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Fairfax County Board of Supervisors Budget Policy Committee, Tuesday, November 24, 2026

Date	Tuesday, November 24, 2026
Place	Fairfax County Board of Supervisors, Virginia
Length	1h 28m (video)

- Official meeting video (Fairfax County): https://video.fairfaxcounty.gov/player/clip/4345
- Official Board of Supervisors page (Fairfax County): https://www.fairfaxcounty.gov/boardofsupervisors/

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Speech-to-text: whisper.cpp, model large-v3-turbo. Produced 2026-11-25. Each paragraph starts with its time [HH:MM:SS] in the meeting video.

[00:00:08] going to go ahead and get started. Welcome, everyone, to our budget committee meeting of November 24, 2026. And we do have a couple of agenda items today to get through. So I am going to run us as efficiently as I can through the agenda to make sure we end on time. And our three items are starting with tax relief for seniors and people with disabilities. And with that, I am going to turn over to Christina Jackson.

[00:00:35] Welcome. Yes. Good morning, everyone. So I'm going to quickly turn this over to Jay Doshi. Just in the interest of time, I'm going to have staff introduce themselves as they are presenting just to save some time. So I'll turn it over. Good morning, Mr. Chairman. First up, we have Tim Tangent, who is responsible for the tax relief program.

[00:00:55] And Tim, all yours. Good morning, everyone. I'm the assistant director of DTA's Revenue Collection Division. I'm responsible for the tax relief and exemptions office located here in the building. Today I'll provide an overview of Fairfax County's tax relief program for seniors and people with disabilities and I'll include with the observations that we've made by this analysis and happy to answer any questions.

[00:01:22] As part of the FI27 budget guidance, the board asked staff to evaluate the county's senior tax relief program following several enhancements that the county's made over the past few years.

Specifically, the board requested an analysis of comparable programs, participation, and utilization trends, whether they're effectively reaching the intended beneficiaries.

[00:01:44] As you can see on this slide, we have the agenda for this presentation that I'll be going through. It covers the current program, the analysis of the other jurisdictions, growth in our disabled veteran tax exemption, implementation considerations, and the discussion.

[00:02:03] These are the current program limitations for senior tax relief here in Fairfax County. relief ranges from 100% as you see there on the slide for $60,000 and less to 25% up to $90,000 on the gross income. We have a tax deferral. The board passed that in 2021. That became effective in January of 2023 tax year. In regards to the lower portion of the slide, you will see that the limit for the net financial worth excludes the value of the home and up to five acres of land.

[00:02:39] We also provide relief up to 125% of the mean assessed value. On this slide, we have for fiscal year 2025 what the program provided relief to in our residents.

[00:02:55] You'll see that the majority of the residents are qualifying in the 100% relief bracket, and then you have specific, you know, qualifications throughout with 75, 50, and 25%. participation is an increase significantly in fiscal year 2023 and 2024. That was when the program changes were made, rising from approximately 6,400 to nearly 74, 7,500 as of fiscal year 2025.

[00:03:33] The changes that were approved in 2021 began in 2022 tax year, which was where we increased the gross income limitation from 72,000 to 90,000. It also increased the net financial worth from $340,000 up to $400,000 and allowed for that exclusion of up to five acres of land. In 23, the second phase of changes was the addition of the 75% relief category, the maximum available

[00:04:01] for relief, along with the tax deferral. This just provides an income distribution of the applicants on the program. So this is taking into account all individuals who apply, not just the one's approved. So it's providing where they're falling within income ranges and the average for each of those ranges. Half of the applicants are falling below $40,000 in gross income. We have the

[00:04:40] same distribution here for the net financial worth and or your asset qualifications as it states and shows there on the slides. Nearly half are falling into the zero to a hundred thousand in net financial worth. Here's the slide comparing Fairfax County with other jurisdictions. So we provide the largest overall dollar amount in tax relief we also rank near the top when you compare the amount relieved in total to our real estate tax base this is only

[00:05:18] looking into tax relief for seniors and people with disabilities it's not any of the other programs we administer in this office with such as our disabled veterans and our surviving spouse exemptions here you're seeing a comparable of our tax deferral program along with the other neighboring jurisdictions that have it. So it's to be mindful that not all offer this tax deferral program.

[00:05:48] The participation remains low. I mean, this is our, you know, since 2023, we've had this program and you're not seeing a large number of participants contributing and taking part in this program. This slide is indicating the disabled veteran tax exemption. That's not the purpose of this hearing, but it is to provide you clarification on what my office oversees and handles. We oversee the senior program along with this program. So the growth in the senior and the growth in the veterans contributes to additional administrative burden and the need for additional staff.

[00:06:31] Timeline. So tax relief for seniors, we're running on a calendar on the tax year. So we're going to be mailing out our applications for this upcoming year in January. Because of that, we need to look at adopting a year in advance any changes so we can make any necessary changes technology-wise or staffing-wise. So this slide just points out a timeline of if you were wishing to make any changes to the program, when you would do so, and when we could look at implementing them.

[00:07:03] At this point, that concludes what I have on our tax relief program, and I'm open for any questions. Thank you very much for that presentation. I appreciate the data, and we're going to have some decisions to make moving forward. I know what the time crunch is for this budget, but I think for out-year budgets, you know, this should be a consideration. It is nice to know that we're competitive with some of the other jurisdictions around here, but I do think there's still some improvements that can be made to this. I guess the only question I have is your, when you look

[00:07:39] at FY23 to 26 and you look at the total number of participants in the senior and disabled tax relief program, I think it's fair to say that's a pretty flat number over those four years. And so Is it your professional opinion that we probably have plateaued in terms of the number of applicants?

[00:07:58] Or are you looking at this data differently than kind of the raw numbers that appear on the chart? So, one, we keep tax relief open in Fairfax County for the current year and immediately prior. So we're still processing last year's tax relief. These numbers are still going to grow along with this year.

[00:08:15] In regards to it, I can't really say if it was a plateau. But, I mean, we are estimating in the demographics report a growth in the senior population. So, over these upcoming years, we should see a trend in growth in the program just based on an increasing number of seniors in the county.

[00:08:34] Okay. And I think that's one of the things we need to be watching carefully because, you know, from my standpoint, I think when we did expansions of the program, probably expected the number to grow. So I'm not sure this matched what I think some of our expectations would be.

[00:08:51] And I'm understanding, especially the FY26 number is not complete. I get that. The only other thing I would say is, and it's a prickly subject, and I appreciate that you included it in here, for folks watching the Disabled Veteran Exemption Program, which is a good program, is approved and required by Virginia Code.

[00:09:11] So that was a program approved by the Virginia General Assembly, not by the Board of Supervisors. And I know there's been a number of conversations, especially at VACO and some other organizations, about the state understanding what the revenue impact is to localities of this program.

[00:09:27] And some of the numbers are daunting. And, again, it's a good program. But when you look at the fiscal impact of the Disabled Veteran Exemption Program, The fiscal impact of that program is larger than the fiscal impact of the entire senior and disabled real estate tax relief program that is set and administered by Fairfax County.

[00:09:47] So I do think this is something that the Virginia General Assembly is going to have to look at, and it may be a very good program, but I think our strategy in the past always has been the Virginia General Assembly proposes this. They should have found a way to make localities whole because this number of $65 million is a player and driver in what we're able to do to expand the senior and disabled tax relief program.

[00:10:11] You have to look at those in totality to understand what the revenue impact is. And so I appreciate that you included that slide, even though it's not directly responsive to the question that you were asked. But it does paint the whole picture, I think, very clearly. So appreciate the information.

[00:10:27] Obviously, this is something that as the Budget Committee, as we progress through future budgets, this is something we have to be aware of and be looking at and make sure that we're doing everything we can. You know, there is nothing I hear about more from our senior population than concerns about real estate tax bills.

[00:10:45] And so that's not going away. And it's something that we're going to have to continue to address. Questions from board members on the presentation? Supervisor Behrman. Thank you. The numbers on the tax deferral program, both for Fairfax County but also on slide 11 for every other jurisdiction, are really, really striking.

