County of Fairfax, Virginia

To protect and enrich the quality of life for the people, neighborhoods and diverse communities of Fairfax County.

February 25, 2008

Chairman and Members of the Board of Supervisors
County of Fairfax

Chairman and Board Members:

I am legally obligated to transmit to the Board of Supervisors and the citizens of Fairfax County my budget proposal for Fiscal Year 2009, totaling $6,055,007,173 including General Fund Disbursements of $3,322,726,158, which represents a 1.59 percent decrease from the *FY 2008 Revised Budget Plan* and an increase of just $5.3 million or 0.16 percent over the FY 2008 Adopted funding level. Direct General Fund Expenditures total $1,230,247,000 and reflect a decrease of 2.30 percent from the *FY 2008 Revised Budget Plan*. The FY 2009 budget proposal is based on a Real Estate Tax rate of $0.89 per $100 of assessed value. In accordance with the Board's budget guidelines, the transfer for school operations has been held to the FY 2008 level and County spending has been held flat.

The ramifications to both the Schools and the County of this constrained budget will be significant. For County government, the FY 2009 budget guidelines have required strict action to eliminate a deficit of $120 million from the budget. This has been achieved through a series of measures including a net 4 percent reduction in agency salary budgets over and above the salary vacancy factor, a reduction of 50 percent in employee compensation increases, elimination of full funding for inflationary adjustments or those required by population increases, federal and state mandates, or new service requirements, and reductions in capital project funding. Fee enhancements, utilization of new transportation revenues and the use of one time balances have been necessary to balance this budget. In addition, the revenue downturn prohibited me from providing resources for new initiatives or to enhance ongoing services. Later in this presentation, I will highlight several of the areas I would have strongly considered funding if resources had been available.

Striking the proper balance between rising assessments and reducing the real estate tax rate is a challenge with each budget. Over the past seven years, the Board has reduced the tax rate 34 cents and addressed public demands for services while maintaining the high quality of life in Fairfax County. With this in mind, I believe it would be prudent that the Board consider advertising an increase in the tax rate, of at least 3 cents, in order to give itself the opportunity to react to the ever-changing and worsening economic outlook for the nation and the region. It should be noted that because of residential assessments, the average homeowner would still pay less in taxes in FY 2009, even with a 3 cent tax rate increase. Our forecasts for FY 2009 revenue are fundamentally dependent on changes in the economy and each day seems to bring news of further deterioration. The January 22, 2008 action by the Federal Reserve in reducing its key interest rate, the federal funds rate, from 4.25 to 3.5 percent was the largest single day percentage reduction in Federal Reserve history but necessary in hopes of keeping the economy from slipping into recession. The Federal Reserve then acted again at its January 30, 2008 meeting and further reduced the federal funds rate to 3.0 percent. The 125 basis point reduction combined with market analyst projections that interest rates will be at or below 2.0 percent by July 2008, have the cumulative impact of reducing County General Fund interest income by over $25 million from the interest estimates included in this budget proposal. ***Therefore, even as it is being printed, the FY 2009 Budget is out of balance. At a minimum, I will need to recommend adjustments at Add-on totaling approximately $25 million and offset it with additional revenue, further expenditure reductions or a combination of both. I have prepared a list of proposed reductions to address this shortfall and have forwarded that to the Board in a separate memo.***

An increase in the Real Estate tax rate may also be necessary in order to preserve and maintain investments made in County services and toward the Board's priorities in the areas of Education, Public Safety and Gang Prevention, Affordable Housing, Environmental Protection, Transportation and Revenue Diversification. As the Board is aware, these Board goals have long shaped our resource allocation and program delivery decisions in order to maintain the high quality of life for which Fairfax County is known. Maintaining sufficient funding in support of these priority areas has proved extremely challenging in this most difficult budget year. Nevertheless, their existence was instrumental in helping me make the difficult decisions I've had to make this year. The funded priorities remain consistent with previous years – schools, public safety, and serving our most vulnerable residents. This budget reflects these priorities, but not without substantial sacrifices that will be detailed later in this introduction to the budget.

BOARD OF SUPERVISORS' PRIORITIES

- Strong investment in education
- Public safety and gang prevention
- Affordable housing
- Environmental protection
- Transportation improvements
- Revenue diversification to reduce the burden on homeowners

COUNTY CORE PURPOSE & VISION ELEMENTS

To protect and enrich the quality of life for the people, neighborhoods, and diverse communities of Fairfax County by:

- Maintaining Safe and Caring Communities
- Building Livable Spaces
- Practicing Environmental Stewardship
- Connecting People and Places
- Creating a Culture of Engagement
- Maintaining Healthy Economies
- Exercising Corporate Stewardship

Without question, a strong investment in high quality education remains as the County's top priority, garnering the largest share of the County's budget and resulting in high achieving schools and students and faculty. From maintenance of the County's low crime rate to the opening of the McConnell Public Safety and Transportation Operations Center as the hub of all public safety communications and logistics, to the enhanced code enforcement strike team, the Board's commitment to insuring the safety of its residents is evidenced. The County's goal of preserving affordable housing has resulted in over 2,200 units preserved for both homeownership and rental opportunities as of January 2008. This achievement was made possible by the Board's decision to dedicate the equivalent value of one penny on the Real Estate Tax Rate for affordable housing. Adherence to the Board's environmental agenda and the dedication of another penny on the real estate tax rate for stormwater management projects have allowed us to make progress on protecting our valuable natural resources. The Board's Transportation plan which calls for both roadway and transit improvements is underway. Revenue Diversification continues to be an important goal with new money for transportation and fees instituted and appropriately maximized.

Working to balance this budget has been extremely difficult and some of the strategies, such as using one time balances, are not ideal and in fact come with some accompanied risk. There is little flexibility in this budget for unforeseen events or if market volatility continues to occur. The current budget limits our maneuverability to meet any unanticipated needs and critical requirements that may arise in the short-term. It also sets the stage for even more difficult budgets in future years. With 60 percent of County revenues dependent on the real estate market, the County will see no discernable increase in revenues until the housing market stabilizes. In addition to those revenues directly impacted by the real estate market, other County revenue sources are predicted to remain largely stagnant and are likely to decrease. Understandably, consumer confidence has been affected by the recent developments in the tightened credit market and the declining housing market, resulting in the reluctance of consumers to buy cars, remodel their homes, and spend discretionary income. In addition, recent actions by the Federal Reserve to stabilize the economy and forestall a recession, have resulted in lower interest rates which has negatively impacted other County revenue streams such as our interest on investments and local sales tax. As such, I anticipate <u>no</u> growth budgets over the next several years.

In this introduction to the FY 2009 budget, I will discuss the factors which impact County revenues and identify the risks in our current economy. I have detailed County funding requirements and summarized actions necessary to hold County spending flat.

Economic Uncertainty

There are a number of factors in the current economy which bear watching. Although "recession" has not been officially recognized, it appears that the downturn in the economy may be deepening. The indicators are mixed but predominantly negative, with the outlook for FY 2010 and 2011 not much better. In terms of the County's budget, this is a recession.

Housing Market

Real estate tax revenues make up 60 percent of total General Fund revenues and residential real estate comprises nearly three quarters of the total real estate base. As such, the crisis in the housing market dominates the County's fiscal outlook. In Fairfax County, as in much of the nation, appreciation in the housing market was fueled by strong job growth as well as profit-led speculation. In Fairfax County, the rise in home prices was unsustainable. Homes have become unaffordable, rising in price over 160 percent between FY 2001 and FY 2007. County incomes, although also increasing, have not nearly kept pace with housing price increases. The slowdown in the County's housing market began in mid-2006 and has continued throughout CY 2007 resulting in fewer home sales, declining average and median prices and increased foreclosures.

