginia, school boards do not have taxing authority and are fiscally dependent on the local government. The Virginia Constitution requires that long-term debt be approved by voter referendum and there is no statutory limit on the amount of debt the voters can approve.

The Fairfax County Board of Supervisors' policy is to manage its debt within the following guidelines:

- Net debt as a percentage of estimated market value should always remain at less than 3 percent
- The ratio of debt service expenditures as a percentage of Combined General Fund disbursements should remain under 10 percent

Net Debt as a Percentage of Market Value of Taxable Property (\$ in billions)

| Fiscal Year | Net Bonded Indebtedness ¹ | Estimated Market Value | Percent |
|-------------|--------------------------------------|------------------------|---------|
| 2001 | \$1.4 | \$101.0 | 1.43% |
| 2002 | \$1.7 | \$113.8 | 1.45% |
| 2003 | \$1.8 | \$128.9 | 1.38% |
| 2004 | \$1.8 | \$143.2 | 1.27% |
| 2005 (est) | \$1.9 | \$158.3 | 1.22% |
| 2006 (est) | \$2.1 | \$191.9 | 1.08% |

^{1/} Beginning in FY 2003, the ratio includes outstanding Lease Revenue bonds for Government Center facilities in addition to General Obligation Bonds, Literary Loans, and Special Revenue Bonds for Community Centers. FY 2004 includes the sale of \$183.75 million of new general obligation bonds and adjustments for the sale of refunding bonds on March 31, 2004. Projections for FY 2006 include a proposed sale of \$226.4 million for Fall 2005.

The Fairfax County Board of Supervisors controls the degree to which FCPS can implement its Capital Improvement Program each year. The chart above shows net debt as a percentage of market value of taxable property.

Capital Projects Fund

Bond Amortization

| Series | Original Issue Amount | Principal Outstanding as of 6/30/2005 | Interest Outstanding as of 6/30/2005 | Principal Due FY 2006 | Interest Due FY 2006 | Total Payment Due FY 2006 | Principal Outstanding as of 6/30/2006 | Interest Outstanding as of 6/30/2006 |
|-----------------------------------|-----------------------|---------------------------------------|--------------------------------------|-----------------------|----------------------|---------------------------|---------------------------------------|--------------------------------------|
| 1997B | 60,000,000 | 3,000,000.00 | 67,500.00 | 3,000,000.00 | 67,500.00 | 3,067,500.00 | - | - |
| 1998A | 27,290,000 | 1,364,500.00 | 61,402.50 | 1,364,500.00 | 61,402.50 | 1,425,902.50 | - | - |
| 1999A | 100,000,000 | 70,000,000.00 | 24,343,750.00 | 5,000,000.00 | 3,231,250.00 | 8,231,250.00 | 65,000,000.00 | 21,112,500.00 |
| 1999A Refunding | 63,172,000 | 54,520,400.00 | 11,401,241.35 | 6,960,800.00 | 2,481,775.18 | 9,442,575.18 | 47,559,600.00 | 8,919,466.17 |
| 1999B | 80,000,000 | 12,000,000.00 | 990,000.00 | 4,000,000.00 | 550,000.00 | 4,550,000.00 | 8,000,000.00 | 440,000.00 |
| 2000A | 50,000,000 | 37,500,000.00 | 15,559,375.00 | 2,500,000.00 | 1,951,875.00 | 4,451,875.00 | 35,000,000.00 | 13,607,500.00 |
| 2000B | 50,000,000 | 40,000,000.00 | 15,737,812.50 | 2,500,000.00 | 1,874,375.00 | 4,374,375.00 | 37,500,000.00 | 13,863,437.50 |
| 2001A | 80,000,000 | 64,000,000.00 | 25,455,000.00 | 4,000,000.00 | 2,940,000.00 | 6,940,000.00 | 60,000,000.00 | 22,515,000.00 |
| 2001A Refunding | 57,227,000 | 33,392,976.00 | 3,659,363.02 | 10,036,769.00 | 1,507,089.90 | 11,543,858.90 | 23,356,207.00 | 2,152,273.12 |
| 2002A | 130,000,000 | 110,500,000.00 | 46,726,875.00 | 6,500,000.00 | 5,135,000.00 | 11,635,000.00 | 104,000,000.00 | 41,591,875.00 |
| 2002A Refunding | 34,786,000 | 29,588,646.00 | 7,606,366.94 | 1,451,189.00 | 1,338,113.76 | 2,789,302.76 | 28,137,457.00 | 6,268,253.18 |
| 2003A Refunding | 88,758,000 | 55,620,000.00 | 9,888,250.00 | 8,580,000.00 | 2,545,050.00 | 11,125,050.00 | 47,040,000.00 | 7,343,200.00 |
| 2003B | 128,680,000 | 115,810,000.00 | 48,585,725.00 | 6,435,000.00 | 4,994,287.50 | 11,429,287.50 | 109,375,000.00 | 43,591,437.50 |
| 2004A | 120,215,000 | 114,200,000.00 | 52,237,512.66 | 6,015,000.00 | 5,462,081.26 | 11,477,081.26 | 108,185,000.00 | 46,775,431.40 |
| 2004A Refunding | 78,165,000 | 75,060,000.00 | 23,854,600.00 | 6,620,000.00 | 3,851,775.00 | 10,471,775.00 | 68,440,000.00 | 20,002,825.00 |
| 2004B | 116,280,000 | 116,280,000.00 | 53,304,931.25 | 5,815,000.00 | 5,356,237.50 | 11,171,237.50 | 110,465,000.00 | 47,948,693.75 |
| 2004B Refunding | 96,035,000 | 96,035,000.00 | 36,433,850.00 | - | 4,725,300.00 | 4,725,300.00 | 96,035,000.00 | 31,708,550.00 |
| G.O Bond Total | | 1,028,871,522.00 | 375,913,555.22 | 80,778,258.00 | 48,073,112.60 | 128,851,370.60 | 948,093,264.00 | 327,840,442.62 |
| 2003LRL | 55,300,000 | 55,300,000.00 | 27,807,087.50 | - | - | - | 55,300,000.00 | 27,807,087.50 |
| Revenue Total | | 55,300,000.00 | 27,807,087.50 | - | - | - | 55,300,000.00 | 27,807,087.50 |
| Literary Bonds | | | | | | | | |
| 1986 | 1,274,000 | 63,725.00 | 2,066.05 | 63,725.00 | 2,066.05 | 65,791.05 | - | - |
| 1987 | 148,000 | 23,100.00 | 2,310.00 | 7,700.00 | 1,155.00 | 8,855.00 | 15,400.00 | 1,155.00 |
| Literary Total | | 86,825.00 | 4,376.05 | 71,425.00 | 3,221.05 | 74,646.05 | 15,400.00 | 1,155.00 |
| Total Schools Debt Service | | 1,084,258,347.00 | 403,725,018.77 | 80,849,683.00 | 48,076,333.65 | 128,926,016.65 | 1,003,408,664.00 | 355,648,685.12 |