[00:11:07] I've had lots of people suggest that this is the answer, for instance, that a tax deferral program might be the way to fix the problems that seniors are facing, especially because on a tax deferral program we will eventually get tax dollars.

[00:11:27] But nobody utilizes it here or elsewhere. So do you have any thoughts on what would create a better tax deferral program, one that might be utilized a little bit more to the degree we want that?

[00:11:46] So, I mean, in regards to it, individuals prefer relieving of the taxes over the deferral. So that obviously plays into part of it. Well, yes, of course. That taxes and not liking to pay taxes are the only things that we all, you know, agree on.

[00:12:04] In regards to it, though, one thing that is a big factor into this, lean against the property. If you have a mortgage, part of that mortgage note is secured and you're signing that taxes are paid on time. Lenders don't agree to the deferral. So we have many homeowners who have liens against the property still.

[00:12:24] Unfortunately, unless the lender agrees to that, we're not going to be able to defer the taxes. So that's a big contributing factor. I mean, we have, you see there on the slide, our interest rate. It's adjusted based on the Wall Street Journal prime rate.

[00:12:40] So whether or not the board would like to consider a flat rate and possibly bringing that down, that would be to the discretion of the board. But well, candidly, the legislator will remain nameless, but very few times have I had somebody from Richmond call me up literally about 19 hours ago and say, hey, what do you think if I put in a bill about, you know, being able to put a lien on your property, but defer your taxes?

[00:13:09] Do you think that would work? And I said, actually, we have that program and nobody uses it. And I've never had I mean, it was like almost a Marshall McLuhan type moment there. So thank you, and it would be interesting to think about what could be done on that front, given the questions that we get asked.

[00:13:29] Thank you. And I think on that front, Jimmy, the recommendation of going to deferred interest rate of zero hasn't moved the needle in those other jurisdictions. I mean, in northern Virginia, there's 27 people who are using it because it was zero and maybe not because it was zero. And so I don't know that that's the remedy.

[00:13:45] Correct. Appreciate the comment. Other questions board members have? Yep. Supervisor Herity. On slide 10, and again, the biggest problem I hear is more the net worth limit outside the principal residence. I was just looking at Loudon, and you've got an asterisk that they've got a sliding sale, but they go up to one. How does their sliding scale work?

[00:14:19] So they provide different percentages of relief depending on where your income and the net financial worth falls. So someone may have assets of, let's say, $750,000, but based on their income, they can fall in different thresholds. Similar to us, how we have the $175,000, $50,000, and $25,000.

[00:14:41] Okay. Are we aware, are any jurisdictions in Virginia that exempt a portion of 401k? To my knowledge, no. So nobody's doing that. Because, you know, we encourage people to put away to save for their retirement, and that's what they're going to live on if they don't have a pension.

[00:15:04] So you can't afford to live here on Social Security. I mean, it's pretty simple that that doesn't work. So if you've got your big 401K, but it's not huge, but it's enough to supplement you while you stay here, To me, that's something that at some point in time I'd love to figure out.

[00:15:27] Are we allowed to do that? Do we know? Is the state allowed? Yeah. Dan Robinson is here, but my understanding, Mr. Chairman Jay Dilshie, the DTA, my understanding is the board has flexibility. The state controlled every aspect of it, and I believe that if the board so chose, it could go in that direction.

[00:15:48] Yeah, and what I would envision, just as a financial guy, would be if you were to take a certain amount at a certain age and convert it to an annuity, you'd exclude that amount if it still kept them below the income level. But that gets really complicated. And I'd love to see your guys that already have trouble with these seniors try to explain that. But that would, to me, be fair for people that, because if you've got a pension payment, as many of our government workers do, that amount, as long as it keeps you below the

[00:16:22] income threshold you're good you know or if you're a teacher a retired county employee but if if um if you've saved through 401k you're you're kind of out of luck on until your assets are gone and then mr chairman superintendent you're absolutely correct the challenge as you know is even if you attempt to go out and buy an annuity in the open market the current interest rates are going to determine how much you get for the same sum of money yeah when money was cheap at two percent 2.25% on prime rate.

[00:16:57] You've got a lot more than you do today with 7% Wall Street Journal prime rate. Yeah, I think we need to do something there on the asset limit at some time. That's where I would focus the effort. That's my two cents.

[00:17:13] Thank you. Supervisor Palchuk on Supervisor Store. Keep in mind we have three agenda items here today. Mine's very simple. Following up on that, could we just get information on the potential cost if we were to go different increments, I guess, all the way up to where Arlington County is, just see what the impact would be.

[00:17:34] And just to be clear on that, I think one of the challenges is it's hypothetical because we don't know how many more people would qualify for that. So it's an educated guess, but it's not a number you're going to have great confidence in until it's in place. But Jay's pretty smart. And just to make sure I've got it right, are we talking about Arlington County for assets and income? I just want to be sure. I'm more focused on assets because that's what we've been discussing. If others want income, I'm open to that as well. I think we already increased it once, and we have that impact. And I think before we make any decisions, it'd be important to

[00:18:13] understand other impacts. Thank you. And on that point, Supervisor Palchik, when we did the estimated impact on the changes that we put in place recently, how close were we to matching and what our guess was, how close was that to what the reality is?

[00:18:29] I think we did pretty well, but I'm going to defer to Albina Asanova on that. Albina Asanova from the budget office. Yes, when we do the estimates of the impact, we have to make a lot of assumptions because we don't have county-level data on the assets and the distribution and how many people would qualify, and then also the value of the homes, and then we had to assume some growth in the assessed values as well over this time period.

[00:18:57] So some of the growth that we've seen for the revenue impact is due to the new number of participants, but also because we're seeing growth in the value of homes that we're exempting. We were relatively close, I would say.

[00:19:14] I think that at the time we estimated an impact of $12 million of new participants in revenue loss. And we've seen, I think that one of the slides shows how the growth in the values that we've examined.

[00:19:34] So, for example, in fiscal year 22, that's on slide 7, we were exempting $28, $29 million, and now it's up to $41 million.

[00:19:49] And an important consideration, and when we're projecting this, the law requires its gross income of the applicants, but also any other owners residing in the home and relatives. We're not going to have that data. So that plays a contributing factor into it.

[00:20:05] Appreciate that. Okay. Supervisor Stork. Thank you, Mr. Chairman. I know we've all been hearing, and particularly when I go to regional meetings, I hear a lot about the Civil Veteran Exemption Program and its impact on counties broadly.

[00:20:23] And I know for us, maybe percentage-wise, it doesn't have the same impact that they may be having to staff, et cetera. But obviously, for us, it's a significant amount of dollars. I don't recall if we have, and it's growing fairly dramatically, and I don't know if we're leveling off, if you all see any sense of that, number one.

[00:20:42] And number two is, I don't recall what we have in our legislative package, and I don't know if anyone here recalls if we've, because I know it's a broader issue, not explicit or exclusive to Fairfax County. Mr. Chairman the board has been on record for all tax relief programs that represent mandates That the board would prefer that there is 100% reimbursement by the Commonwealth So I think that we've been able to leverage that position as we make the board's position known

[00:21:17] Virginia tax just completed a workgroup study on the disabled veterans program And while there's a variety of discussions and a recognition that this is, the program is exploding way beyond what anyone expected, I think the challenges coming up with legislative fixes, even as the Commonwealth has surpluses and the local governments are, some jurisdictions report up to 8% of the general fund revenues being consumed by this program.

[00:21:53] To your point, if we're seeing it, the growth slowing down at all, right now, no. We're projecting just by 2028 we'll be in excess of $100 million in real estate tax revenue just for the disabled veteran exemption.

[00:22:09] Wow, I did not appreciate that. I mean, to me, seeing the number of $65 million today, I don't know that was in my head before this. It will now not get out of my head, and now you're talking about $100 million. The largest property in Fairfax County that is currently eligible and has been approved for tax exemption is assessed at $6.5 million.