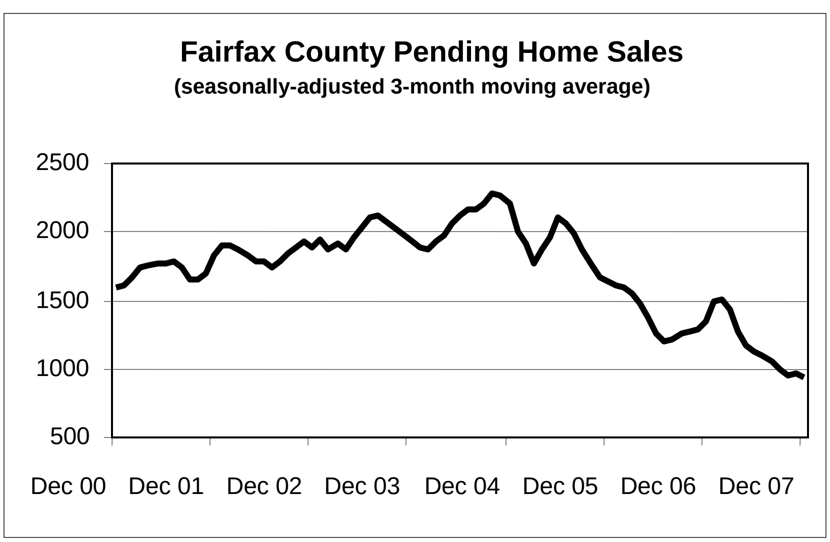
HOME SALES

- After final tallies are in, fewer than 14,000 home sales are expected to be recorded in Fairfax County in 2007. This is a reduction of nearly 17 percent from 2006 and a decline of over 45 percent from the record high of 25,717 in 2004.

- Not only were there fewer sales but it took longer to sell a home during 2007. Days on the market rose in each month of 2007 over the corresponding month of 2006 and stands at 112 days as of December 2007 compared to 97 days in December 2006 and 38 days in December 2005.

- Average and median sales prices in 2007 fell in most months compared to the same month the prior year and are expected to show a 1 to 2 percent overall decline when final year-end numbers are released. Sales to list price statistics indicate buyers are consistently purchasing below listing price.

- Pending Home Sales, a leading indicator of future closings, illustrate the continued weakness in the housing market:



SUBPRIME MORTAGES AND FORECLOSURES

- Subprime mortgage lending was rampant throughout the nation in 2005 and 2006. Fairfax County residents were not immune to this type of lending. Subprime mortgage loans made up 13.9 percent of County mortgage lending in 2005 and 2006, up from just 4.2 percent in 2003. These subprime loans carry low introduction rates that expire after 2 to 3 years and adjust upward to rates of 10 to 13 percent. Tighter lending standards have been instituted to limit these lending practices in the future.

- Tightened lending conditions and lower housing values have created a conundrum for many homeowners who are unable to refinance to lower mortgage rates because either they can not meet tougher lending requirements, or property values have dropped below the loan needed or prepayment penalties on the original mortgages are too steep. Consequently, this has caused an increase in foreclosures in the County.

- A record 4,527 homes were foreclosed in Fairfax County in CY 2007, up from just 198 properties in 2005 and nearly eight times the number foreclosed in 2006. Although not the bulk of County sales, foreclosures are becoming a larger share of the total homes sold in Fairfax County. During the first quarter of 2007, foreclosures comprised just 9.5 percent of total homes sold, but by the fourth quarter of 2007 foreclosures made up nearly 42 percent of homes sold in the County.

- Because of subprime mortgage resets, foreclosures are expected to peak in 2008 and early 2009 impacting FY 2010 and possibly FY 2011 as well.

RESIDENTIAL CONSTRUCTION AND HOUSING SUPPLY

One of the housing market's fundamental problems is the abundant inventory of unsold homes. The oversupply of homes puts downward pressure on sales prices.

- The inventory of completed unsold new homes represents 40 percent of the homes on the market nationwide – the largest percentage ever. U.S. home builders slashed home prices over 10 percent in December 2007 in an attempt to boost home sales.

- High vacancy rates of housing units are more confirmation that the housing market has been overbuilt. Data released in January 2008 show the national vacancy rate for ownership units is 50 percent higher than in any previous downturn and the vacancy rate for rental units is also near record highs.

- The inventory of homes for sale in Fairfax County has increased over 60 percent since 2005. Housing experts estimate that Fairfax County currently has at least an eight month supply of homes for sale.

- Housing starts are falling. Nationally, the annual rate of housing starts in December fell to just over 1.0 million, less than half the 2005 rate. National housing starts in December were at the lowest rate of any year since 1959, including the recession years of 1982 and 1991.

- Locally, housing construction has decreased as well. Building permits issued from July through December 2007 were down over 30 percent from the year before.

- The declines in housing starts and building permits issued are expected to help ease the oversupply of housing in the long-term.

COMMERICAL CONSTRUCTION AND VALUES

While nonresidential property values increased at a much lower rate in FY 2009, 7.00 percent versus 13.57 percent in FY 2008, this increase kept the total real estate base from declining. The County may not be so fortunate in FY 2010 because commercial real estate conditions have also begun to soften:

- Office vacancy rates in Fairfax County rose to 8.5 percent as of mid-year 2007, up from 7.7 percent at the end of 2006. Including sublet space, the mid-year 2007 office vacancy rate was 10.2 percent, a full percentage point higher than year-end 2006. An upturn in the vacancy rate for year-end 2007 is expected due to new office space deliveries.

- As of mid-year 2007, 25 buildings with 4.7 million square feet of space were under construction. Of these buildings, 18 are 100 percent speculative. The speculative space comprises 3.1 million square feet of space or 67 percent of the total under construction.

- Increased speculative development contributed to the rise in the office vacancy rate. As of July 2007, speculative office space under construction or recently delivered was 87.4 percent vacant.

- Leasing activity during the first six months of 2007 in Fairfax County rose a modest 2.4 percent over the last half of 2006 but was down 26 percent compared to the first half of 2006.

- New construction is down. Only 4 new office buildings broke ground during the first six months of 2007 compared to 15 new starts during the last six months of 2006. Tighter credit conditions are expected to restrict investment activity further.

CONSUMER SPENDING

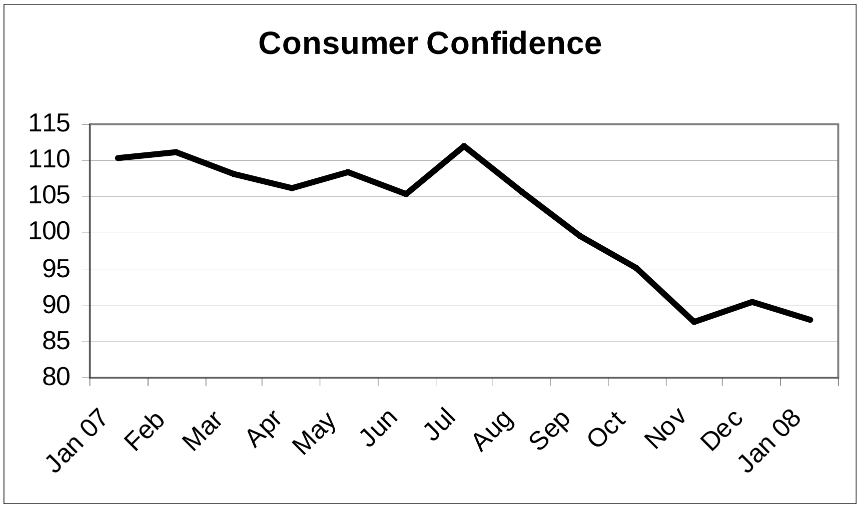
Consumer spending makes up over two-thirds of all economic activity in the United States. Subsequently, a lack of confidence by consumers can lead to reduced spending, slowing economic growth. Too much of a pullback can push the economy into recession.

- Consumers are no longer able to access the equity in their homes to finance spending. Spending increases in the past several years have been financed by home equity loans and refinanced mortgages. Based on the Federal Reserve Board's 2007 analysis, the ratio of homeowners' equity to value is 50.4 percent, down from 57.3 percent at the end of 2001. This decrease is especially remarkable given the relatively high growth in home prices (equity) that was experienced in the last several years. It appears consumer spending was financed from borrowing against home equity rather than increases in income.

- As reported by the Federal Reserve Board, credit card debt of consumers increased at an annual rate of 11.3 percent in November 2007, up significantly from the credit card debt increase between 2003 and 2005 of 2 to 4 percent annually. It is unclear how long credit card spending can be sustained. As a result, economists are anticipating a curtailment of spending.