¹ Interest is capitalized and paid through the trust account for this project through June 30, 2006. Beginning in FY 2007, principal and interest will be paid from a transfer from the General Fund.

Capital Projects Fund

All construction projects--new construction, renovations and expansions--are budgeted in the school construction fund.

Bond Referenda (\$ in millions)

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 1988 | \$178.9 |
| 1990 | \$169.3 |
| 1993 | \$140.1 |
| 1995 | \$204.1 |
| 1997 | \$232.9 |
| 1999 | \$297.2 |
| 2001 | \$378.0 |
| 2003 | \$290.6 |

School Construction Fund

All construction projects are budgeted in the School Construction Fund. This fund, which totals \$121.8 million in FY 2006, contains funding for new construction and facility renovation, expansion, and improvement projects. Annual appropriations are made to cover the total value of multiyear contracts regardless of the year in which actual payments are made to contractors. The FY 2005 estimate includes carryover of unspent multiyear contractors.

The Office of Design and Construction Services is responsible for the acquisition of school sites, the design and construction of new school facilities (including additions to existing schools), and renovations of existing school facilities in accordance with approved educational specifications. Currently, this office:

- Implements projects contained in the 1999, 2001, and 2003 School Bond Referenda
- Manages the \$6.3 million provided for additional portable classrooms and the \$0.6 million for facility modifications transferred from the Operating Fund
- Coordinates facility modification (minor improvement) projects and the installation of temporary classroom facilities
- Provides equipment for new schools, additions to existing schools, and renovations of existing school facilities, through funding from approved bond sales and a transfer from the Operating Fund

Accounting Basis

The School Construction Fund is a capital projects fund which follows the modified accrual basis of accounting. Under this method, revenues are recognized when the liability is incurred.

School Construction Fund (\$ in millions)

| | <u>Amount</u> | <u>Positions</u> |
|------------------|---------------|------------------|
| FY 2006 Approved | \$ 121.8 | 88.3 |
| FY 2005 Estimate | <u>510.7</u> | <u>88.3</u> |
| Change | \$ (388.9) | 0.0 |

Capital Improvement Program

Each year the School Board, the school staff, and the community study, update, and extend the five-year school Capital Improvement Program (CIP) for incorporation into the overall county Capital

Capital Projects Fund

Improvement Program. The CIP is used as a basis for determining the timing and size of proposed bond referenda. The primary source of funding for school construction projects is the sale of bonds authorized by the voters through referenda.

Since 1988, eight bond referenda, totaling \$1.9 billion, have been approved by Fairfax County citizens. In November 2005, a proposed bond referendum of \$246.3 million will go before the voters for approval. Bonds are sold to meet annual cash flow requirements. Actual bond sales will be based on a review of cash needs prior to each sale and the condition of the bond market. The FY 2006 total budget for bond sales is \$110 million.

Impact on Operating Budget

Since Fairfax County Public Schools has been experiencing tremendous population growth over the past ten years, the CIP has been a significant expenditure. The CIP has struggled to keep up with the demands of population increases. When population growth occurs, temporary trailers are added to a school as an interim solution for additional classroom space. More teachers are added to the growing school based on pupil-teacher ratios, and operating expenses are increased to provide the school with its per-pupil allocation of funding. Eventually, new construction, an addition, or a movement of certain groups of students may occur to alleviate the overcrowding.

When the Construction Fund pays for the building of a new school or an addition, there is an impact on the Operating Fund. In the typical scenario of a new moderate-size elementary school, FCPS would add the following new positions: 1.0 principal, 1.0 assistant principal, 1.0 guidance counselor, 1.0 librarian, 1.0 reading teacher, 1.0 school-based technology specialist, 2.0 instructional assistants, 3.0 office personnel, and 3.0 custodians.

In addition, the Operating Fund transfers one-third of the cost to equip a new school. Bond funds are used to fund the remaining two-thirds. The two-thirds/one-third assumption is based on estimates that approximately two-thirds of the equipment will have a useful life of 20 years, and is therefore appropriate for bond funding. It is assumed that the remainder of the equipment has a shorter than 20 year useful life and therefore should be funded by the Operating Fund.