[00:22:34] There are no asset caps. There is no means testing, and that adds to the fiscal challenges, for sure. Unlike our program of tax, where we provide, it's very targeted at folks who need it, at least economically, financially.

[00:22:51] I'm not addressing the issue of... Right. Even today, the combined impact, and soon to grow, of course, as we get more applications even for tax year 25, the combined impact of these two programs is almost $110 million between the traditional tax relief and the veterans program.

[00:23:09] Yes. All right. Thank you. And that's why it's important to present that with this, because I think all of us would like to increase flexibility for senior and disability tax relief, but at the growth rate of that state program, that is squeezing our financial ability to do that significantly.

[00:23:26] And as you just mentioned, you know, there is a fairness element to people who have properties assessed at six and a half million dollars in unlimited resources and the number of people who could be helped by a modest increase in assets and income in the senior program to provide them tax relief. And that is the dilemma. I will say there are places in Virginia where our number might be among the largest, but there are small jurisdictions in Virginia, smaller jurisdictions like Stafford County that have been talking about this for years.

[00:23:56] The hit on Stafford County in terms of this program is substantial, not to mention a lot of the Hampton Roads area. So I do think this is not just a Northern Virginia problem, but a statewide problem in Virginia. And it is something I think we're going to have to have an uncomfortable conversation about because it's not sustainable at the rate of growth that we're seeing to your point mr chairman the city of hampton decided that it could no longer afford the traditional tax relief program and therefore given the growth of the disabled veterans program so it has shifted the entire program from outright tax relief to deferral only the traditional tax

[00:24:35] relief program with actual money back is gone yeah and has been four years overall real estate collections does does this what percentage is it we talked about eight percent and staffer what is correct so for us by the time we add both of them up we're going to approach three percent of our royal estate tax base for this alone that doesn't factor in local government non-profits that have been exempted three percent is the handicap and that is correctly as well as this okay yes thank you okay any other questions on this before we move to agenda item two okay thank you

[00:25:14] Agenda item two is administration of a tax rebate. Christina, do you want to kick that off again? Yeah, so for this presentation, it's going to be led by both Jay Doshi and Greg Brook from the Department of Tax Administration. Mr. Chairman, Greg, all yours.

[00:25:30] Good morning, Mr. Chairman, members of the board. My name is Greg Brook. I am the deputy director of the Department of Tax Administration. The presentation we have for you today is regarding the board matter requesting analysis of a potential tax rebate. So, as you see here, the board matter requested that we analyze administration options, personnel and operational costs, pros, cons, and ordinance requirements.

[00:25:54] For some background, Virginia Code 15.2-2511.1 provides the authority for localities to return surplus funds. We will go into more details on the restrictions and requirements based on the statute in the next slide. We also wanted to provide a brief overview of other localities in Virginia that have adopted ordinances and issued rebates under this authority.

[00:26:16] Those localities are the counties of Chesterfield, Henrico, and Louisa, and the city of Richmond. All four localities provided rebates for real estate taxes. Henrico is the only one that also provided rebates for personal property. As it relates to restrictions of issuing rebates, the county would first have to adopt an ordinance.

[00:26:40] Based on the statute, the return of surplus funds is limited to real estate and personal property taxes only, And refunds must be made to those who paid into the surplus for the given fiscal year. For real estate specifically, refunds would apply to both residential and commercial properties.

[00:26:59] The surplus would have to be returned to the owners that were assessed taxes. And any ordinance drafted would have to set a date as of which ownership would be determined for the purposes of issuing a rebate. This would be a snapshot in time, such as the ownership as of the billing of the second installment real estate.

[00:27:16] For personal property, the rebate would include both individual and business use vehicles and would also include business personal property. At this point, I will turn it over to Phil to run a few slides. Phil Hagen, Budget Director. So one of the things that we would need to talk about as we were to implement a rebate program would be the question of what defines a surplus because Virginia Code does not actually have a legal definition of what that surplus is. So we do have a bit of flexibility then and how we could define it. However, since the surplus is tied to either the real estate tax or personal property tax revenues, we think that a good option there

[00:27:54] would be to look at the variance between actual receipts and the final revised budget for each of those taxes. We certainly think that would be a straightforward approach. In each of those cases, we would just be looking at the current year tax receipts and not looking at any of the delinquent collections from prior years. And so the chart on this slide gives those variances over a five-year period. You can see real estate, which is the blue bar, is very tight, under a quarter percent each year, and actually negative in this most recent year. Personal property tax variances are slightly higher. Of course, the overall tax base there is smaller, though. But even those are very close at

[00:28:30] under two percent. So if we look at fiscal year 2026 as an example of what the impact would be, Again, our real estate tax variance was slightly negative, and so that would not allow for a potential rebate under this definition of what a surplus would be. Meanwhile, with personal property taxes, with a positive variance of $13.4 million, that could have allowed a rebate of about $11 per account, and that would include, again, both the individual and business personal property accounts. I would just note that $11 does not assume any administrative costs, and coming up

[00:29:08] in a couple of slides, we have some options there on what the administrative cost would be. So we would certainly expect that actual rebate amount to be slightly lower than that $11 per account. Talking about the impact, though, if that $13 million in that personal property tax variance had been refunded to taxpayers, it would have impacted our carryover actions. And so we wanted to put this slide in here just to kind of give some context in that matter. Certainly the real estate and personal property tax variances

aren't the sum total of what we have in balance at the end of the year. We have other tax categories that contribute to the revenue balance,

[00:29:42] which was just over $63 million, this carryover. Some of the other categories that contributed to that balance were BPOL taxes, sales tax, investment earnings, as well as charges for services that all ran a little bit above what we had predicted. We also had savings of $107 million on the expenditure side of the ledger. And after prior year commitments, we had $106 million available for carryover adjustments.

[00:30:07] And so we've provided the pie chart on this slide in order to show how those carryover funds were allocated. And certainly when we look at the largest categories on this pie chart where we have capital, IT, vehicle replacement, environmental and energy programs, those are categories where carryover funding really allows us to continue those programs.

[00:30:28] That's where the bulk of the funding for those programs comes from. And without being able to dedicate carryover funding towards those items, we would be looking at needing to make additional baseline contributions into those. So certainly taking something that we need to take into account as we look at this, because we do have significant needs for carryover balances each year.

[00:30:48] Turn it back to Greg. So what brings us to our options, based on our analysis, we really only have two options. Option one is the issuing of rebate checks. As you will see between the two, this one is more costly, and it would require the issuance of roughly one and a half million paper checks. That's 13 times more than our current annual operation at a total cost of $2.4 to $3.5 million, and it would require four new positions to manage the check printing process, as well as the return check and its achievement process.

[00:31:24] The Department of Finance did look at outsourcing the check printing to Bank of America, but that would require the outsourcing of all check printing and would be at a total estimated cost of $3.5 million. From an IT development standpoint, since we do not presently have the ability to do rebates, a mass rebate in either of our tax systems, we're looking at an IT development timeline of anywhere from eight to nine months per tax type, and then there would be an additional 79 days required to process and mail the checks.

[00:31:58] An alternative option would be to apply the rebate as a credit to future year tax accounts and issue rebate checks for those that have moved and or sold their property. With this option, we would still have to issue some rebate checks, but the volume of issuance would be lower at roughly $128,000 or double our current annual operations. The total estimated cost for this would be about a million dollars and one additional position. And then from an IT development standpoint, it would be similar to the issuing of the rebate checks. It would be eight to nine months per tax type, but the issuing of the checks

[00:32:30] themselves would be reduced to roughly 13 days. And that concludes our presentation on tax rebates. Thank you for the presentation. I do think regardless of our opinion on this issue or not, we did just hear, I think, the reason why there are 95 counties in Virginia and 38 cities, and there are four jurisdictions in the entire Commonwealth of Virginia that have this program.

[00:32:58] and I think we just heard why from my standpoint. But questions from board members. Supervisor Herity. Well, since this was my board matter, and thank you for doing the work, and I know it was a bit of work.