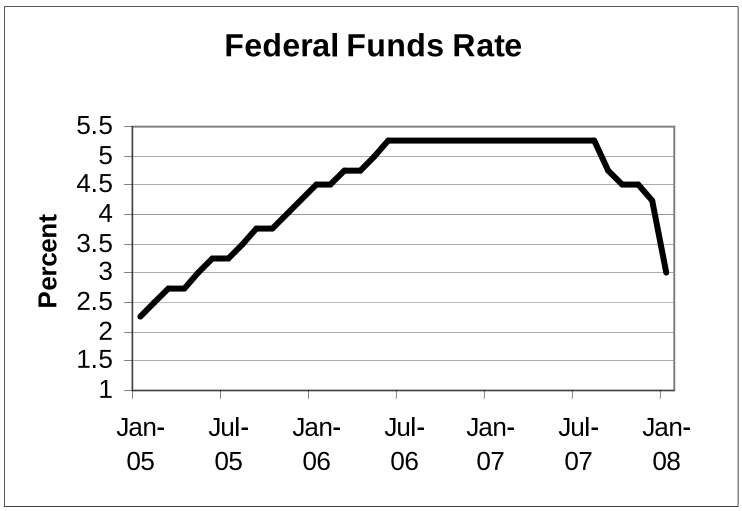
- We are seeing indications of this already in holiday sales tax receipts. Sales Tax collections from purchases made in November 2007 were up just 1.2 percent over November 2006. Tax receipts for December; however, will not be received until late February.

- The negative wealth effect from the downturn in housing, unstable financial markets and higher energy prices have hurt consumer confidence. In July 2007, the Consumer Confidence Index was at its highest level in six years but has fallen in each month since except for a small up-tick in December. The Index now stands at 87.9 as of January 2008.



INTEREST RATES

As noted earlier, citing a weakening economic outlook, deteriorating financial market conditions and a deepening housing contraction, the Federal Reserve cut the federal funds rate by 75 basis points to 3.5 percent on January 22, 2008. Just eight days later, the Fed lowered the rate by 50 additional basis points to 3.0 percent.



- The 75 basis point reduction was the largest cut in nearly 24 years and it was also the first time since immediately after September 11, 2001 that the Federal Reserve took action outside of a regularly scheduled meeting.

- More rate cuts are likely as the Federal Reserve stated that "downside risks to growth remain" and that the Fed "will act in a timely manner as needed."

- Based on interest rate reductions, County interest earnings have plummeted from \$92.1 million in FY 2007 to an initial projection of \$65.0 million in the FY 2009 Advertised Budget. Due to recent Federal Reserve cuts, the FY 2009 estimate is expected to again be revised downward to \$38.5 million.

- Lower mortgage rates have not helped to improve the weakened housing market. Rates on 30-year fixed rate mortgages hit a 30-month low in January of 5.48 percent down from 6.25 percent a year ago. The rate on a 15-year fixed rate mortgage was 4.95 percent. January's rate marked the first time in seven years that the average rate on a 15-year fixed rate mortgage was lower than the average rate on a one-year adjustable rate mortgage (4.99 percent).

EMPLOYMENT

The January 2008 employment report showed the first decline in U.S. payroll employment in four and one-half years. The national unemployment rate is 4.9 percent.

The Northern Virginia economy is not creating jobs at the rate it once was. At its peak, over 50,000 net new jobs were created in Northern Virginia in 2004, a 4.5 percent increase over 2003. In 2006, the rate fell to 2.4 percent or approximately 30,000 jobs. Preliminary December 2007 data indicate that job growth in Northern Virginia has slowed to 1.5 percent, or approximately 19,000 net new jobs. Fairfax County's share of these jobs is estimated to be nearly 10,000 jobs.

THE STATE ECONOMY AND BUDGET

The slowing economy has affected the Commonwealth of Virginia as well as the County. The state ended FY 2007 with a deficit of $208.5 million in revenue. Revenue growth was 4.4 percent, a full percentage point lower than expected. In addition, the Commonwealth's FY 2008 revenue estimates were revised downward, resulting in an overall projected budget shortfall of $618 million. To fill this gap, Governor Kaine instituted immediate FY 2008 budget reductions, including cuts to state agencies and locality funding. The Governor also recommended a $261.1 million withdrawal from the state's $1.1 billion Revenue Stabilization Fund. Approval by the General Assembly is required before this withdrawal can be made.

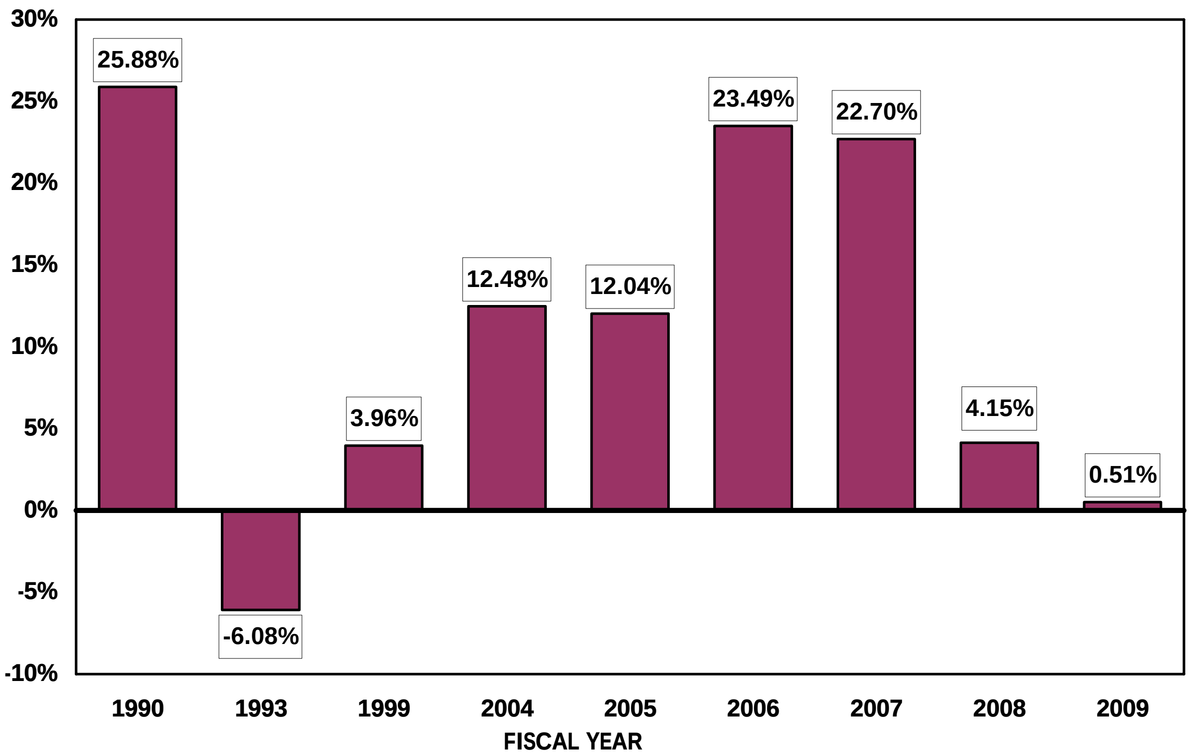
A revised revenue forecast for the biennium will be released shortly and is anticipated to be revised downward due to the slumping economy. It is anticipated that deeper budget cuts will be required in the current fiscal year as well as FY 2009 and FY 2010. Because there will be little time between the release of the new forecast and the end of the 2008 General Assembly session, funding to localities will be a likely target for reductions. My FY 2009 budget incorporates state funding reductions that were included in the Governor's FY 2008-2010 Biennium Budget. Any further state cuts will need to be incorporated during the Add-on process.

FY 2009 County Revenue

FY 2009 General Fund revenues total $3.30 billion, an increase of just $14.72 million or 0.45 percent over the *FY 2008 Revised Budget Plan*. It should be noted that with the further reduction of approximately $25 million necessary as a result of interest rate adjustments, FY 2009 revenues will actually reflect a decrease of approximately $10 million, or 0.3 percent, from FY 2008 revenues. This is a sharp departure from revenue growth rates over the past seven years which allowed the Board to reduce the real estate tax rate 34 cents from $1.23 to $0.89 per $100 of assessed value. In the early part of the current decade, we experienced healthy growth in the 7 percent range due to the robust real estate market. General Fund revenue growth accelerated to 9.5 percent in FY 2006 due to the strong overall economy – the real estate market, business spending, and a nearly 160 percent increase in interest on investments. The housing market reversed course in 2006 and the FY 2007 revenue growth rate of 4.3 percent was less than half the rate achieved in FY 2006. The economic slowdown has resulted in revised projected revenue growth for FY 2008, from the 2.3 percent anticipated in the FY 2008 Adopted Budget Plan to an increase of just 1.4 percent. The substantial slowdown in FY 2009 revenue is due to a decrease in residential assessments. Based on a tax rate of $0.89 per $100 of assessed value, Real Estate Tax receipts are anticipated to increase $10.0 million or 0.5 percent, and represent 60 percent of total General Fund revenue. All other revenue categories combined are forecasted to decline 0.3 percent from FY 2008 levels primarily due to lower interest on investments based on interest rate projections and a decrease in personal property tax collections resulting from reduced new vehicle sales.

