County of Fairfax, Virginia

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

February 23, 2009

Honorable Board of Supervisors
County of Fairfax County
Fairfax, Virginia

Chairman and Board Members:

Every budget is a statement of community values, a plan for service delivery and an accounting of available and reasonable resources. The FY 2010 budget, as proposed, focuses on the County's core services and programs. It preserves those services fundamental to our mission - the protection and enrichment of the quality of life for the people, neighborhoods and diverse communities of Fairfax County. The budget proposal brings together the suggestions, ideas and hard work of our residents and clients as well as our County agencies and employees to address a projected budget shortfall which has nearly doubled in the last several months as economic performance both nationally and regionally spiraled downward.

Because of the magnitude of the deficit facing the County all areas of the County's budget will be affected. Schools, public safety and human services comprise approximately 75 percent of the budget. All of these areas will be significantly impacted by my FY 2010 recommendations since it would not be possible to balance the budget without adjustments to these areas while maintaining an acceptable and sustainable level of services. Particular attention and care in the decision making process was given to protect the core missions of the County's public safety agencies.

To address the projected $648 million deficit, I focused on three strategies: (1) Eliminate non-contractual or non-legally obligated growth in the budget which would have provided for inflationary increases, salary adjustments and increasing workloads; (2) Reduce, reengineer, reorganize, redesign and eliminate various County lines of business; and (3) Include revenue enhancements to keep the same relative tax burden on the residential homeowner and increase user fees to recover an equitable return of County costs. I believe these proposed strategies provide a balanced approach to our budget challenges.

In addition to eliminating growth in the budget, I have recommended significant reductions in County spending as well as a number of revenue enhancements including an increase in the real estate tax rate. This approach was validated time and again during our Community Dialogues and Employee Brownbags on the budget this fall. Reductions in funding for County services and programs have been balanced across service program areas as well as between line and staff functions. Beginning immediately after the FY 2009 budget adoption, County agencies and programs have been reviewed, reengineered, eliminated and restructured to reduce funding requirements. As a result, I have included reductions totaling $106.4 million and eliminated 524 merit positions in this budget proposal. Some of these reductions take advantage of cost saving strategies; however, many reduce or eliminate services our residents use and enjoy. The reduction alternatives include modification in County service hours and service levels, staffing decreases, and program eliminations. Funding reductions were made in virtually every County agency and every County employee will be impacted by these actions.

Equally, our County residents will also be impacted by this budget proposal. In addition to service reductions, I am recommending an increase in the real estate tax rate which will hold average taxes paid by our residential property owners relatively flat with their FY 2009 payment level. At the proposed real estate tax rate of $1.04 per $100 of assessed value, along with the newly proposed stormwater service district rate of $0.015 per $100 of assessed value, the taxes paid by the average residential taxpayer will be $14 more than their FY 2009 tax bill. While I recognize that our residents are also struggling with the impacts of the dramatic economic downturn, I believe that basically level tax payments are a reasonable response to our declining revenue base. As a partner with County government, County residents and business have a stake in protecting and preserving our community and our quality of life in Fairfax County. Throughout the Community Dialogue sessions, County residents endorsed the principles of maintaining our current quality of life in Fairfax County. They understood that programmatic reductions would be necessary and called upon us to protect the vulnerable constituencies in our community. Understandably, there

were differing perspectives and competing priorities and demands voiced during the public process, but the consensus supported County leaders making decisions based on compassion, equity and fiscal accountability.

The Fairfax County Public Schools (FCPS) are another important collaborator in our work to maintain Fairfax County's quality of life. I am enthused by the School system's response to our budget challenges and the willingness of the School Board, school leadership and school staff to join in indentifying strategies to address budget difficulties. My FY 2010 proposed budget holds funding for FCPS to the FY 2009 level. With no increase in the County transfer for school operations, the School system will have to make significant programmatic reductions in order to offset rising costs based on membership and potential losses in State funding. Historically, funding for education has been the County's greatest budget priority and this year, the prioritization has not changed. While agency budgets and programs have been reduced, including public safety, my proposal calls for level funding for the schools. In fact, the school system will receive a greater share of the County's General Fund budget in FY 2010 than any prior year. Together with funding for School debt service, the County's transfer to the schools represents nearly 54 percent of the total budget.

The County is not immune to the difficult financial times caused by the faltering economy. While unable to forecast the magnitude or prevent the economic crisis now facing the nation, Fairfax County is certainly affected with the byproducts of this downturn, as seen by declining real estate values and consumer reluctance to spend. However, even in this period of economic uncertainty, Fairfax County continues to demonstrate the benefits of strong financial management and prudent decision making of our Board and administration. With a track record of making responsible choices, I believe County government is able to meet the challenges presented by these difficult times. We are positioned to address the difficulties of this recession through continued tough and sustainable decisions and prioritization. The County's financial health is a powerful signal to our residents and businesses that Fairfax is an excellent place to live, work, play, do business and invest. And having just reaffirmed our AAA credit rating, Wall Street agrees. More importantly, our residents clearly and consistently validated their overwhelming satisfaction with the County's direction and priorities. This budget is a reflection of these shared priorities and common values.