[00:33:16] Just real quick on slide five, you were struggling with the definition of surplus. I mean, certainly surplus could be the, I mean, I think a valid definition would be projected revenues exceeding projected expenses.

[00:33:41] It wouldn't have to be just a surplus on the revenue side, correct? Is there anything? So as I said here, certainly there is not a legal definition in Virginia Code. Okay. So we would have some flexibility. Got it. With the code being specific about returning real estate and personal property taxes, we certainly thought that looking at the variance of those two categories would be a straightforward way to go.

[00:34:04] It is certainly open for other discussion about how that surplus could be defined. Do you know what other jurisdictions do, how they define it, just out of curiosity? Yeah, so they defined it like we define it here. They looked at the variances between the real estate and the personal property revenue and what was actually projected in their budget.

[00:34:27] We met with Henrico County, and that's how they conveyed it to us as well. Okay. All right. I mean, and I certainly don't think we're going to see this in the near future, not with our deferred maintenance issues, our deferred IT issues, our pension liability issues, stagnant population.

[00:34:51] What got me thinking about this is I did get a check from Louisa County, and it was a nice thing when you owned property down there and received a check. It's kind of an interesting mix of jurisdictions, and I know there's only four out of the 130-some jurisdictions there are in Virginia.

[00:35:13] Interesting that only four did it. Louisa did it on real estate taxes, which was also interesting. But thank you very much. Obviously, if we get to the point we ever need to look at this, which I don't think is for the next several years, at least option two seemed to be the one that makes the most sense, but still a lot of work to do.

[00:35:36] Did the option two include the IT cost of developing that, or was that? Yeah, that was included in the cost as well. It was included in it. Thank you. Okay, any other questions? Supervisor Stewart. This was, I think, very helpful for me to understand.

[00:35:54] Obviously, the costs are significant, and if you did it, you'd want it to be enough dollars to offset the costs associated with it. I could see really one situation where it could be something we would consider, which is, you know, as we all know from the Weldon Cooper study, we send a dollar to Richmond and we get back 50 cents on the dollar.

[00:36:17] If the state actually did start treating us more equitably here and we got 70%, 80% back, that kind of increase or largesse would be something we could in turn use to reduce our tax rate and or provide rebates to folks.

[00:36:37] And I think that, to me, I would welcome that opportunity and welcome the fact that the state would actually treat us more equitably in Fairfax County and Northern Virginia in general. So thank you. Fair point, as always, consistent. Any other questions from board members on this?

[00:36:56] Okay, we're going to move on to agenda item number three, which is Retirement Systems and Boards Consolidation Overview. Yes, we're going to have a change of personnel here at the table. So I'll ask to come to the table, our partners with PFM and Deep Blue Advisors, as well as we have a representative from each of the Retirement Boards of Trustees.

[00:37:20] I will note that Jeff Weiler was supposed to be here to represent the retirement systems. However, he has a medical issue, and so he is not able to be here. I'm going to cover those slides for him, probably poorly. And if you guys have any specific questions about some of those items, I can take them back as budget Q&As.

[00:37:38] So, Rich wants to come to the table. And Sean. Yep. So, we're going to start. This presentation is really divided up into two components. I'm going to cover the first number of slides, and then I'm going to pass it over to PFM and Deep Blue. So, the first two slides are really just to provide an overview.

[00:37:58] I just don't mind passing me the remote. Thank you. But to provide an overview of the retirement systems, and so really just for folks listening, as a reminder, the county does have three separate retirement systems.

[00:38:13] We have our employees' retirement system, which includes our general county employees. It also does include some employees from schools, those that are not in the Virginia retirement system, so food service workers, custodians, those are in our employees' retirement system. We have our Uniform Retirement System, which is primarily Uniform Fire and Rescue, Sheriff's Office, and Department of Public Safety Communications, and then we have our Police Officers Retirement System.

[00:38:38] You can see in the chart here on the right, really just the scale of those systems. I mean, over $11 billion in assets when you combine the three. You can also see the most recent funded ratios for those systems, ranging anywhere from about 74% to just under 81%.

[00:38:54] We look at our funding ratios on a more historical perspective. just look the past five years, you can see that those do fluctuate. This is based on market value of assets. So as the market changes, so do these funding ratios. They are also impacted by liability gains or losses, meaning how our experience compares in a given year compared to the assumptions that the actuaries have included in their valuations. And so you, again, can see that those funding ratios have fluctuated around mid-60s to a little above 80 percent.

[00:39:29] We have had a lot of conversations with the bond rating agencies about our retirement systems. Some members of the board may recall a little more than a decade ago there were some concerns from the rating agencies regarding our pension funding, and so we put a number of guidelines into place to try to strengthen that.

[00:39:47] The first was you can see there listed was amortizing 100 percent of the unfunded liability, that in our employer contribution rates. We were not doing that previously. We had a different funding method that we used. But since 2020, we have been amortizing 100% of the unfunded, including that in our employer contribution rates. So we did see an increase in employer contribution rates from about 2015 to about 2020, primarily as a result of this. The second tenet is in that until each system reaches 100% funding status, we will not reduce employer contributions for that system. Really, this comes into play, it's maybe come into play a handful of

[00:40:25] times since we put this policy into place, where the actuaries has determined that we could reduce the employer contribution rate. We hold it steady. But the past couple of years, especially, we've seen contribution rates increase. So this guideline hasn't really come into play. And then the last guideline is that if we consider any benefit enhancements for our systems, that if there's an unfunded liability that's

created and primarily that comes about when we provide that benefit enhancements to existing retirees or to service that's already earned. If there is a benefit

[00:41:00] enhancement that's added, we will fully fund any increase in liability automatically. And really the purpose of that is we don't want any benefit enhancement to harm the funding status of the system. These next two slides were initially ones that Jeff had intended to go over, but I'll go over them quickly. The retirement systems did engage with two consultants to do two separate studies, the first being an asset and liability stress test for each of the three systems.

[00:41:29] This was a study that had been done also for the Virginia retirement system, but it really took a look at the investment portfolios across the three systems and ran those portfolios through different economic models to really determine what they would anticipate that the rate of return would be in each of those models.

[00:41:48] And this was primarily done to determine whether or not the 6.75 percent assumed rate of return that we use across our systems was reasonable. And what Agilis did determine was that, in fact, it is reasonable, that when they looked at a 15-year time horizon that over the course of those 15 years that the plans were able to meet or exceed that 6.75 percent, anywhere from about 73 to 78 percent of the time.

[00:42:15] So it did bring some relief to the retirement agencies. This is also an assumption that our actuaries look at as well, and they've also confirmed that the 6.75% assumed rate of return is reasonable.

[00:42:32] At the same time, the retirement system also engaged with funds and advisory services to look at the governing practices of the three retirement systems. You can see here that the consultant did not note any significant issues, certainly no issues that they felt would impact investment performance. And so they did make a number of recommendations that were specific to the individual retirement systems themselves, mostly as it relates to governance policy, board policies, trying to look at ways that they can make some of the processes more efficient. There were a number of recommendations that tied closely

[00:43:09] into what we will be shifting towards, which is a conversation about potential consolidation. And And so some of those recommendations are on hold, but my understanding is that the individual boards of trustees are working with the retirement agency to implement some of the other consultant recommendations resulting from the governance review.

[00:43:29] And then I wanted to touch quickly on the five-year experience study. This is a study that's undertaken by the system's actuary every five years, where they look at the assumptions that they use in the annual evaluations. They take an in-depth look at the experience of the systems over the course of that five years and make determinations whether or not we need to update any of the assumptions.