In FY 2009, the real estate tax base is projected to increase just 0.5 percent. A drop in residential assessments due to worsening conditions in the housing market was offset by a moderate increase in nonresidential properties. Residential equalization, the reassessment of existing property based on economic conditions, fell 3.38 percent in FY 2009 following the reduction of 0.33 percent in FY 2008. Further contraction of the residential housing market is expected in calendar year 2008 severely impacting revenue in FY 2010.

Percentage Change in Real Estate Assessed Value
FY 1990 - FY 2009



Equalization	**18.27%**	**(6.48%)**	**1.77%**	**9.94%**	**9.54%**	**20.80%**	**19.76%**	**2.47%**	**(1.02%)**
Res	19.01	(3.74)	0.04	14.55	11.29	23.09	20.57	(0.33)	(3.38)
NonRes	16.54	(13.22)	7.12	(2.94)	3.74	12.74	16.64	13.57	7.00
Growth	**7.61**	**0.40**	**2.19**	**2.54**	**2.50**	**2.69**	**2.94**	**1.68**	**1.53**
	25.88%	**(6.08%)**	**3.96%**	**12.48%**	**12.04%**	**23.49%**	**22.70%**	**4.15%**	**0.51%**

The value of nonresidential properties continued to rise but at a reduced pace in FY 2009. Nonresidential equalization registered a 7.00 percent increase, down from 13.57 percent in FY 2008. This deceleration reflects the softening of the office market during 2007. The decline in residential values combined with a rise in nonresidential property values resulted in an increase in the Commercial/Industrial percentage of the County's Real Estate Tax base from 19.23 percent to 21.06 percent. More detailed information on FY 2009 revenue projections is included in the General Fund Revenue Overview section in the Overview Volume of the FY 2009 Advertised Budget Plan.

FY 2008 County Revenue

Economic conditions impacting FY 2009 revenues have also affected FY 2008 collections. During the fall 2007 review of revenue, FY 2008 revenue projections were revised downward by a net $8.4 million primarily as a result of lower than projected interest earned on County investments and Land Development Fees, offset by an increases in the Communications Sales and Use Tax and Business Professional, Occupational Licenses (BPOL) revenue. Descriptions of these revenue adjustments are also outlined in the General Fund Revenue Overview section. However, due to Federal Reserve rate cuts and declining economic conditions an additional reduction in revenue is anticipated to be included in the *FY 2008 Third Quarter Review*. As a result of declining revenue growth and in anticipation that the economy would continue to stagnate, I implemented a further reduction in FY 2008 agency funding levels in a memo dated November 29, 2007. In effect, I accelerated the reduction in agency salary budgets included in the FY 2009 budget. Funding adjustments to reflect this decrease will be included in the *FY 2008 Third Quarter Review* and will be used, along with balances resulting from FY 2007 audit adjustments, to offset the FY 2008 revenue loss. As a result, I do not believe there will be additional funding to assist the FY 2009 situation coming out of the *FY 2008 Third Quarter Review*.

The table on the following page summarizes General Fund Disbursements proposed for FY 2009. A listing of major funding adjustments for FY 2009 by Board Priority and/or County Vision Element follows that table.

Summary General Fund Statement
(in millions of dollars)

	FY 2007 Actuals	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan	Inc/(Dec) Over Revised	% Inc/(Dec) Over Revised
Beginning Balance [1]	**$168.89**	**$184.20**	**$89.99**	**($94.21)**	**(51.15%)**
Revenue [2]	$3,236.60	$3,282.26	$3,296.97	$14.71	0.45%
Transfers In	$2.41	$2.53	$2.22	($0.31)	(12.42%)
Total Available	**$3,407.90**	**$3,468.99**	**$3,389.18**	**($79.81)**	**(2.30%)**
Direct Expenditures	$1,144.91	$1,259.15	$1,230.25	($28.90)	(2.30%)
Transfers Out					
School Transfer [3]	$1,533.22	$1,586.60	$1,586.60	$0.00	0.00%
School Debt Service	142.27	147.86	154.63	6.77	4.58%
Subtotal Schools	*$1,675.49*	*$1,734.46*	*$1,741.23*	*$6.77*	*0.39%*
Metro	$20.32	$20.32	$17.51	($2.81)	(13.81%)
Community Services Board	97.94	101.09	102.56	1.47	1.45%
County Transit Systems	31.00	34.67	34.67	0.00	0.00%
Capital Paydown	49.54	25.63	11.84	(13.79)	(53.80%)
Information Technology	13.50	12.36	11.80	(0.56)	(4.51%)
County Debt Service	110.69	113.37	113.17	(0.21)	(0.18%)
Other Transfers	80.31	75.32	59.70	(15.62)	(20.74%)
Subtotal County	*$403.30*	*$382.76*	*$351.25*	*($31.51)*	*(8.23%)*
Total Transfers Out	$2,078.79	$2,117.22	$2,092.48	($24.74)	(1.17%)
Total Disbursements	**$3,223.70**	**$3,376.37**	**$3,322.73**	**($53.64)**	**(1.59%)**
Ending Balance	**$184.20**	**$92.62**	**$66.45**	**($26.16)**	**(28.25%)**
Less:					
Managed Reserve	$65.78	$67.53	$66.45	($1.07)	(1.59%)
Reserve utilized to balance the FY 2008 budget	$28.34				
Reserve for Board consideration as part of the FY 2009 budget [4]	$0.00	$22.46			
Reserve for FY 2008 Third Quarter Requirements and/or FY 2009 Budget Development [5]	$0.00	$2.63			
Total Available	**$90.08**	**$0.00**	**$0.00**	**$0.00**	-

[1] The *FY 2008 Revised Budget Plan* Beginning Balance reflects audit adjustments for revenue and expenditures as included in the FY 2007 Comprehensive Annual Financial Report (CAFR). As a result, the FY 2008 Revised Beginning Balance reflects a net increase of $11.03 million. Details of the FY 2007 audit adjustments will be included in the FY 2008 Third Quarter Package.

[2] *FY 2008 Revised Budget Plan* revenues reflect a net decrease of $8.41 million based on revised revenue estimates as of fall 2007. The *FY 2008 Third Quarter Review* will contain a detailed explanation of these changes.

[3] In accordance with the Board adopted guidelines for the FY 2009 Budget, the proposed County General Fund transfer for school operations in FY 2009 totals $1,586,600,722, a 0% increase over the FY 2008 Adopted Budget Plan level. It should be noted that the actual transfer request approved by the School Board on February 14, 2008 reflects a General Fund transfer of $1,650,347,739, an increase of 4.0% or $63,747,017 over the FY 2008 Adopted Budget Plan.

[4] As part of the *FY 2007 Carryover Review*, the Board of Supervisors set aside funding of $22.5 million to be held in reserve to address the development of the FY 2009 Budget. It should be noted that as part of the FY 2009 Advertised Budget Plan this reserve has been utilized to balance the budget.

[5] A reserve of $2,628,347 has been set aside to address FY 2008 Third Quarter Requirements and/or FY 2009 Budget Development. This reserve includes the net increase as a result of audit adjustments of $11,034,259 offset by a net decrease of $8,405,912 in revenue as a result of the Midyear Revenue estimate. Based on more recent revenue information it is anticipated that additional revenue reductions will be required for FY 2008 and it is anticipated that this balance as well as agency budget reductions will result in a net impact of $0.

FY 2009 Disbursements

In developing recommendations for FY 2009 disbursements, I used the Board of Supervisors' Priorities and the County Vision Elements to guide the strategic allocation of resources. It should be noted that the only new positions proposed in this budget are 41/41.0 SYE positions directly supported by new transportation-related revenue. I was unable to accommodate any other staffing requests. As part of this budget, the number of authorized positions per 1,000 residents will decline from 11.51 in FY 2008 to 11.49 in FY 2009.

Before going into detail about what I have been able to fund as part of this budget proposal, I feel it is important to prominently note that there are several important initiatives and requests that I have not been able to fund, or in some cases fully fund, because of the current fiscal situation. In addition, as noted earlier in this letter, I will need to recommend adjustments at Add-on totaling a minimum of $25 million and offset them with additional revenue, further expenditure reductions or a combination of both due to the recent actions of the Federal Reserve and their impact on the County's Interest on Investments. I have prepared a list of proposed reductions to address this shortfall and have forwarded that to the Board in a separate memo.