In FY 2006, \$3.4 million is budgeted in the Operating Fund to be transferred into the Construction Fund for equipment funding to provide furnishings and necessary equipment for new and renovated schools. A moderately sized new elementary school would receive approximately \$0.9 million in bond funding and \$0.5 million for one time start-up equipment costs from the Operating Fund.

The primary source of funding for school construction projects is the sale of bonds authorized by voters.

Capital Projects Fund

This year's Capital Improvement Program estimates that \$1.28 billion will be needed to meet FCPS' facility requirements over the next 10 years.

Major New Projects for FY 2006

Renovation projects upgrade existing school facilities to increase its usable life by 20 to 30 years. The facility is modernized by replacing existing infrastructure and by upgrading instructional facilities to current standards. Improvements include upgrading heating, air conditioning, lighting, and plumbing; remodeling library media centers; upgrading gyms, labs, and vocational facilities; refurbishing classrooms and creating small instructional spaces; installing wiring for cable television and computers; and providing upgraded furnishings and equipment. The following is a list of major projects funded in FY 2006.

| FY 2006 Major Projects (\$ in millions) | |
|---|--------|
| Additions | |
| Churchill Road Elementary Addition | \$2.1 |
| Cooper Middle Addition | \$2.4 |
| Langley High Addition | \$6.7 |
| Renovations or Replacements | |
| Woodson High Renovation | \$67.9 |
| Equipment | |
| New, renovations, and additions | \$3.4 |
| Building Maintenance | |
| Building Improvements | \$6.8 |
| Tech Network Upgrade | \$4.0 |
| Asphalt Paving | \$0.5 |
| Energy Performance | \$1.0 |
| Security | \$0.5 |
| Boiler Replacement | \$2.3 |
| Air Conditioning | \$2.2 |
| Roof Replacement | \$2.5 |
| Electric Service Upgrade | \$1.0 |
| Americans With Disabilities Act (ADA) | \$1.1 |
| Other | |
| State Construction Grant | \$0.9 |
| Facility Modifications | \$0.6 |
| Miscellaneous Projects | \$0.4 |

Capital Projects Fund

| Cost of Opening a New School* | | | | | | |
|--------------------------------------|-------------------|--------------------|---------------|--------------------|-------------|--------------------|
| Impact on Operating Fund | | | | | | |
| Types of Impacts | Elementary School | | Middle School | | High School | |
| | Positions | Cost | Positions | Cost | Positions | Cost |
| Positions: | | | | | | |
| Principal | 1.0 | \$145,767 | 1.0 | \$149,845 | 1.0 | \$159,161 |
| Assistant Principal | 1.0 | 107,416 | 2.0 | 215,584 | 3.0 | 382,464 |
| Guidance Director | | | 1.0 | 126,412 | 1.0 | 126,412 |
| Guidance Counselor | 1.0 | 84,685 | 3.0 | 268,647 | 6.0 | 537,294 |
| Assessment Coach | | | | | 1.0 | 76,505 |
| Student Activities Director | | | | | 1.0 | 125,041 |
| Certified Athletic Trainer | | | | | 1.0 | 67,008 |
| Librarian | 1.0 | 87,239 | 1.0 | 87,239 | 2.0 | 174,478 |
| Reading Teacher | 1.0 | 76,505 | 1.0 | 76,505 | 1.0 | 76,505 |
| Other Teachers | | | 0.5 | 38,253 | 1.0 | 76,505 |
| Safety and Security Specialist | | | | | 1.0 | 78,639 |
| Safety and Security Assistant | | | 1.0 | 38,154 | 3.0 | 114,462 |
| SBTS | 1.0 | 97,006 | 1.0 | 97,006 | 1.0 | 97,006 |
| TSSpec | | | 0.5 | 48,503 | 1.0 | 97,006 |
| Instructional Assistant | 2.0 | 65,532 | 1.0 | 32,766 | | |
| Office Personnel | 3.0 | 138,603 | 5.0 | 231,005 | 9.5 | 438,910 |
| Custodians | 3.0 | 122,886 | 7.0 | 286,734 | 16.0 | 655,392 |
| Subtotal Personnel | 14.0 | \$925,639 | 25.0 | \$1,696,653 | 49.5 | \$3,282,788 |
| Operating Expenses | | | | | | |
| Textbooks Start-Up | | \$107,770 | | \$230,529 | | \$476,026 |
| Library Start-Up | | 174,135 | | 293,835 | | 766,770 |
| Supplies Start-Up | | 52,393 | | 88,408 | | 186,979 |
| Staff Development | | 115,590 | | 159,434 | | 304,200 |
| Part-Time Office Personnel, Per Diem | | 10,607 | | 20,854 | | 22,705 |
| Utilities | | | | | | |
| Electricity & Gas | | 111,622 | | 207,940 | | 506,654 |
| Water & Sewer | | 4,959 | | 11,643 | | 29,404 |
| Refuse Collection | | 5,744 | | 13,358 | | 20,037 |
| Telephones | | 20,928 | | 25,444 | | 50,299 |
| Subtotal Operating | | \$603,748 | | \$1,051,445 | | \$2,363,074 |
| Equipment Start-Up | | \$470,000 | | \$780,000 | | \$1,500,000 |
| Total | | \$1,999,387 | | \$3,528,098 | | \$7,145,862 |

*Based on average enrollments and average salaries including benefits.