[00:43:50] So as I noted a few moments ago, they also took a look at that discounted rate, the assumed rate of return. They confirmed that the 6.75% is reasonable. They did make some recommendations to change assumptions related to inflation, some of the assumptions related to administrative cost, and a big driver of some of the changes that we're going to see in terms of our employee contribution rates for this coming year were related to assumptions related to salary expectations. As the Board will recall, when we were coming out of the pandemic, we had a really tight labor market, really high vacancy rates in

[00:44:27] a number of our positions. And so we had larger pay increases over the past five years than what we would normally and certainly beyond what the actuaries had assumed. And so the actuaries have come forward with some recommendations in terms of bumping up some of those anticipated pay

assumptions in the long term. We are anticipating increases in the employer contribution rates for all of our systems as part of the FY28 budget. I didn't want to talk too much about that today since we do have the forecast presentation a week from today and the impact of those increases in employer contribution rates will be incorporated into that forecast. So my last two slides before

[00:45:06] I pass it over to Vian and Benjamin is related to the board's examination of BACs and potentially looking at ways to reduce the number of BACs. So I believe the memo went out in February to the board noting some of the potential BAC reviews, taking a look at the retirement systems and the boards of trustees was included on that list. I wanted to note here that there's nothing broken, you know, us talking about potential consolidation of the three retirement systems is not intended to create an idea that there is something wrong with the way that the retirement

[00:45:44] systems are running right now and the way that they're managed, but really just kind of looking at opportunities. And the conversation today is really just a discussion. We don't have a specific recommendation that we're making to the board. We would go back and work with the three boards of trustees to come up with a plan of action if the board wanted us to do so. But you can see on bottom of that slide that there really are kind of a range of options going from the status quo right now, which is we have three separate boards of trustees. We have three independent investment strategies for those boards, all the way ranging to full consolidation on the right, which would

[00:46:20] be one unified board, one investment strategy. I would note that full consolidation would not be possible without General Assembly action, just based on the code that the county utilized to set up the three systems. But there are options that are kind of in the middle, which really just involve the three systems working more closely together in terms of coming up with a common investment strategy and trying to achieve some efficiencies that way. And really, I think that's going to be the focus of the PFM and the Deep Blue review is looking at maybe some of those middle ground options that might be available for us to consider. I did just want to note,

[00:46:56] because I think there's been, you know, a lot of information. We start talking about retirement I think it makes employees a little bit antsy because we value our retirement benefits in the county. But I want to talk a little bit about what potential consolidation is and isn't. So it really is just an opportunity for us to take a look at how we manage the retirement systems, look if there are ways that we can achieve some efficiencies and streamline some of the operations.

[00:47:22] Consolidation is not a proposal to change benefit levels. That's not part of this analysis. Benefits are collectively bargained with our employee groups. It's also not a proposal to consolidate funds into a single plan. We have three separate trust funds right now.

[00:47:38] Even if we were to pursue any type of consolidation, particularly in terms of an investment strategy, they would remain three separate funds. They would just be invested in the same way. So I just want to alleviate any fears there that certainly from an employee perspective, any recommendation that we would make would pretty much be invisible to the employee.

[00:47:57] We're really just talking about the administration of the plan. So I'm now going to pass this over to my friends with PFM and Deep Blue, and they're going to take over for the second part of the presentation. Good morning, Mr. Chairman, members of the board. My name is Vian Long. I'm a director with PFM, the county's financial advisor.

[00:48:17] I'm going to go to the next slide here. PFM was engaged in the summer to take a look at the benefits and considerations of consolidating Fairfax County's retirement systems investment and administrative structure. And to provide that analysis, PFM partnered with Deep Blue, a registered investment advisor, and together with me today is Benjamin Street, Chief Investment Officer of Deep Blue Investment Advisors. PFM and Deep Blue took a two-step approach in developing this analysis. First, we talked to the county stakeholders, including the three chief investment officers, as well as retirement staff. The second thing that we did

[00:48:56] was we performed the data analysis and performed targeted benchmarking comparison. In our review, concluded with two conclusions here. One is that we believe that the consolidation of the investments of the three retirement funds would indeed generate net savings from an investment fee efficiency perspective. And our second conclusion was that there will be ripple effects from that consolidation and there will be process efficiencies as a result. I'm going to spend my rest of the presentation summarizing three key findings from our analysis and also to provide

[00:49:30] more details related to these two conclusions I just outlined. Our first key findings is that Fairfax County's three retirement systems, the investment fees are above peers. I know the text here is a little small on the screen, but for the three retirement systems in FY 2025, the investment fees as a percentage of fair value was between 0.8% to 1.3%, as you can see, relative to 0.5% among regional benchmarks and also among national benchmarks.

[00:50:06] The reason we looked at fees is because investment returns is ultimately measured, reported, and accounted for on a net of fee basis. So all else being equal, again, important here is all else being equal, higher fees can result in lower net returns, and that is the reason we looked into fees.

[00:50:24] And speaking of net return, our second key finding here is that on a 10-year rolling net return basis, We found that Fairfax County's three retirement systems net return was lower, the national peers, as well as the 6.75 investment return assumption.

[00:50:44] That was not always the case. You can see here, historically, there were points in time that the three retirement systems net returns was higher than those thresholds, but that was the case in FY 2025. I would also like to emphasize here that this is the 10-year rolling net basis.

[00:51:01] And so you might see different figures depending on the time frame we're looking at. So, for instance, one, three- or five-year rolling net returns would report different figures here. My third and final key finding here is that the three pension plans or three pension systems have different allocations as shown here in the pie charts here.

[00:51:23] URS specifically looks different from ERS and PORS. And the different allocations among the three pension plans result in different investment returns, as shown in the bar chart at the bottom of this slide. Perhaps the most illustrative year on this chart is FY 2023.

[00:51:43] As you can see, for that particular year, URS had a positive net investment return, whereas ERS and PORS had negative net investment return. Again, that's just an illustration of how different allocations can result in different returns for the three different systems. Based on these key findings, as well as other analysis that we have performed, I wanted to detail two key conclusions that we want to present to the board today. The first key conclusion is that we do believe that the consolidation of investment

[00:52:19] strategies can indeed create net savings for the county. Currently, across the three retirement systems, there are 98 unique investment managers, and only 11 of them are shared across the three plans. There are some more shared between especially PORS and ERS, but generally speaking, we believe that there is opportunities here where by removing duplicate managers and improving negotiating leverage for the county, the county's retirement systems can generate net savings.

[00:52:52] From a bigger picture perspective, we also believe that the county can benefit from a one single investment framework. Just as an example, the county's three plans are currently either updating or drafting their investment policies, which means that the county would effectively have three different investment policies across the three plans, whereas we believe that aligned with best practices and more consistent allocation across the three retirement system would produce better and net better outcomes. I won't go into the details of the rest of this slide and certainly

[00:53:31] welcome your questions, especially since my colleague from Deep Blue here is here to answer more investment recommendations questions here. But I do want to note that the consolidation of investment strategies can produce ripple effects. There will be process improvements resulting from that consolidation of investment strategies ranging from professional services, from staffing, legal review, procurement, all of those are opportunities for process efficiencies as a result of the consolidation of investment strategies. We also believe that the county can take it one step further, even conditional upon the consolidation of investment strategies

[00:54:11] to streamline some board meetings. Currently, there are 33 board meetings each year, 11 for each system, and staff spends significant time attending and preparing for those meetings. We believe there are opportunities where perhaps a more streamlined approach, such as joint quarterly investment meetings or a variation of such, can indeed produce efficiencies for the county.

[00:54:33] So those are our two key conclusions from our recommendations. And here, just to expand on the menu of options that Ms. Jackson had alluded to earlier, this is the spectrum of alternatives we're presenting today. On the left side is, you know, further coordination but no consolidation. And on the far right side would be the full consolidation that would require general assembly action. What I have discussed today is really focused on the tier one and tier two, the two middle options there where the consolidation of investments we believe can

[00:55:07] generate net savings and process improvement opportunities. And then tier two is focused more on the streamlining of the board meetings. I want to leave ample time for questions. So with that, let me end my presentation with just one brief case study to illustrate how it could work out.

[00:55:27] The case study is the New York City pension systems. As shown here, New York City has five different pension systems. They have five different boards, but they really operate under one umbrella, one chief investment officer, one department that manages it, and really one key framework for all five different systems.

[00:55:48] Again, I know that this slide's text is relatively small, but if you focus on the New York City model column there, what you see here is that under board authority, it says five separate boards, but other aspects, other attributes are really integrated and aggregated.