- In terms of employee compensation, I have only been able to fund Pay for Performance at 50 percent and have reduced the Market Rate Adjustment applied to public safety salaries and all pay scales from 2.96 to 1.48 percent.

- In addition, I have implemented a second two percent across-the-board Personnel Services reduction totaling $16.5 million in General Fund and General Fund-supported agencies. This is in addition to a similar two percent reduction taken as part of the FY 2008 Adopted Budget Plan. Taken as a whole, this four percent reduction results in approximately $32.8 million being removed from agency salary budgets and will require us to manage staffing very carefully.

  For example, in the Fire and Rescue Department, the impact of the four percent across the board reduction in Personnel Services funding totals $5.7 million. The Fire Chief has advised me that the reduction may require the recall of personnel assigned to manage and support important County initiatives such as the Strike Team or to support special deployments and manage major long-term incidents. The Fire and Rescue Department, as a minimum-staffed emergency response organization, must fill field position vacancies by calling back personnel on overtime. To absorb the cut in Personnel Services, the department may need to take medical units out of service from stations that have two ambulances assigned. These are Annandale, Mount Vernon, Bailey's Crossroads, and Penn Daw. This action will reassign staff from these units to help offset overtime expenditures.

  In the Police Department, the reduction totals $5.6 million and will require reductions in overtime for specific initiatives. The Police Chief has put in place actions to eliminate nearly 30,000 hours of overtime which will hinder our capacity to swiftly respond to emerging crime patterns such as the current increase in the number of robberies and auto thefts in specific areas. Other effective operations such as the proactive, high-visibility anti-gang operations we initiated in February 2005, the sobriety checkpoints, and the saturated DWI patrols will need to be curtailed. Of course, focus will continue on priority calls and crimes; however, response time for other calls and services will increase. The Chief anticipates having to cut or lessen the number of Crime Prevention Officers, Bike Teams, and other similar prevention programs.

  Similar impacts will be felt in other departments as well. In the Fairfax-Falls Church Community Services Board, for instance, the reduction is just under $3.2 million; for the Department of Family Services, the reduction is just over $2.8 million; for the Fairfax County Public Library, the reduction is approximately $1.0 million.

- I was unable to address real needs in Public Safety agencies, such as the Police Department's request for 35 additional patrol officers or additional Police requests in support of the Department's Information Technology Bureau, Criminal Investigations Bureau, and Technical Services Bureau. In all, the Chief requested 64 additional positions, and I am not able to recommend any as part of this budget. Likewise, I was unable to accommodate the Fire and Rescue Department's request to increase the minimum staffing from three to four firefighters per ladder truck. Fairfax County is the only jurisdiction in excess of one million residents without a minimum of four persons on each ladder truck. The County's physical features, building/structure make-up and demographic characteristics make this a safety issue and thus a high priority.

- In addition, I was unable to act on a long-term proposal concerning the issue of code enforcement which included reorganizing existing code enforcement staff and resources into a single code enforcement organization/entity and establishing a consolidated intake center to field all complaints and provide status reports to complainants. This proposal was the direct result of community feedback that centered on making code enforcement more accessible to the public, more efficient in its execution, more understandable to the community and the county organization, and sustainable over the long term. As of late January, there have been over 270 total strike team cases. Of this total, 57 cases have been closed, 25 are active with the County Attorney, 17 have been referred for criminal prosecution, and the remaining are open cases that are in various stages of work. The Strike Team has issued over 3,300 Notices of Violation (NOV) and Corrective Work Orders (CWO) since its inception. I was unable to fund a phased-in approach that in FY 2009 would have created the new agency, transferred appropriate resources and staff from existing county agencies including the Department of Planning and Zoning (DPZ), the Department of Public Works and Environmental Services (DPWES), Fire and Rescue Department, and Health Department; and would have added 10 new positions to staff a consolidated intake operation, enhance current enforcement staff, and provide for a Director and management/support staff for this new entity.

- In addition, other areas in which I would have liked to provide additional resources or areas which I was not able to address, include:

    - <u>The Sheriff's request to provide positions to staff juvenile detention cells at the newly expanded courthouse.</u> These new positions were requested in order to provide supervision in the five small holding cells next to the new courtrooms and escort juveniles to and from the Juvenile Holding Area, the five small holding cells, and the courtrooms.

    - <u>Additional resources in support of Mental Health Services</u>. We have taken the temporary action of adding an additional $0.6 million to continue to address timely access and manageable caseloads for critical services in adult outpatient services while the Board-appointed Josiah H. Beeman Commission is at work developing proposals to improve our mental health services delivery systems. I anticipate these recommendations will require the redirection of resources which have not been identified in this budget plan.

    - <u>Human Services' caseloads.</u> Based on population and state standards, Fairfax County is understaffed. The County exceeds caseload standards in Public Assistance, Child Welfare and Adult Protective Services. In the Coordinated Services Planning Program Area, the volume of calls has increased from just less than 300 calls per day in the first seven months of FY 2007 to 375 calls per day in the first seven months of FY 2008. Additionally, our Community Services Board continues to struggle with case management and caseload requirements which are above state and professional standards.

- New School-Age Child Care (SACC) rooms. In FY 2009, space was made available for a new SACC program (two rooms) at White Oaks Elementary School in the Springfield district (one of six elementary schools in the County with no SACC program) and a second room at three existing SACC programs: Haycock, Mt. Vernon Woods and Waynewood Elementary schools. This would have provided before- and after-school supervision to 175 children. These additional rooms could not be funded within the FY 2009 budget.

- Additional support for the CCAR program in Family Services. I have not fully addressed the loss of federal pass-through funding for this program which provides child care funding assistance to families in Fairfax County. The budget does include additional funding of $2.6 million to replace the most recent loss of federal pass-through funds. However, overall program funding is still down over 20 percent compared to the FY 2006 level, impacting services to nearly 1,500 children.

- Replacement of the County's voting machines. The FY 2009 budget does not include funding for replacement of the County's voting machines despite anticipated federal requirements as well as unavailability of additional machines to meet precinct requirements. Longer lines and wait times at the polls are likely. I anticipate recommending some funding as part of the *FY 2008 Third Quarter Review* to assist in meeting the shortage of machines.

- County Facility Maintenance. Our most recent County facility assessment indicated a total of $80 million would be needed through 2010 for facility repair and equipment replacement needs. These assessment lists were prioritized and classified into categories "A" through "F" with "A" indicating good condition and "F" noting requirements which were urgent/safety related or endangering property. The FY 2009 budget constraints allowed me only enough resources to cover some of the repairs in the "F" category. It is important to note that our facility inventory continues to require major subsystem repairs, with 58 percent of County facilities currently over 20 years old.

FY 2009 Funded Priorities

The following is a summary of key funding priorities for FY 2009. Again, I will need to recommend adjustments at Add-on totaling a minimum of $25 million and offset them with additional revenue, further expenditure reductions or a combination of both. I have prepared a list of proposed reductions to address this shortfall and have forwarded that to the Board in a separate memo. As a result, some of these currently funded priorities may need to be eliminated as part of final budget adoption. Additional details may be found in Volumes 1 and 2 of the FY 2009 Advertised Budget Plan, as well as the Budget Highlights section in this Overview Volume immediately following this section.

Support for Education

The greatest share of the budget is dedicated to Fairfax County Public Schools (FCPS). In accordance with the Board-adopted guidelines for the FY 2009 Budget, the proposed County General Fund transfer for school operations in FY 2009 is held at the FY 2008 level and totals $1,586,600,722. It should be noted that the actual transfer request approved by the School Board on February 14, 2008 is $1,650,347,739, an increase of 4.0 percent over the FY 2008 Adopted Budget Plan transfer. The gap between the School Board's request and my recommendation is $63.75 million.

When compared to most other school systems in Virginia, Fairfax County funds a much larger portion of its school budget with local funds, as nearly 73 percent of the FCPS budget is funded by the County. The average school division in Virginia receives approximately half of its financial support from its local government. We will continue to work cooperatively with the School Board and FCPS staff in order to maintain our high quality system of public education, while ensuring that we are fiscally responsible. In addition to the operating transfer of $1,586.6 million, $154.6 million is included for School Debt Service to fund school bond sales for school construction, for a total in transfers of $1,741.2 million. This represents over 52 percent of total General Fund Disbursements. The County also provides additional support for the Schools in the amount of $63.5 million for programs such as Head Start, School Health, School Resource Officers, School Crossing Guards, after-school programming, field maintenance and recreational programs, among others.