Internal Service Funds

School Insurance Fund

The School Insurance Fund provides for the administration of workers' compensation accounts, the centralization of self-insurance accounts for liability, and the purchase of commercial insurance. Funding is provided for the following positions:

| | |
|------------|---------------------------------|
| 1.0 | Coordinator, Risk Management |
| 2.0 | Operations Supervisors |
| 2.3 | Analysts |
| 1.0 | Technician |
| 3.0 | Operations Assistants |
| <u>1.0</u> | <u>Administrative Assistant</u> |
| 10.3 | Total |

The Office of Benefit Services, Department of Human Resources, administers the workers' compensation program in conjunction with an independent claims service company. Risk Management, Department of Financial Services, provides administration of the insurance programs other than workers' compensation.

An increase of \$0.9 million in FY 2006 is due primarily to higher expenditures related to workers' compensation claims experience and compensation adjustments.

Accounting Basis

The School Insurance Fund is an internal service fund and follows the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

| School Insurance Fund | | |
|------------------------------|---------------|------------------|
| (\$ in millions) | | |
| | Amount | Positions |
| FY 2006 Approved | \$ 12.3 | 10.3 |
| FY 2005 Estimate | <u>11.4</u> | <u>10.3</u> |
| Change | \$ 0.9 | 0.0 |

Internal Service Funds

Central Procurement Fund

The Central Procurement Fund is the primary means by which items for warehouse inventory are replenished. A volume inventory purchasing method assures better pricing and ensures the items are readily available to schools and offices within Fairfax County Public Schools (FCPS). The Office of Procurement Services places large bulk orders with contract vendors to maintain warehouse stock.

Schools, centers, and offices place orders for warehouse stock items through the procurement system County and Schools Procurement System (CASPS). The Office of Procurement Services fills the orders and delivers the items to the ordering location. Individual schools, centers, and offices are charged for the items when the orders are filled, replenishing the Central Procurement Fund.

The Central Procurement Fund warehouse operation consolidates individual orders by delivery location, reducing the paperwork and administrative burden associated with ordering hundreds of thousands of items annually and enabling schools to take advantage of vendor discounts for large orders. For items that cannot be purchased centrally through the Central Procurement Fund, direct purchases are made.

To support operating costs, the fund generates revenue through a 4.0 percent markup on all items sold. The Central Procurement Fund maintains an inventory of over 1,300 line items, with a goal of inventory turnover four to six times annually through sales to FCPS customers.

The Office of Procurement Services manages the Central Procurement Fund. One analyst position provides oversight of this fund.

Accounting Basis

The Central Procurement Fund is an internal service fund and follows the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

The warehouse allows schools to take advantage of vendor discounts for large orders.

Central Procurement Fund (\$ in millions)

| | Amount | Positions |
|------------------|---------|-----------|
| FY 2006 Approved | \$ 14.0 | 1.0 |
| FY 2005 Estimate | 14.0 | 1.0 |
| Change | \$ 0.0 | 0.0 |

Internal Service Funds

Health & Flexible Benefits Fund

The Health and Flexible Benefits Fund provides for the administration of health care and dental care benefit plans for employees and retirees. In addition, the fund provides for the payment of eligible health care and dependent care expenses for employees enrolled in the flexible spending account program.

Funding is provided for the following positions:

| | |
|------------|--------------------------------|
| 8.0 | Business Specialists |
| 3.0 | Accounting Technicians |
| <u>2.5</u> | Business Operations Assistants |
| 13.5 | Total |

Effective July 1, 2004, FCPS began providing a monthly health subsidy to county retirees in the Fairfax County Employees Retirement System (FCERS) based on years of service at the time of retirement. The structure of the subsidy changed from a flat \$100 to a graduated monthly amount that could be as much as \$175 for pre-Medicare eligible retirees with 25 or more years of service. FCPS has 1,040 retirees who are members of the FCERS who maintain health coverage through one of our health plans.

In addition, the pharmacy benefits under the CareFirst BlueCross BlueShield PPO and POS plans and the Aetna EPO plan were consolidated into one program through Express Scripts, Inc. FCPS expects better management of pharmacy costs through increased use of mail order services, the full return of rebates and savings from discounts resulting from direct contracts for these services.

In partnership with health insurance and disability providers, a proactive wellness approach focuses on employees maintaining good health rather than treating symptoms and illnesses after they occur. Initiatives include health screenings, discount programs at health clubs, nutrition education programs, and programs focused on encouraging employees to maintain a healthy life style.

In FY 2006, premium rate increases and higher enrollment will increase the employer, employee, and retiree contributions by \$26.1 million over the FY 2005 estimate. Flexible spending account withholdings are expected to increase \$0.5 million.

Internal Service Funds

Health claims and premiums paid are expected to increase by \$27.3 million over the FY 2005 estimate. Claims incurred but not reported (IBNR) are expected to increase by \$0.1 million. Administrative expenditures are expected to increase by \$0.8 million and flexible spending account expenditures are expected to increase by \$0.2 million. The claims stabilization reserve is expected to decrease by \$1.8 million from the FY 2005 estimate.