[00:56:06] One CIO, similar allocation across the five systems, same return assumption, Investment managers shared across all five plans. Fee negotiation are aggregated across five plans. Again, more

integrated, even though they have five different boards and five different systems.

[00:56:22] In contrast, Fairfax County's column, you can see here some shared custodian, auditor, and actuary, but a lot of the aspects of the plans are relatively separated. Three separate boards, three CIOs. Investment managers are not shared, even though there is some coordination in place as of today.

[00:56:42] So again, this is to illustrate our conclusion and in comparison with the New York City model as an illustration of what the county can move toward. This is the pension plan, New York City pension plan dashboard here.

[00:56:59] Even as a public communication tool, you can see how it operates under one framework, right? The bar charts, the pie charts here are all under one framework, even though the city had five separate systems, again, under five separate boards. Let me conclude my conclusion here with this particular slide.

[00:57:20] Earlier, I showed Fairfax County three pie charts, and they look different, especially when you compare between URS and the two other plans. Here, for the New York City case study here, you can see that their five pie charts look relatively consistent and relatively similar.

[00:57:36] And this is what we are trying to illustrate, is that if the county can operate under one single investment framework and consolidate the investment strategies, we believe that there will be fee efficiencies, we believe that there will be process efficiencies, and believe that there will be net savings as a result.

[00:57:53] With that, let me open up for questions. Thank you very much. Before we do that, let me just make sure, Christina, we've completed all the presentations and the folks who were asked to give presentations? Yes. Yes, we do have representatives from two of the three boards of trustees.

[00:58:10] Unfortunately, the person who was supposed to be here for the employee's retirement system was not able to make it. But we do have Sean Carney from the Uniform Retirement System and Rich Barron from the Police Officers Retirement System representing the board's trustees. So before we go to questions, I just want to give an opportunity, don't have to, but if either one of them would like to comment on the presentation or share anything with the board, I want to make sure we give you that opportunity before we open it up to questions.

[00:58:33] Thank you all very much for having us here and affording us this opportunity to speak to you. There's a lot that I would like to say, but I want to be respectful of how limited your time is, and so I won't go into everything. Instead, I'll provide you materials to review at another time.

[00:58:50] However, I will say, looking back to page 3, 4, and 5, those sort of key findings, when you're looking at investment fees and noting that Fairfax County's fees specifically related to the police officer's retirement system and the employee's retirement system, which are the two similar systems that are operated and invested the same way, have the exact same strategic allocation and almost exactly the same investments, please note that most retirement systems do not report their fees the way that we do most systems only report fees that are actually paid out if they write a check to a manager

[00:59:28] that's what they report all other fees that are aggregated and recorded as accruals on a ledger are not reported that's why you see those numbers so low that's why you see them so different Fairfax County has taken on the extra work to separate those out in the interest of transparency and being good stewards of these funds to separate out and show exactly what we're doing and how we're doing it.

[00:59:51] This is an apples to oranges comparison. Further, other retirement systems will only report fees that they pay out for separate accounts only and not even report any fees that are paid out for any commingled funds.

[01:00:07] So looking at these numbers and thinking that there's a difference is incorrect. Further, I will state that the numbers that were taken here and on the next page for the net return below peers in that rolling 10-year period, that's a database of 250 nationwide plans, half of which are state-level plans.

[01:00:27] Those plans are far larger, and most of those have internal management of assets. Therefore, they pay lower fees because they don't have to pay an investment manager to do it. Again, an apples-to-oranges comparison. It's not like for like. And so you can look at this and say, wow, these guys are, you know, paying more fees and earning less return, but it's not the same.

[01:00:48] And it's important that you understand the sophistication of what we're doing in order to provide a diversified reduction of risk. Further, when you look down at page five, those pie charts, it's important to understand our risk attribution, risk allocation.

[01:01:05] That's not investments. That's not the allocation of the money. That's where the risk sits. And you can see how alike the police officer's retirement system and the employee's retirement system is, where we very carefully diversify our investments away so that there are orthogonal risks that are expressed in the market.

[01:01:21] So when one thing goes down, something else goes up, helping to reduce the chance that there's a negative effect to the overall portfolio value in a market correction or crash. When you have an overexpression in passive equities in particular, there's a lot more risk expressed and a lot more of the impact when the market corrects or crashes that gets passed on to you, the Board of Supervisors, to make up the difference.

[01:01:44] And we put in a ton of thoughtful and effortful work to try to reduce those risks to the interest of the Board of Supervisors and, of course, our community. I have a lot of other thoughts that I will present to you guys, but those are my rebuttals to those key findings.

[01:02:00] I think that they are, you know, there are important notes to take away from looking at those and not thinking that those numbers are quite correct the way they are presented. Thank you. Thank you, and that's one of the reasons I wanted to give you that opportunity so that we could get the full perspectives here of the various parties.

[01:02:18] Did you want to add something as well? You're welcome to. While I won't be as articulate as Rich, I understand my strengths and weaknesses. I do understand that these are big numbers. Also, I was sitting through the last meeting and understanding that the veterans tax is going to be almost $100 million. I see we're not talking about pocket change, and we all have a duty to protect the community, both in public service and fiscally. And I think that we need to do a lot more digging before we determine the ultimate

[01:02:53] connection. I don't think a full consolidation is appropriate based on our disabilities. That is a lot of what the URS and PORS have to spend a lot of time on as well. I think there are some efficiencies that the three boards can work together to begin saving on fees and just general cost. But I don't think that a full consolidation is appropriate at this time. But we're willing to work and happy to work with all of you and the community to find the best way to make the,

[01:03:26] provide the best service and ensure retirement dignity to our professionals and our pension. Thank you. And at a high level, well said. And I think, you know, I do appreciate at the beginning of the presentation, well, at the end of the first presentation, was what consolidation is and isn't. Because what I don't think you're hearing here from anyone is that we're envisioning a full consolidation. And so just, you know, that's obviously not in the cards. I do appreciate that there is work being done collaboratively among the systems to improve efficiencies.

[01:03:59] Because as you mentioned, we did just hear a presentation, and there's fiscal stress issues that we obviously have to deal with across the county. And so anywhere where we can find an efficiency or an opportunity to help helps all of our, not only our employees, retirees, but also our residents.

[01:04:17] And so I do think this is a good thing to look at. I think we can interpret it, you know, different ways. And the point of today's conversation was to get this presentation and get this information out. And I think there will be a continued conversation and certainly look forward to seeing continued progress on the very things you mentioned that we're already working together on.

[01:04:37] I do want to ask one question because, obviously, there is some administrative savings that are mentioned here. It's not a large sum of money in the greater scheme of things. However, the, you know, the pieces that are in here about the management fees probably is an area that we need to more holistically understand because I'm hearing two very different perspectives and want to give an opportunity to maybe show us if there's any daylight between those from the folks who did the assessment.

[01:05:08] We know what it is in terms of the response from our retirement systems. But, you know, what I don't see on here are two things. One, I don't see what these management fee percents have looked like over a longer period of time. So we're looking at what they happen to be as a snapshot in time now.

[01:05:26] Is the trend that those have been going up with our systems for a period of time, and do we know the reason for that, I guess, is question number one. And then in fairness, the investment fee statement about running above peers says that, you know, we're comparing systems and comparing to a median for regional and national public plans.

[01:05:46] But when I look at the chart, what I'm really seeing is, with the exception of the statewide Virginia and statewide Maryland plan, what I'm really seeing is a regional comparison. When I look at that chart, there's no national comparison there. Maybe I'm missing something, or maybe it's deeper in the presentation. Maybe the intention was to just show us what's happening around us, but I just want to verify factually that that number includes a national analysis and not just a regional analysis.

[01:06:13] I appreciate the question here. You're correct that the chart on the left compares with the regional plans. And then the screenshot to the right, that's the national comparison there. So when you're looking nationally, you're looking at similarly situated systems, or that's a national look at every retirement system?