BOARD PRIORITY:

Strong Investment in Education

All of the major investments in the FY 2009 Advertised Budget Plan are tied to other Board Priorities and County Vision Elements. They are highlighted below and on the following pages.

Maintaining Safe and Caring Communities

BOARD PRIORITY:

Public Safety and Gang Prevention

- $6.4 million including fringe benefits is included for a 2.96 percent Market Rate Adjustment discounted by 50 percent to 1.48 percent for public safety personnel including uniformed Police, Sheriff, Public Safety Communications, and Fire and Rescue employees to maintain pay competitiveness.

- $3.1 million is provided for merit increments for those public safety employees eligible to receive them based on grade and step.

- $0.9 million is included to continue the phased reduction in employee contributions to the Police Retirement system to make the Police benefits package more competitive with surrounding jurisdictions.

- $0.1 million is included to provide gang prevention services/efforts in targeted areas of the County. These efforts which provided community case management services to youth in gangs and youth at-risk of becoming gang involved, had been supported by an expiring federal grant. Two County geographic areas, East County and South County, are currently being serviced.

- $2.6 million in additional funding is included for the Department of Family Services (DFS) associated with the Child Care Assistance and Referral (CCAR) Program. As directed by the Board of Supervisors, this funding replaces the most recent loss of federal pass-through funding. With this additional funding in FY 2009, the CCAR program can support 5,141 children.

- $4.1 million has been put in reserve to address the Comprehensive Services Act (CSA) anticipated expenditure shortfall in FY 2009. The increased costs are attributed to the recent reinterpretation of the state policy regarding foster care prevention, an increase in the number of children served in FY 2007, and an overall increase in the cost per child associated with contract rate increases.

- At no net cost, a realignment of domestic violence programs is recommended as part of the FY 2009 budget. Funding and positions previously reflected in Fund 106, Fairfax-Falls Church Community Services Board, are being moved to the Office for Women and Domestic Violence Services in the Department of Family Services as part of a multi-agency effort to streamline and strategically focus the County's domestic violence services.

- $0.1 million is included to continue support of Citizen Corps volunteer programs, previously supported by grant funding. Citizen Corps programs provide volunteer support for several County agencies, including the Office of Emergency Management's Citizen Corps Council, the Police Department's Neighborhood Watch and Volunteers in Police Services (VIPS) programs, the Fire and Rescue Department's Community Emergency Response Team (CERT), and the Health Department's Medical Reserve Corps (MRC).

- $0.5 million is included to allow for staffing initiatives within the Office of the Commonwealth's Attorney in response to significant workload-related issues and to provide for an improved career ladder and retention of employees. The reorganization will result in the conversion of vacant administrative/support positions to higher grade positions to support court requirements.

- $2.0 million, including $0.9 million for the Fairfax–Falls Church Community Services Board, $0.5 million for the Department of Family Services, and $0.4 million for the Office of the Sheriff, will support limited contract rate increases to providers, as well as accommodate limited increases in medical supplies and services to meet the needs of those served.

- $0.6 million is provided for the Fairfax-Falls Church Community Services Board (CSB) to maintain efforts to continue to address the timely access and manageable caseloads for Mental Health adult outpatient services while system redesign efforts are underway.

- Within the CSB's FY 2009 Advertised Budget Plan baseline funding level, CSB Mental Retardation Services currently projects that all special education graduates expected in June 2008 can be served at no additional cost through a combination of approved Medicaid MR Waiver slot allocations, program attrition, efficient use of existing funding and continuation of recently implemented management initiatives. Overall, in June 2008, there are expected to be 70 new special education graduates turning 22 years of age who are eligible for day support and employment services.

Building Livable Spaces

BOARD PRIORITY:

Affordable Housing

- $22.8 million, or the approximate value of one penny on the Real Estate Tax rate, is included in The Penny for Affordable Housing Fund to preserve and create affordable housing opportunities.

- The FY 2009-FY 2013 Advertised Capital Improvement Plan (With Future Fiscal Years to 2018) anticipates continuation of the approved bond sale limits, $275 million or $1.375 billion over a five-year period with a technical limit of $300 million in any given year. The FY 2009 Advertised Budget Plan includes $22.0 million for Paydown Capital Projects, representing a decrease of $13.3 million from the FY 2008 Adopted Budget Plan total due in part to one-time project funding not required in FY 2009 as well as a reduction in funding due to budget constraints. Reductions to a variety of projects have been necessary in FY 2009, including support for the development of Laurel Hill, capital renewal requirements, additional courtroom renovations, and other projects. In addition, no funding has been included in FY 2009 for the County's land acquisition reserve.

- $6.9 million is included in FY 2009 for the most critical capital renewal projects including roof repair/replacement, HVAC, emergency generators, among other needs. This level of General Fund support represents a decrease of $1.0 million from the FY 2008 Adopted Budget Plan.

- A total of $5.1 million to continue the athletic field maintenance and development program. This includes athletic field lighting, water and irrigation system maintenance, minor ball field repairs, synthetic turf, and payment for FCPS staff to open and close facilities used by indoor sports organizations. Revenue in the amount of $950,000 generated from the Athletic Services Fee directly supports this program. This level of funding is consistent with FY 2008 funding levels and includes only a minimal increase in General Fund support of $150,000 to begin to address increases in water and electricity costs experienced in recent years.

Practicing Environmental Stewardship

BOARD PRIORITY:

Environmental Protection

- $22.8 million, or the approximate value of one penny from the County's Real Estate Tax, has been included for prioritized stormwater capital improvements to the County's stormwater system to protect public safety, preserve home values and support environmental mandates such as those aimed at protecting the Chesapeake Bay and the water quality of other local waterways. It should be noted that in FY 2009, salary costs and related expenses of staff supporting the stormwater program have been charged to Fund 318, Stormwater Management Program based on budget constraints. This adjustment to Fund 318 will impact future stormwater project implementation schedules.

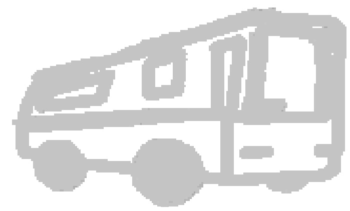
- $0.1 million is included to fund a redirected position that will serve as the County's Energy Coordinator in the Office of the County Executive. This position will lead work across a number of County agencies to develop coordinated, cross-agency energy efficiency/conservation and cost-avoidance actions, as well as policies that could be directly linked to enhancing air quality, reducing adverse climate change impacts and cost savings through reduced emissions and cost-avoidance associated with reduced electricity demand. This individual will also serve as a central conduit of information to and from agencies and the community to better understand and leverage energy efficiency and conservation practices employed and lessons learned.

- $0.6 million is included in FY 2009 to provide funding for prioritized initiatives that directly support the Board of Supervisors' Environmental Agenda. The Environmental Excellence 20-year Vision Plan includes six topic areas: Growth and Land Use; Air Quality and Transportation; Water Quality; Solid Waste; Parks, Trails and Open Space; and Environmental Stewardship. FY 2009 projects include: continued outreach materials for air quality awareness targeted at County employees, residents, school children and business owners; removal of invasive plants that threaten native plant communities; expansion of volunteer and outreach programs; conducting additional remote household hazardous waste events; conducting a litter campaign and other environmental initiatives; energy management at eight park facilities; and continued partnering with three non-profit agencies to expand tree planting throughout the County.

- $1.3 million is included to support non revenue-generating solid waste programs such as the County's Recycling Program, the Code Enforcement Program, the Household Hazardous Waste (HHW) program, and the Citizen's Disposal Facilities. The FY 2009 General Fund reflects a decrease of 50 percent from the FY 2008 Adopted Budget Plan transfer of $2.5 million based on limited availability of General Fund monies and the current level of program requirements.

Connecting People and Places

BOARD PRIORITY:



Transportation Improvements

- In the FY 2009 Advertised Budget Plan, new funding sources are available to support a major expansion of transportation, including additional personnel, operations, and capital projects. This funding is available on an annual basis, beginning in the second part of FY 2008, as a result of the General Assembly's April 4, 2007 passage of the Governor's substitute for House Bill 3202 (HB 3202). This bill is the first infusion of new transportation dollars in Northern Virginia in more than 20 years. The County will merge the current activities, program, and staff of the County's Department of Transportation with the staff of the Department of Public Works and Environmental Services (DPWES) who currently support planning and design related to roadway improvements. The merging of all staffing functions and programs in support of transportation permits an integrated seamless system for addressing a current and growing list of transportation capital projects and efforts to improve traffic flow, transit and general mobility of Fairfax County residents.