Accounting Basis

The Health and Flexible Benefits Fund is an internal service fund and follows the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

| Health and Flexible Benefits Fund | | |
|--|---------------|------------------|
| (\$ in millions) | | |
| | Amount | Positions |
| FY 2006 Approved | \$ 233.8 | 13.5 |
| FY 2005 Estimate | <u>207.3</u> | <u>13.5</u> |
| Change | \$ 26.5 | 0.0 |

Pension Trust Fund

FY 2006 ERFC Receipts (\$ in millions)

| | |
|---------------------------|----------------|
| • Employer's Contribution | \$34.8 |
| • Employees' Contribution | 41.0 |
| • Investment Earnings | 120.5 |
| • Employee Buy-Ins | 1.3 |
| Total | \$197.6 |

Educational Employees' Supplementary Retirement System of Fairfax County

The Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) was established on July 1, 1973. It serves all full-time, monthly paid instructional and noninstructional personnel. The responsibility for general administration and operation of the fund is vested in a Board of Trustees. In addition, the executive director and 31.3 full-time equivalent positions are responsible for the daily administration of the system.

As a qualified retirement plan under section 401(a) of the Internal Revenue Code, the ERFC trust fund is required to operate under specific provisions of the Code and in conformance with general trust law. Among the responsibilities of the trustees are to act solely in the interest of the participants and beneficiaries; and, for the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses of administering the system.

Regarding the system's assets and considering that they are diversified to the extent that they also include fixed income and international equities, ERFC uses a diversified index as a benchmark.¹ ERFC's overall return, the benchmark return, and the median return for public funds exceeding \$1 billion are provided below (on a percentage basis), for the period ending December 31, 2004.

Return on Investment Comparison

| Description | 1 Year | 3 Year | 5 Year | 10 Year |
|--------------------|--------|--------|--------|---------|
| ERFC | 14.0 | 8.8 | 5.1 | 10.8 |
| Benchmark | 13.0 | 8.5 | 4.3 | 11.7 |
| Other Public Funds | 13.0 | 8.4 | 3.9 | 10.5 |

The comparative data above is based on information provided by Mercer Investment Consulting.

¹ Diversified benchmark is 38 percent Russell 1000, 12.5 percent Russell 2000, 12 percent MSCI World Ex-US, 7.5 percent NAREIT, 23 percent Lehman Bros Aggregate, 3.5 percent LB Corporate, 3.5 percent Long Corporate.

Pension Trust Fund

Receipts

Total receipts projected in FY 2006 are \$197.6 million. Receipts include employee and employer contributions of \$77.1 million and earnings from investments of \$120.5 million. The projected earnings from investments are based on a 7.5 percent rate that is consistent with the investment return assumption used by the plan's actuary. The employer's contribution is projected to be \$34.8 million in FY 2006 and is budgeted as an expenditure in the other School Board funds because it is paid directly to the retirement trust fund. Based on an actuarial report recommendation, the employer contribution will be maintained at 3.37 percent in FY 2006. The employees' contribution is projected to be \$41.0 million and employee buy-ins are \$1.3 million.

Expenditures

The FY 2006 expenditure budget totals \$151.8 million. Major components are: payments to retirees of \$128.9 million; investment costs of \$7.8 million; refunds to members leaving FCPS before retirement of \$3.5 million; Option D payments of \$6.5 million (payments to retirees who elect to receive a lump sum payment and a reduced monthly benefit); and personnel and other administrative expenses of \$5.1 million.

Accounting Basis

The ERFC Fund is a pension trust fund and follows the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

| Educational Employees' Supplementary Retirement System of Fairfax County | | |
|--|---------------|------------------------|
| Membership | | |
| | Number | Average Sal/Ben |
| Actives | 18,720 | \$52,234 |
| Retires & Beneficiaries | 7,451 | \$14,767 |
| Deferred Vested | 1,780 | \$2,213 |
| Total | <u>27,951</u> | |
| Employer Contribution Rate | | 3.37% |
| Assets/Liabilities (\$ in billions) | | |
| Actuarial Liabilities | | \$1.98 |
| Actuarial Assets | | \$1.68 |
| Market Value of Assets | | \$1.68 |
| Actuarial Assets as a % of Market Value | | 100% |
| Unfunded Actuarial Accrued Liability | | \$292.6 million |
| Key Assumptions | | |
| Investment Rate of Return | | 7.5% |
| Projected Salary Increases | | 4% - 8.2% |
| Cost of Living Adjustment | | 3.0% |
| Inflation | | 3.75% |
| Retirement Payroll (Annual) | | \$110 million |
| Funding Ratio | | 84.85% |

FINANCIAL

Educational Employees' Supplementary Retirement System of Fairfax County (\$ in millions)

| | Amount | Positions |
|------------------|---------------|------------------|
| FY 2006 Approved | \$ 151.8 | 32.3 |
| FY 2005 Estimate | <u>139.5</u> | <u>32.3</u> |
| Change | \$ 12.3 | 0.0 |

Financial Forecasts

On the following pages are five-year forecasts for each of the governmental funds: School Operating Fund, School Construction Fund, and Food and Nutrition Services Fund.

School Operating Fund

The financial forecasts for FY 2007 through FY 2010 are based on the approved FY 2006 budget and are shown on the chart on the following page. Given the listed assumptions, the potential deficit (required base adjustment) in FY 2007 will be approximately \$52.0 million. However, should any variables change, this deficit could be higher or lower, as narrated on the following pages. Each year of the forecast assumes that the budget for the prior year is balanced. The compensation and logistics base are adjusted for prior year-end deficits.

FCPS is required by state law to operate with a balanced budget. If a deficit is still an outstanding issue when the FY 2007 budget is developed, the Superintendent will provide options for the School Board to eliminate the deficit. Since FCPS does not have taxing authority, the School Board must adjust expenditures to eliminate any deficit. These options could include reducing or eliminating funding for school-based or nonschool-based programs or adjusting employee compensation. The School Board makes every effort to minimize the impact of any budget reductions on instruction.