[01:06:35] That's a national look at the – not every single retirement. It's a survey of a number of public pension plans. size vary, like Rich also said, state and local governments included. Okay. And the piece about the percents there, have you looked at that as a trend line over a longer period of time or just a snapshot in time? And what does that tell us?

[01:07:01] Sure. For the regional pension plans, we did look at a five-year trend. And I know I only show three years on this slide, but we did look at the five-year trends and it has been relatively consistent in terms of as a percentage of fair value. Obviously, the actual dollars of the fees would have changed over time, but the percentage of fair value is the same. I would also want to just clarify that these are disclosed management fees, and there are other fees as well in terms of performance fees, for instance, would be reported out of the net return instead of being

[01:07:37] disclosed as management fees. So I do want to just make sure I clarify that too. So in essence, these fees are, you know, what we know, understanding that in a lot of cases they may be reported very differently. So what you've taken is what is reported? What is reported as investment management fees? And Benjamin, feel free to chime in here too. Generally speaking, there are investment management fees which are disclosed, and there will be performance fees that would not be disclosed we only illustrate here the investment management fees because those are the

[01:08:12] disclosed numbers whereas the performance fees would have to be implied by essentially comparing between the gross return and the net return and we did that for fairfax so you know just as an illustration fy25 i believe the three aggregate total disclosed management fees was 97 million for Fairfax III pension plans, but the full amount of fees, including performance fees, would be more than that. And is the 1.1 or 1.2 to 3 percent include that or not?

[01:08:43] The 1.1, 2, 3 percent, they do not include the performance fees. Okay. So let me ask just one other question. So is the analysis that our chairman of our police retirement system gave us in terms of the daylight between how we calculate what the management fee number is and potentially what other retirement systems are using to calculate theirs. Do you acknowledge there's daylight there, or are you suggesting that you disagree with that notion? With your permission, we would like to circle back just because I'm not entirely

[01:09:19] sure or clear what the differences are. Again, we took the publicly reported data from the uh act first and and again did the analysis so uh before we you know make a statement would like to review the data and circle back with you if that's yeah appreciate that and that's one of the reasons why we're having this discussion is to have these these follow-up questions absolutely some clarity clarity to those so appreciate that yes sir i i would like to make it clear to every member of the board of supervisors that pfm did a good job uh and we're honest brokers in this

[01:09:53] process, it is really difficult to find that data. Most plans obscure it, hide it, and use different language to under-report it in the interest of making it look like they're doing a better job. Fairfax, again, took on effortful work to really dig through each separate account, each particular investment, pull those fees out, even accrued fees that haven't been paid out, and include them. And so they're doing their best, but that is a really hard ask to find out what it is. Appreciate that. And Sean, and then we're going to have questions. We've got about

[01:10:29] 15 minutes left. I want to make sure we have time for board members' questions. Yes. Thank you. So another thing to put into perspective, all three of our funds are considered small funds in the public pension industry world, pretty much under about $10 million. So even combining them, we would still be a small fund which would not be able to leverage the full CalPERS and things like that, fund discounts and fee discounts, so to speak. Something that they've started doing out in the smaller funds in California that aren't in the CalPERS industry is, let's say, the city of

[01:11:05] Beverly Hills in Malibu. We're going together and putting funds together to be a bigger player in the game to reduce fees. So just to put that into perspective, on the lower end is CalPERS, which we all know is hundreds of billions versus what our $10 billion altogether would just about be.

[01:11:26] Okay. Thank you for that. Questions from board members. I'm going to go down this way so I don't lose track, and I'm going to start with Supervisor Herity. Let me just start putting it in perspective. I mean, this is one of the biggest drivers other than salaries in our budget.

[01:11:42] It's $600 million. Last time, 17 cents, basically. So it is important. And, you know, the pension liability is the big driver of that. I mean, probably two-thirds of what's included in our budget is really for the retirees.

[01:12:02] I do want to go, just to clarify, we can't look at benefits anymore as a board. That all is collective bargaining negotiations. Yes, the benefit levels we are including in our conversations when we negotiate with our unions. And I do appreciate you clarifying, and I'll clarify, when we did the changes in 2018, We didn't take any benefits away from any prior employees.

[01:12:28] No, we've made benefit changes now. And this board, I know, has no intention of doing that. It's for new hires. We create a new level of a plan. But we did save some moving forward with the changes in 2018. You know, I know the time is short, so I'm going to try to keep it short.

[01:12:47] Sean, I appreciate your willingness to look at this because I think there is a lot of money here that we can save. Rich, you said at the beginning, larger plans equal lower fees. You put the three together, you can have your own, under the New York model, you can have your own ways that you invest it that are different based on your plans, but the bigger the plan, the lower the fees typically.

[01:13:16] And we should be including ERC into this conversation as well, I think, bringing the school system's supplemental plan into it. But I think, Chairman, your question, we need to get to the bottom of the fee reporting because when I look at this, I see high fees and low returns.

[01:13:37] And if I should be seeing something different, I want to see it. But that's what I see. And that's what I'd like to, if we can get to the bottom of that, have that come back to the board. Hi, Benjamin Street from Deep Blue Investment Advisors.

[01:13:54] Fees are one component of this, and I do agree. We do need to dig a little deeper on that, get some more daylight. On the flip side, returns, right? Fees directly affect returns. So if the fee discussion leads to, okay, it's a reporting standard difference, I have additional questions on the implementation then, right?

[01:14:18] It's what we invest in and then how we go about doing it. Where are we spending, like any budget, where are we spending it, is it making a difference? That attribution is going to be critical, right? And that's where a shared overhead can really help not just do it the best, but also keeping tabs on it, right?

[01:14:38] Having 100 managers is a lot to keep tabs on. So yes, it is about fees because of that one-to-one relationship. But at the end of the day, it's the net of fee returns that we have to keep our eyes on, all of this leads into that. So fees are one aspect, but it's not the only one.

[01:14:58] Yeah. Well, and again, high fees, low net of fee return, that's not a good equation, right? Okay. That's kind of, and if what we're seeing here is different than that, I want to know, but that's what I see is high fee, low net of expense returns, unless you see something different. Yeah. On the surface, fully agree.

Okay. To me, as a practitioner, there's some complexity under the surface and under the water that we would need to look into in terms of what are we investing in and then how are we investing in that.

[01:15:31] But yes, on the surface, I would agree with that. That's what it appears to be. And just to be clear on that, I mean, we're asking these questions because when, and I'm not judging the presentation at all because I think this has been great, but when we see numbers like this that seem so outside of the norm, we've got to fully understand what that means.

[01:15:50] And for folks who might get this presentation and just look at these numbers, they might draw some conclusions that we're drawing simply with the data that are more complex than that. And that's why we're going to need more information on this and to drill down on that better. Pat? Yep. And, again, just clarification.

[01:16:09] None of the plan's benefits change by plan, even if we do any version of those. They would still be three individual benefit plans. Right. And I'm happy to look at what the two middle things and see what we can get in terms of savings and better returns both because this competes with our ability to give raises, provide services, and it's huge.

[01:16:36] It's probably the biggest thing we've got in front of us. It is, and that's why, you know, slide nine in Christina's presentation is the most important one because I think, you know, There have been some misunderstandings about what we're doing here and what we're not doing, and we're definitely not changing benefits, and we're not suggesting a full consolidation.

[01:16:55] We're looking at strategic ways to continue the work that's already underway among our systems to find efficiencies and then to drill down a little bit better understanding on the fee side of what's driving that. But this is, to me, the most important slide in this presentation, and I think presents a collaborative opportunity moving forward. Not to say there's not collaboration now, but that's what we need.

[01:17:19] And just in closing, to go back to 2018, I mean, we did make changes. We did get savings and normal costs. And on the general county employee side, the benefits still may not be worth the nine and a half. I think we do need to look at that, but that's done separately, as I've been told.

[01:17:38] But I mean, we've got employees under two or three different plans now. County employees, I don't think there's the recruiting benefit. Public safety side, I think there is. There clearly is because that is kind of the number one thing that they look at.