  Two significant sources of funding included in the FY 2009 budget are revenue remitted to the County from the Northern Virginia Transportation Authority (NVTA) and funding from a proposed increase to the County's commercial real estate tax. House Bill 3202 gave the NVTA the authority to implement seven new taxes and fees to support transportation-related projects and services. This revenue will raise over $300 million per year for Northern Virginia. From these funds, NVTA annually will set-aside $25 million for Virginia Railway Express (VRE) operating and capital expenses and $50 million for Metro capital expenses. It will utilize 60 percent of the balance of raised funds for regional projects, and will return the remaining 40 percent to the jurisdiction where the funds were raised. The FY 2009 Advertised Budget Plan includes a projected $60.0 million in revenue associated with the 40 percent returned to Fairfax County from this NVTA distribution.

  HB 3202 also gives local jurisdictions within Northern Virginia the authority to increase the commercial real estate tax, which was previously held to the same value as the residential real estate tax, by as much as 25 cents per $100 assessed value in support of transportation. The FY 2009 Advertised Budget Plan includes a recommended commercial real estate tax rate increase of 12 cents which will generate a projected $52.8 million. Of this new revenue, 8 cents will address transportation project increases, approximately 2 cents will address new staffing requirements due to the influx of transportation project funding and approximately 2 cents will fund existing staff resources and related costs associated with transportation planning and implementation projects. A total of 93/93.0 SYE existing positions, including 75 in the Department of Transportation and 18 in the Department of Public Works and Environmental Services, Office of Capital Facilities will now be supported by these funds.

  As part of the FY 2009 Advertised Budget Plan, funding is included to begin the phase-in of 41/41.0 SYE new positions in support of transportation planning, management, and engineering design. These positions will also address future planned expansions of the FAIRFAX CONNECTOR; proffer and zoning workload increases resulting from transportation studies and improvements to the Tysons area and revitalization areas; and increasingly complex prioritizing, reporting, and invoicing requirements associated with major projects with multiple funding sources.

- The total FY 2009 General Fund Transfer for Fund 100, County Transit Systems, is $34.7 million, the same level as the FY 2008 budget but incorporates increases to fund FY 2009 partial year operations of the new West Ox Bus Operations Center, costs associated with new operational and service contracts for CONNECTOR operations, and additional estimated CONNECTOR fuel costs based on continuing increases in diesel fuel prices as well as a 21 percent increase in the County's subsidy requirement for VRE based on operating system and debt service requirements. In addition to the General Fund Transfer support, $12,000,000 in newly authorized State Aid support for mass transit will support FY 2009 projected expenditures. The newly authorized mass transit support results from a provision within HB 3202 that provides for an earmark for mass transit of 2 cents per $100 of state recordation tax collections.

- The total Fairfax County requirement for Washington Metropolitan Area Transit Authority (WMATA) Operating Expenses totals $68.6 million, an increase of $5.5 million, or 8.6 percent, over the *FY 2008 Revised Budget Plan* and supports Metrorail, Metrobus and MetroAccess (paratransit) service. Additional State Aid and Gas Tax revenues as well as savings based on the transfer of bus service in the western part of the County from Metro to the CONNECTOR system results in a General Fund Transfer of $17.5 million, a decrease of $2.8 million or 13.8 percent from the *FY 2008 Revised Budget Plan*.

- Utilizing funding available from savings in the County's health insurance fund and in I-NET resources included in the Cable Communications fund, interest income and state technology funding, as well as a General Fund transfer of $11.8 million, the Information Technology project fund includes a recommended list of IT initiatives in the amount of $22.8 million. These projects meet one or more priorities established by the Senior Information Technology Steering Committee and include a mix of projects that provide benefits for both residents and employees, as well as maintain and strengthen the County's technology infrastructure.

Creating a Culture of Engagement

- $0.6 million is included to fund the full year costs associated with opening the new Burke Library in July 2008.

- The Office of Human Rights and the Office of Equity Programs have been merged to form the new Office of Human Rights and Equity Programs. The mission of this office will be to institute an affirmative human rights program of positive efforts to eliminate discrimination and to provide the public and Fairfax County employees with recourse for discriminatory acts. It is anticipated that there will be savings in administration as a result of this consolidation.

- $0.3 million is included to support election officers, staff overtime, limited-term personnel, and additional postage for the mailing of voter cards and absentee ballots associated with the 2008 Presidential election.

Maintaining Healthy Economies

- $9.0 million, an increase of $0.3 million, or approximately 3.0 percent, over the *FY 2008 Revised Budget Plan* reflects the General Fund transfer to support the first year of a new two-year cycle in the Consolidated Community Funding Pool (CCFP) to leverage nonprofit organizations' resources to meet community challenges. Under more normal circumstances, I would have recommended an increase closer to 10 percent as I have in previous budgets.

- $13.6 million, funded by a transfer from the General Fund, is provided through Fund 119, Contributory Fund, to various nonsectarian, nonprofit or quasi-governmental entities for the purpose of promoting the general health and welfare of the community.

Exercising Corporate Stewardship

- In order to meet budget limitations based on available resources as a result of the continued softening of the residential real estate market, a two percent across-the-board reduction in Personnel Services totaling $16.5 million was taken in General Fund and General Fund-supported agencies. This is in addition to a similar two percent reduction taken as part of the FY 2008 Adopted Budget Plan and Pay for Performance adjustments noted below.

- $6.3 million is provided in order to continue the Pay for Performance (PFP) program for over 8,000 non-public safety employees; however, as a result of budget constraints in FY 2009, employee increases as part of the PFP system have been discounted by 50 percent and the impact of the lower PFP funding is reflected here.

- An additional $2.5 million in General Fund support over the FY 2008 Adopted Budget Plan is included to address higher fuel prices and related Department of Vehicle Services' charges as a result of market conditions.

- $1.6 million is included as an increase for increased custodial, repair and maintenance, and landscaping costs associated with new facilities opening in FY 2009. These facilities include the West Ox Bus Operations Garage, Forensics Facility, McConnell Public Safety Transportation and Operations Center (MPSTOC) and the Girls Probation House. Combined these facilities account for an additional 203,160 square feet to the inventory maintained by the Facilities Management Department.

- $8.6 million or 4.3 percent over the *FY 2008 Revised Budget Plan* is included as an increase for fringe benefits, including Health Insurance, Dental Insurance, Social Security, and Retirement.

- A new Health Promotion and Wellness Initiative is supported by anticipated savings in County health plans. The program will include Health Risk Assessments (HRAs) and an enhanced disease management program, reduced membership rates for merit employees and retirees at the County's RECenters, and influenza vaccinations for County employees and retirees.

- Beginning in FY 2008 the County's financial statements were required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits. Fund 603, OPEB Trust Fund, has been created in order to capture long-term investment returns and make progress towards reducing the unfunded actuarial accrued liability under GASB 45 and funds the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees, such as the County's retiree health benefit subsidy. In FY 2009, the County's contribution towards the Annual Required Contribution (ARC) of $8.2 million will be made through a transfer from Fund 506, Health Benefits Trust Fund, as a result of revenues received from contributions. Any future balances identified in Fund 506 as a result of excess revenues received from employer contributions will also be considered for possible transfer to Fund 603 to assist in addressing the County's unfunded OPEB liability which has been calculated at nearly $380 million, excluding schools.

- The County provides monthly subsidy payments of $30 - $220 to eligible retirees based on years of service at retirement to help pay for health insurance. The cost of this benefit, totaling $5.8 million, will be paid out of Fund 603 as a result of implementation of GASB 45 and supported in FY 2009 by CMS Medicare Part D reimbursement and one-time or limited savings in employer health plan contributions.