Revenue Assumptions

Beginning Balance

A \$15.0 million beginning balance is projected for FY 2007 due to savings achieved in FY 2005.

County Transfer

The County General Fund transfer is estimated to increase by 7.0 percent in FY 2007 and 6.0 percent in each subsequent year.

Sales Tax

The FY 2007 through FY 2010 forecasts are based on historical trends over the last five years when annual increases have ranged between 0.5 and 11.4 percent. The FY 2007 forecast includes a downward adjustment based on 2005 school-aged population census data.

State Aid

Increases in state aid alternate between 7.6 and 2.2 percent based on the state's biennium budget. The first year of a biennium budget historically provides a much higher increase. These estimates are based on historical trends.

Financial Forecasts

| Operating Fund Fiscal Forecast | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$ in millions | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
| Revenue | | | | | |
| Beginning Balance | \$ 30.00 | \$ 15.00 | \$ 10.00 | \$ 5.00 | \$ - |
| County Transfer | 1,431.34 | 1,531.53 | 1,623.42 | 1,720.83 | 1,824.08 |
| Sales Tax | 154.16 | 160.79 | 170.44 | 180.67 | 191.51 |
| State Aid | 232.17 | 249.77 | 255.26 | 274.66 | 280.70 |
| Federal Aid | 42.24 | 42.86 | 43.49 | 44.13 | 44.77 |
| City of Fairfax Tuition | 31.10 | 32.94 | 34.59 | 36.32 | 38.13 |
| Other | 10.36 | 10.36 | 10.36 | 10.36 | 10.36 |
| Total Funds Available | \$ 1,931.37 | \$ 2,043.24 | \$ 2,147.56 | \$ 2,271.96 | \$ 2,389.55 |
| Expenditures | | | | | |
| Compensation Base (prior year) | \$ 1,587.59 | \$ 1,674.75 | \$ 1,753.09 | \$ 1,852.58 | \$ 1,970.03 |
| Changes from base: | | | | | |
| Growth | \$ (0.25) | \$ 4.59 | \$ 2.71 | \$ 3.70 | \$ 2.98 |
| Employee Health Insurance Rate Increases | 17.00 | 19.90 | 22.20 | 26.30 | 30.30 |
| Retirement Rate Adjustments | 7.00 | 6.05 | 6.30 | 6.55 | 6.80 |
| VRS - Pick Up Employee Contribution | 5.30 | 5.50 | 5.70 | 5.90 | - |
| VRS Life Insurance | - | 12.10 | 12.60 | 13.10 | 13.60 |
| Workers Comp | 1.79 | 1.60 | 2.10 | 2.70 | 3.50 |
| Step | 35.20 | 38.04 | 41.08 | 44.37 | 47.92 |
| Market Scale Adjustment - 3% | 43.20 | 46.45 | 47.84 | 49.28 | 50.76 |
| Turnover | (22.08) | (23.77) | (24.83) | (26.25) | (27.89) |
| Vacancy | (11.54) | (11.89) | (12.42) | (13.12) | (13.94) |
| Formative Assessment | - | 0.64 | 0.66 | 0.68 | 0.70 |
| Teacher Leadership Initiative | - | 13.00 | 13.39 | 13.79 | 14.21 |
| Target Initiatives - Full-Day Kindergarten | - | 1.00 | - | - | - |
| Staffing Initiatives | - | 4.00 | 5.00 | 5.00 | 5.00 |
| Final Budget Review Recurring Costs | - | 0.20 | - | - | - |
| Total Compensation | \$ 1,663.21 | \$ 1,792.16 | \$ 1,875.43 | \$ 1,984.58 | \$ 2,103.97 |
| Logistics Base | \$ 27.55 | \$ 229.34 | \$ 244.83 | \$ 248.63 | \$ 253.57 |
| Major Logistics Items | | | | | |
| Growth | \$ 3.37 | \$ 1.35 | \$ 0.33 | \$ 0.45 | \$ 0.37 |
| Textbooks, Instr. Supplies, Library Materials | 42.66 | 2.56 | 2.71 | 2.88 | 3.05 |
| Textbook Adoptions | 1.30 | 3.70 | (0.10) | (0.10) | (0.10) |
| Other Materials and Supplies | 21.71 | 1.47 | 0.93 | 0.96 | 1.00 |
| Repair and Maintenance Materials | 6.69 | 0.27 | 0.28 | 0.29 | 0.30 |
| Utilities | 49.53 | 1.80 | 2.21 | 1.72 | 1.82 |
| Teacher Liability Payment | 1.62 | (1.62) | | | |
| Maintenance Contracts | 14.86 | 0.59 | 0.62 | 0.64 | 0.67 |
| Building/Site Rental | 2.58 | 0.08 | 0.08 | 0.08 | 0.09 |
| DVS Charges | 20.09 | 1.40 | 1.50 | 1.70 | 1.80 |
| Replacement Equipment | 2.28 | 3.92 | | | |
| Bus Leases | 11.30 | 2.00 | (1.09) | (1.15) | (0.48) |
| Bus Purchases | | 1.00 | 1.00 | 1.00 | 1.00 |
| Vehicles | 1.60 | 0.50 | | | |
| Portable Buildings | 6.27 | (1.00) | | | |
| Equipment, Building, Computer, & Software Leases | 11.00 | 0.44 | 0.46 | 0.48 | 0.49 |
| Insurance | 6.70 | | | | |
| Bus Radios | 0.90 | 0.10 | 0.80 | | |
| EDSL | 1.00 | 1.58 | (0.60) | | |
| Price Increases | | 0.55 | 0.56 | 0.57 | 0.62 |
| Federal Mandate Placeholder | | 4.70 | | | |
| Formative Assessment | | 2.56 | (0.15) | (2.10) | |
| Central Admin Building Savings | | (1.00) | | | |
| Final Budget Review Recurring Costs | | 1.56 | | | |
| Total Logistics | \$ 233.01 | \$ 257.85 | \$ 254.37 | \$ 256.06 | \$ 264.20 |
| Total Expenditures | \$ 1,896.22 | \$ 2,050.01 | \$ 2,129.79 | \$ 2,240.64 | \$ 2,368.17 |
| Transfers Out | 35.15 | 45.32 | 46.34 | 48.35 | 50.38 |
| Total Disbursements | \$ 1,931.37 | \$ 2,095.33 | \$ 2,176.14 | \$ 2,288.99 | \$ 2,418.55 |
| Ending Balance / (Required Base Adjustment) | \$ 0.00 | \$ (52.09) | \$ (28.58) | \$ (17.04) | \$ (29.00) |