[01:17:53] So that's my last two cents. Supervisor Stork, did you have questions? I do. Thank you. I have several, but first of all, did you guys do a beta coefficient analysis on the different compositions of the plans that are here at all so we could have a really kind of analytical analysis of what each of them have and the returns that they got?

[01:18:16] Not specifically, no. This was a high-level overview, and I believe that we're gathering and understanding, and as expected, there needs to be follow-up analysis, too. Okay. Well, that would, in my mind, that would be meaningful to assess really the returns that they got, number one.

[01:18:32] But the other part, in my mind, the key part of the return has to do with what we've really been talking about here so far and I think has been brought out, which is, you know, when I invest in something, I put something in, I'm going to put a dollar in, and I want to know what I got net out of it.

[01:18:49] And if it's, you know, I got $1.10, then, okay, I gained something. But that $1.10 has to be after all fees and expenses, et cetera, et cetera. And I think that's what I really want to know, and that's what I think what the public really wants to know.

[01:19:05] And that, to me, not only is the investment fees, performance fees, if possible, but also the administrative overhead cost fees. So to some degree, what I want to know is because there's costs in operating each of these plans and there's costs in, again, investment performance fees, the county and employees or the employer or the employee put dollars in.

[01:19:28] Let's say it's, again, now let's say it's $100 million. We want to know of that $100 million, you know, what do we ascribe the 6.75% increase we expect or whatever. What do we actually pay in our costs? So I want and need that number.

[01:19:45] So otherwise, it's an apples to oranges comparison, which is what I'm hearing and what I think is reasonable. But it has to be not only those investment in performance fees, but also has to be what we are actually paying somebody to administer the plan, to have the administrative officers of the plan, et cetera, et cetera, et cetera.

[01:20:06] Absolutely. And I do want to clarify that on slide four, the net return, those figures are all net of fees and also net of other expenses as well, including administrative expenses. So they would include our, I mean, our, the different cores and other expenses for that?

[01:20:26] Correct. The county, the annual audit does include an allocation for the county's annual administrative fee, including county staff. So, again, on slide four, those would be net of all of those expenses and net of all fees.

[01:20:43] That's helpful and good and useful, and we all recognize that, you know, if we get the right, if we make the right bet in the market, if you will, that would far exceed whatever our quote-unquote administrative costs are, but in the end, we want to see how they compare to each other and benefits.

[01:20:59] So I would, I want to understand that compared to the three plans that are here, And I see opportunities to consolidate some of the administrative parts of this. I don't see why we wouldn't do that.

[01:21:16] I recognize the sensitivities regarding keeping the funds separate, which I fully support, but also in how the boards of each of those funds should be utilized or a part of this process. So I'm supportive of us taking a deeper dive.

[01:21:32] I think it's important that we do that. I think there's real savings opportunity. I think given the pension costs that we have, we've got to do it, and we need to, I think, move on it expeditiously. Thank you. Supervisor Belichick. Thank you, Mr. Chairman. Thank you so much for the report. And actually, I mean, a lot of agreements with what I'm hearing from all my colleagues.

[01:21:51] In hearing your point of view, I actually, in your presentation, really like slides 7 and 8 because I think they really break down. I may have been the only one on the school board when we reviewed R, the ERFC, and looked at reducing fees and improving management there.

[01:22:07] And a lot of this, I think, is just aligned with that, right? We want more of the money to stay with our employees. We want more of the money to go into the investment, and investment has changed, right? I appreciate that you have looked at more passive strategies. I know that's something that's recommended.

[01:22:24] I happen to be the sister of someone who gave me a lot of advice on this. going through it with the schools is understanding, right, what are the passive versus active fees. So, I mean, I agree. I'm not sure why we wouldn't agree to using staff time, investment, management more efficiently and working collaboratively with the managers and the presidents of these funds, right?

[01:22:47] It's a competitive market, and we want you to be as competitive as possible. We want to use our funds. So I appreciate that in your slide eight, well, in seven, you talk about process recommendations, right? I think it's about process. And in eight, you talk about less versus more integration.

[01:23:06] I'm not sure that we're really talking about consolidation. I think we're here to review the processes, understand what works well, what works well for our employees, our retirees, our fiduciary responsibility to our constituents, and the fact that more is going into these funds. But then also, how do we, you know, as we look at streamlining and reducing management costs across the board and all we do, I don't know why we wouldn't want to look at this, right, and look at potential options. I also very much appreciate

[01:23:40] your case studies, the New York system, the Arlington system, and I would ask, I was trying to find information from what we did with ERFC. I don't know, Christina or Phil, if you remember when the school board did that and reduced the fees and looked at improving the returns on the ERFC side? So actually right now we don't have a lot of collaboration between the three county retirement systems and ERFC. I think that this, even though it started out as just a BAC review, has kind of opened up a lot of doors. And so certainly when we look to potentially try to work more closely together with the three county retirement systems, I think it does open the door

[01:24:18] for us to reach out to schools and see if there are any efficiencies that we can gain there too yeah no i think that's great i would also say let's look back it was somewhere between 2016 and 2020 that we did make some changes to increase the efficiency and look at how we were managing the program and then looking at other potential i would say it's worked well for opeb so for retiree health for our opeb trust fund we participate in a virginia pool trust with a lot of other jurisdictions from across the state and so there's one investment portfolio And so I think that that served us really well in terms of how we manage OPEP.

[01:24:51] I'm not saying that we're going to move to any kind of state pooled trust for retirement. But I do think that there are a lot of opportunities in this area. And I think it's just important to understand, you can share here later, what some of the concerns are, right? Is it, you know, the oversight, right?

[01:25:08] I guess I just want to hear from our employees. Yeah, this is going to be a lot of conversation ongoing, and I've got to make sure I keep us on time. We've got two minutes, and let me make sure before we hear from them on that, our other three colleagues there to your left. Do you all have questions?

[01:25:24] Supervisor Luz. As a person who spent 30 years working in Fairfax County and retired, I am in the employee's retirement system, so I know how important this system is for those of us who have served the county, and I appreciate that we're doing everything to make sure we're protecting those individuals.

[01:25:46] And also recognize that there are things that can be done to make the systems more efficient and appreciate the comments from you, Mr. Carney, specifically being open. And then also appreciate you, Mr. Barron, expressing kind of this question about how the calculation of the management fees was determined.

[01:26:08] And I would say that for me, it might be helpful, and I don't know if this is something that you've done for PFM, is did you look at the average management fee and then go back and determine what our rate of return would have been for the three systems?

[01:26:26] So basically, if we adjusted the number down to what you identified as what is the more normal average, what was the impact on each of our retirement systems? That detailed-level attribution, I think, would be the second phase of this.

[01:26:49] This initial overview, the conclusion from my standpoint, I would argue my colleague, is that this warrants much further detailed analysis, including a net-of-fee, risk-adjusted, what really happened and what could have happened.

[01:27:06] That's a whole different lift, but I think that is a very important question to ask. No, and I'll say this, I'm not trying to, no gotcha here, just trying to see if you'd already done the analysis, but since you haven't, please, if you're willing to provide that, it might be helpful and instructive for us as we move forward with our decision.

[01:27:27] So, thank you so very much. Supervisor Jimenez. For the second time, we'll be submitting questions. Thank you. Thank you. Supervisor Beerman. I feel like my questions have been adequately asked and answered. Thank you. Thank you. and I will just to circle back there may be some questions comments that you didn't get an opportunity to share there is no timeline there is no action item there is no proposal coming to the board at this point this will continue to be a discussion point and we welcome the input not just from our staff but from the retirement systems as as we look at this a little bit closer in the weeks and months ahead and so there is no timeline here and so we'll work

[01:28:06] collaboratively to submit our questions, I would encourage you to meet with these individuals and ask some of your questions directly to them, I think would be helpful. With that, the budget committee meeting today is over. Our next budget meeting will be on December 1st at 3:00 p.m. in this room and look forward to seeing everybody then.

[01:28:25] Thank you all.