- Funding of $7.0 million, from a transfer from Fund 506, Health Benefits Trust Fund, is included for a multi-year, joint initiative between the County and the Schools to modernize the County's enterprise information technology systems that support finance, human resources and payroll, budget, procurement and related applications. This FY 2009 funding is available from savings in employer contributions for health insurance and will be used to offset the costs of Phase I of the project which will replace the County's Human Resources and Payroll system. Previous assessments of these aging corporate systems revealed that they are past their projected useful lifecycle, no longer comply with today's technology standards, and do not meet the demands of resource and financial management and decision-making. Short-term changes made to make the systems functional have resulted in increased risk for fraud and security flaws. Due to their age, many of these systems have no vendor support and rely on senior in-house staff for maintenance. The systems are written in technical code that is outdated, not practiced by the vast majority of the industry labor pool, and thus are unable to be integrated with future mandated requirements. Of these systems, the County government's Personnel Resource Information System Management (PRISM) is the most vulnerable to immediate obsolescence issues. It is over 20 years old and highly customized based on historical County operational practices to the extent that it cannot be further enhanced. Further, attrition of in-house technical staff as they approach retirement age is jeopardizing future support for maintaining this legacy application with the other systems approaching a similar expert support dilemma. FY 2009 funding, followed by future-year investments, will allow for the award of software and systems implementer contracts.

Fee Adjustments

- As part of the development of the FY 2009 budget, a thorough review of the County's General Fund fees and user charges was conducted. Fees were compared to state maximum rates and to those of surrounding jurisdictions. As a result of this review, General Fund fee increases, totaling $4.5 million in revenue, are included in the FY 2009 Advertised Budget Plan. The bulk of the additional revenue is the result of a proposed increase to the Emergency Medical Services (EMS) Transport Fee structure, which is expected to generate an additional $3.5 million in FY 2009. Current General Fund fees to be raised also include Fire Marshal Fees, parking garage fees, various parking violation fines, police report and photo fees, and taxi cab licenses. These increases will raise cost recovery in FY 2009, while maintaining consistency with surrounding jurisdictions.

BOARD PRIORITY:

Revenue Diversification to Reduce the Burden on Homeowners

- In order to cover anticipated expenditures in FY 2009 and maintain essential reserves, an increase in the annual Refuse Collection fee from $330 to $345 is required for approximately 44,000 customers who receive this service.

- The Availability Fee charged to new customers for initial access to the sewer system will increase from $6,506 to $6,896 for single-family homes based on current projections of capital requirements and is consistent with the analysis included in the Forecasted Financial Statement for July 1, 2007 through June 30, 2012. The Sewer Service Charge will increase from $3.74 to $4.10 per 1,000 gallons of water consumption in FY 2009. This equates to a 9.75 percent increase in rates and will result in an anticipated increase in the annual cost to the typical household of $27.36.

- Facilities and operations of the McLean Community Center (MCC) are supported primarily by revenues from a special property tax collected from all residential and commercial properties within Small District 1, Dranesville. The Small District 1 real estate tax rate for FY 2009 is recommended for reduction by $0.002 from $0.028 to $0.026 per $100 of assessed property value. It should be noted that this two-tenths of a penny reduction reflects a savings of just under $20 on the average Small District 1 residential tax bill.

- The Commercial Real Estate Tax for County transportation projects is recommended to be $0.12 per $100 of assessed value. This tax will be levied on all commercial and industrial properties in the County and is in addition to the real estate tax rate of $0.89 per $100 of assessed value.

FINANCIAL FORECAST

Staff has prepared a financial forecast for FY 2010 and FY 2011 which maintains the current Real Estate Tax rate of $0.89 per $100 of assessed value. Based on continued weakness in the real estate market as well as slow growth in other revenue categories, our revenue forecasts project no growth in FY 2010 and less than 1 percent growth for FY 2011. Assuming funding for basic compensation and inflationary adjustments as well as support of County obligations in debt service, Metro and other transfers, County disbursements are anticipated to require funding increases of 4 to 5 percent annually. As a result, the forecast shows shortfalls of $200 million in each year. It will be necessary to take steps to match available funding to expenditure growth in order to balance the budget in future years. Details of the FY 2010 Forecast can be found in the Financial Forecast section of this volume.

CONCLUSION

We have a sound foundation and stable County infrastructure; however, the current budget dilemma will test our collective resolve. Fortunately, we have the inherent capacities, capabilities, and sound judgment to make the right, albeit tough, choices to maintain and sustain our ability to provide high quality services and programs. In every program, and in every agency, we are measuring success, efficiency and effectiveness not by good intentions, or merely by dollars spent, but rather by results and outcomes achieved. Indeed, the cornerstone of this budget is predicated on accomplishments, initiatives, outcomes and responsible resource allocation to meet the needs and priorities of our County.

At the same time we must remember that there is only so much "trimming around the edges" that can be done, and in fact much of this has occurred in the past few years. As a result, and as I noted in the beginning of this letter, I believe it may be prudent for the Board to advertise a small increase in the tax rate for FY 2009 as there is so much uncertainty concerning revenue projections, many of which are dependent on changes in the economy that are beyond our control, as evidenced by the two successive cuts by the Federal Reserve to the federal funds rate in the last weeks of January. A multi-year approach to the County budget, which includes beginning a comprehensive review of County programs, school funding and revenue enhancement opportunities must be a fundamental element of our budget strategy both for the FY 2009 budget process and beyond.

There are many things that we should do, but unfortunately, this budget is only able to accommodate the things that we must do given our limited revenue growth. This budget focuses on fiscal responsibility and accountability, and provides direction and resource allocation for those things which we must do rather than for those things we want to do.

As the Board is fully aware, over many years our residents have consistently reaffirmed and voiced their support for the level, quality and types of services that we are providing to enrich and support their desired quality of life here in Fairfax County. The breadth, depth and quality of these programs and services – many of them nationally recognized – reflect the needs and priorities of County residents as consistently supported and requested at public hearings, budget workshops, and community meetings. Over the past 12 years, our current inventory of programs have been fully vetted and reviewed to continually seek ways of streamlining, consolidating, and reducing levels of service commensurate with the parameters of our priorities, needs and legal requirements. Recently, in both FY 2008 and as we propose in this FY 2009 budget, we have made substantial reductions in our agency Personnel Services budgets as well as a proposed 50 percent reduction or discount in our County Pay for Performance program in FY 2009. These reductions will inevitably impact customer wait times, turnaround times and other employee-related services for our customers, and, if required, further reductions in FY 2009 and beyond will also adversely impact our ability to consistently maintain the existing levels of service we provide.

Before closing I just want to note a couple of important issues of interest to the Board:

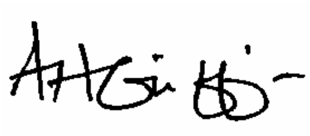
- First and foremost, the County was recently evaluated by the three major bond rating agencies, Standard & Poor's, Fitch Investor Services, and Moody's Investor Services, who assessed the County's economic outlook, commercial real estate trends and other financial issues. In reaffirming the Triple-AAA rating, a distinction shared as of October 2007 by only 22 of 3,136 counties, 7 of 50 states and 23 of 19,452 municipal governments nationally, the bond rating agencies applauded Fairfax County for its wise and prudent fiscal management, and stressed that the County continues to be a leader in creditworthiness

- Secondly, as the Board is aware, in September 2007, I initiated a review of the County's discrete Lines of Business (LOBs). You will all be receiving copies of the completed LOBs during the budget workshop scheduled for Saturday, March 8, 2008. The LOBs documents utilized budgetary data from the FY 2008 Adopted Budget Plan since the FY 2009 Advertised Budget Plan was not yet finalized as the LOBs were being completed by agencies.

  I anticipate that this exercise will be the first year of a two-year process and is designed to meet several distinct objectives. Our first goal was to provide the newly elected Board of Supervisors with a comprehensive overview of County services and to provide our residents with a comprehensive educational tool regarding the array of programs and services the County is responsible for providing as well as their cost and implications related to service delivery. Later in 2008 and in 2009, I anticipate that the LOBs will be used as a tool, along with budget documents, input from the public, and all other means necessary, to assist the Board in making any necessary program adjustments, as we work to balance the FY 2010 budget. I think it is fair to assume that information in the FY 2008 LOBs review will provide a starting point as we begin the discussion of balancing our critical County service requirements to our available resources, in FY 2010 and beyond.

Clearly, we face many challenges over the next few years. In the short-term, I expect that there will be much discussion in the upcoming months about this budget, much of it focusing on what it does not include. In the longer term, the next few years will present us with continued challenges, foremost among these will be the revenue picture. Nevertheless, I am confident that with the Board's strong leadership, our adherence to our guiding principles and strategic priorities, and by working collaboratively both within and outside of County government, particularly with our community partners, that we will be able to overcome the difficulties we face and continue to provide the excellent services for which Fairfax County is known.

Respectfully submitted,



Anthony H. Griffin
County Executive