Financial Forecasts

Federal Aid

Federal aid is forecasted to increase 1.5 percent in each year of the forecast. This represents a lower percentage increase than received in recent years and is based on the most recent budget proposals before Congress.

City of Fairfax Tuition

In FY 2007, Fairfax City tuition is projected to increase 5.9 percent. The FY 2008 through FY 2010 forecasts assume that this source of revenue will grow at a rate of 5 percent.

Other

This category includes student fees, out-of-county tuition, and other miscellaneous revenue. Based on historical trends, the FY 2007 through FY 2010 forecasts assume no annual increase in these sources of revenue.

Expenditure Assumptions

Compensation

Compensation Base: The compensation base for FY 2007 is the total recurring amount spent on compensation in the prior fiscal year. This includes adjustments made for turnover savings, employee benefit changes, positions added for growth, new programs, and program expansions during the course of the prior fiscal year, and the effects of step and market scale adjustments.

Growth: The compensation-related costs of additional staff positions to meet enrollment growth are included in this line item. The estimates for position growth are based on historical annual average enrollment growth. The cost per position is adjusted in future years for step and cost-of-living increases. The membership increase in FY 2007 through FY 2010 is projected to range from 312 to 469 students.

Employee Benefit Rate Changes: In FY 2007, health benefit costs are forecast to increase \$19.9 million due to health benefit rate increases. The VRS employer contribution rate increases require a \$6.0 million adjustment in FY 2007. The ERFC employer contribution rate is expected to remain unchanged.

VRS Pick-Up of Employee Contribution: In FY 2007, the employer contribution to VRS will increase an additional 0.5 percent at a cost of \$5.5 million.

VRS Life Insurance: The VRS employer contribution is expected to resume in FY 2007 at a cost of \$12.1 million.

Financial Forecasts

Step: Normal annual step increases in each year of the forecast are assumed. This is an average annual increase of 2.6 percent.

Market Scale Adjustment: An annual market scale adjustment of 3.0 percent is assumed in FY 2007 and each subsequent year.

Turnover: Savings from turnover are projected to occur at a rate of 1.4 percent of total compensation in each year of the forecast due to a decrease in the number of retirees and weaker job market.

Vacancy: Vacancy savings of 0.7 percent of the compensation base are forecast for each year from FY 2007 to FY 2010.

Logistics

Growth: The cost of equipping new classrooms, providing supplies and textbooks to additional students, and purchasing portable classrooms is included in this line item.

Equipment, Buses, and Other Capital: The forecast assumes \$2.0 million cost for lease purchase of replacement buses and \$0.5 million for replacement vehicles in FY 2007. Also included in each year of the forecast is an additional \$1.0 million for the purchase of replacement buses in an effort to reduce the number of buses purchased through lease contracts.

Infrastructure Maintenance (included under Transfers Out): Funding of \$12.7 million is included in the FY 2007 forecast for building maintenance, facility modifications, and purchase of equipment for new and renovated schools.

Inflation: Other logistics expenditures are projected to increase 4.0 percent for inflation. Expenditures for textbooks, instructional supplies, and library materials are assumed to increase at an annual rate of 6.0 percent due to inflation.

Replacement Equipment: The forecast assumes funding for replacement equipment is \$6.2 million in FY 2007.

Financial Forecasts

School Construction Fund Forecast

Revenue Assumptions

The fiscal forecast assumes that the county government will provide \$109.7 million in bond sale proceeds in FY 2006 and estimated bond sale proceeds for future fiscal years to support School Construction Fund requirements as shown on the forecast statement on the following page. This will require a successful bond referendum initiative at approximately two-year intervals.

Small amounts of revenue are received from PTAs and the City of Fairfax for various minor projects in the schools, such as installing electrical outlets, reconfiguring a classroom, or improving a playground.

Transfers In

The School Operating Fund supports nonbond-funded projects primarily involving maintenance requirements. In the forecast years, funding of \$9.7 to \$9.9 million annually is estimated for building maintenance projects, such as:

- Bleacher repair
- Painting of schools
- HVAC maintenance
- Carpet replacement
- Parking lot repair

Also in the forecast, an amount of \$2.8 to \$4.8 million per year is projected for the one-third shared cost of equipping new, renewed or expanded schools. The remaining two-thirds of this expense is bond funded because it has an estimated useful life of 20 years or more and is eligible for bond funding.

Expenditure Assumptions

Expenditures are assumed to match total receipts. FCPS has a prioritized list of construction projects identified in the five year CIP which exceed this projected funding level. The capital construction needs exceed the available resources; therefore, each year only the highest priority projects can be accomplished.

In the next several years, Fairfax County residents and their elected leadership will be faced with a major challenge to close this capital gap while minimizing the hardships thus imposed on students, parents, businesses, and taxpayers. The challenge will also be to sustain the qualities and values that make Fairfax County a good place to live and invest.

Financial Forecasts

| School Construction Fund Forecast | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| (\$ in millions) | | | | | |
| FY 2006 | | | | | |
| | Approved | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
| Beginning Balance, July 1 | | | | | |
| Receipts | | | | | |
| Bond Sales | \$109.69 | \$104.50 | \$120.20 | \$130.00 | \$130.00 |
| State Construction Grant | 0.93 | 0.93 | - | - | - |
| PTA/PTO Receipts | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| City of Fairfax | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| Other Receipts | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 |
| Total Receipts | \$111.06 | \$105.87 | \$120.64 | \$130.44 | \$130.44 |
| Authorized But Unissued Bond Funds | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Transfers In | | | | | |
| School Operating Fund | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Building Maintenance | 6.80 | 9.69 | 9.71 | 9.73 | 9.90 |
| Classroom Equipment | 3.39 | 2.80 | 4.07 | 4.80 | 4.82 |
| Facility Modifications | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| Total Transfers In | \$10.79 | \$13.09 | \$14.38 | \$15.13 | \$15.32 |
| Total Funds Available | \$121.85 | \$118.96 | \$135.02 | \$145.57 | \$145.76 |
| Expenditures and Commitments | | | | | |
| Expenditures | \$121.85 | \$118.96 | \$135.02 | \$145.57 | \$145.76 |
| Additional Contracted Commitments | - | - | - | - | - |
| Total Disbursements | \$121.85 | \$118.96 | \$135.02 | \$145.57 | \$145.76 |
| Ending Balance, June 30 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

Financial Forecasts

School Food & Nutrition Services Fund Forecast

Revenue Assumptions

Beginning Balance: The beginning balances for the next five years are comprised of profits generated from efficient food service operations and cost-savings measures. The beginning balances will ultimately fund equipment and technology improvements.

Food Sales:

The FY 2006 through FY 2010 forecast is increased 4.0 percent per year based on estimated participation and food pricing increases.

Federal Aid:

The five-year forecast, FY 2006 through FY 2010, assumes the continuation of federal reimbursement and is estimated to increase 4.0 percent on average over the next five years based on participation growth figures. The current subsidy is 21 cents in cash and 17.50 cents in commodities. Also, as more students become eligible for free and reduced lunches, federal aid provides additional revenue.

State Aid:

The five-year forecast, FY 2006 through FY 2010, expects state to increase 2.0 percent on average over the next five years. The Commonwealth of Virginia currently reimburses FCPS 5.5 cents per lunch meal served and there is no reimbursement for breakfast.

Other Revenue:

Other revenue generated for the Food and Nutrition Services Fund is comprised primarily of interest earned on pooled cash, vending and contracted services.

Expenditure Assumptions

Labor: The estimated labor costs assume a 5 percent increase per year, including both annual step and cost-of-living increases.

Benefits:

Based on increases in labor and potential increases in health benefit costs, benefits are estimated to increase 15.0 percent each year.

Food and Supplies:

Food and supplies are projected to increase at the same rate as food sales.

Financial Forecasts

Operating Expenses:

The FY 2006 through FY 2010 forecast assumes an annual inflationary increase of 4.0 percent.

Equipment Purchases:

Equipment purchases for the next five years will vary between \$500,000 and \$1,000,000. As equipment ages and technological improvements increase, Food and Nutrition Services plans to update and improve its operations accordingly. These purchases are anticipated to be funded from prior year ending and current year beginning balances.

| Food and Nutrition Services Fund Forecast | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | FY 2006 | | | | |
| | Approved | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
| Beginning Balance, July 1 | \$ 9,674,476 | \$ 9,675,200 | \$ 9,675,200 | \$ 9,675,200 | \$ 9,675,200 |
| Receipts: | | | | | |
| Food Sales | \$ 41,539,163 | \$ 43,200,730 | \$ 44,928,759 | \$ 46,725,909 | \$ 48,594,945 |
| Federal Aid | 17,444,399 | 18,142,175 | 18,867,862 | 19,622,576 | 20,407,479 |
| State Aid | 770,535 | 785,946 | 801,665 | 817,698 | 834,052 |
| Other Revenues | 65,464 | 200,000 | 200,000 | 200,000 | 200,000 |
| Total Receipts | \$ 59,819,561 | \$ 62,328,850 | \$ 64,798,285 | \$ 67,366,183 | \$ 70,036,477 |
| Total Funds Available | \$ 69,494,037 | \$ 72,004,050 | \$ 74,473,485 | \$ 77,041,383 | \$ 79,711,677 |
| Expenditures | \$ 59,818,837 | \$ 62,328,850 | \$ 64,798,285 | \$ 67,366,183 | \$ 70,036,477 |
| Food and Nutrition Services General Reserve | 9,675,200 | 9,675,200 | 9,675,200 | 9,675,200 | 9,675,200 |
| Total Disbursements | \$ 69,494,037 | \$ 72,004,050 | \$ 74,473,485 | \$ 77,041,383 | \$ 79,711,677 |
| Ending Balance, June 30 | \$ - | \$ - | \$ - | \$ - | \$ - |