The FY 2010 budget proposal is a product of extensive analysis, deliberation, and decision making that often weighed difficult choices against difficult choices. It is ironic that now, more than ever, our residents expect and need many of the services proposed for modification. We are seeing tremendous increases in the number of residents coming to the County for assistance as the economy affects household income and capacity. Because of reductions in discretionary spending, many County services and programs through our parks and libraries are seeing a significant increase in participation. Service areas like public safety are also likely to experience increased calls for service. Rather than creating jobs to help stimulate recovery, this budget proposal reduces County positions. While County spending reductions are necessary, they are most assuredly not easy.

For County employees, the FY 2010 budget proposals will be difficult. In addition to eliminating compensation increases for County employees, the recommended reductions will likely require County employees to handle increased workloads and customer requirements with fewer staff. These employees, already impacted by a one day furlough during FY 2009, will need to work harder and longer. Yet as County staff has always done in challenging times, they will continue to rise to the occasion. I have been pleased and proud of the way our employees have responded to this challenge. Their professionalism, dedication to continued excellence, and their ongoing commitment to the true spirit of public service is second to none. Their participation in identifying cost cutting strategies and service revisions has been invaluable and I am impressed with how their recommendations reflect respect, sensitivity and service to our community.

Albert Einstein said, "In the middle of difficulty lies opportunity." The FY 2010 budget proposal maintains our commitment to quality service while implementing creative ways to deliver services more effectively and efficiently. I believe our current budget challenge provides an opportunity to make changes in how our services are provided both next year and in the long term. The FY 2010 recommendations will likely change some service expectations of our residents and even the nature of our local government to some extent. In spite of changing expectations and capacity, our commitment to provide effective and efficient government is unwavering.

While the FY 2010 budget presented many challenges, I must caution that the national and local economies have yet to hit bottom and the timing of economic recovery is uncertain. I anticipate that the FY 2011 budget will also show negative revenue growth and that hopefully by FY 2012 revenues will stabilize.

In closing, I reaffirm my strong conviction that we as a community can withstand these challenges through continued collaboration, ingenuity and responsible decision making. Our community has weathered economic storms and tough times, only to emerge on the other side better and stronger. The good news is that storms never last and that sound structures and policies can ensure the core services and quality programs of County government continue. This budget proposal ensures our foundation is sound for continued success and it maintains our high quality of life, while preparing and restructuring our County government to meet the needs of future generations.

Finally, I want to thank the Board, County staff, the FCPS Board and staff and our residents for their efforts in making my difficult job easier over the past few months. It is this spirit of widespread cooperation, limitless creativity and hard work that convinces me that we are more than equal to the challenges ahead.

Anthony H. Griffin

County Executive

Understanding County Budget Challenges

Since December 2007, the national economy has been in a recession. The past year has witnessed several significant crises in the financial and credit markets, stemming in part from the fallout of the subprime mortgage crisis, resulting in a dramatic rise in mortgage delinquencies, foreclosures and volatility in the stock market. The impact of this situation has cast its shadow regionally and locally in Fairfax County. Fairfax County has experienced a continued decline overall in housing and commercial property values, a significant slowdown in consumer spending and reduced consumer confidence, a tightened credit market, and an increase in the unemployment rate. Subsequently, these indicators have necessitated County and School staff to review and scrutinize budgets to responsibly reduce expenditures, in some cases by upwards of 15 percent, and explore alternatives for reasonable revenue enhancement.

FY 2009 budget decisions, made in anticipation of this economic decline due to the weakening economy a year ago, held the line on County spending with the only overall funding increase allotted to Schools. Reduced funding and belt tightening in all areas of County government as well as a 3 cent increase in the real estate tax rate was necessary to balance the FY 2009 budget.

For FY 2010, the worsening economic picture brings new challenges. FY 2010 revenue is projected to decline by over 8 percent from the FY 2009 revised budget levels. As a result of less revenue as well as funding requirements to hold services to current levels, the County and Schools have forecasted a combined FY 2010 shortfall of $648 million. Of this amount, $430 million was based on the County budget and $218 million was based on the Schools budget. Clearly, the County budget cannot be in deficit. In order to address the projected shortfall, significant adjustments are required which will result in the elimination of some programs and positions and reduced, streamlined, and reorganized programs and services in other areas. In addition, revenue enhancements have also been recommended. As a result of these proposed revenue and spending adjustments, the face of Fairfax County government will continue to change to reflect an acceptable, sustainable level of services for years to come.

FY 2010 Budget Formulation

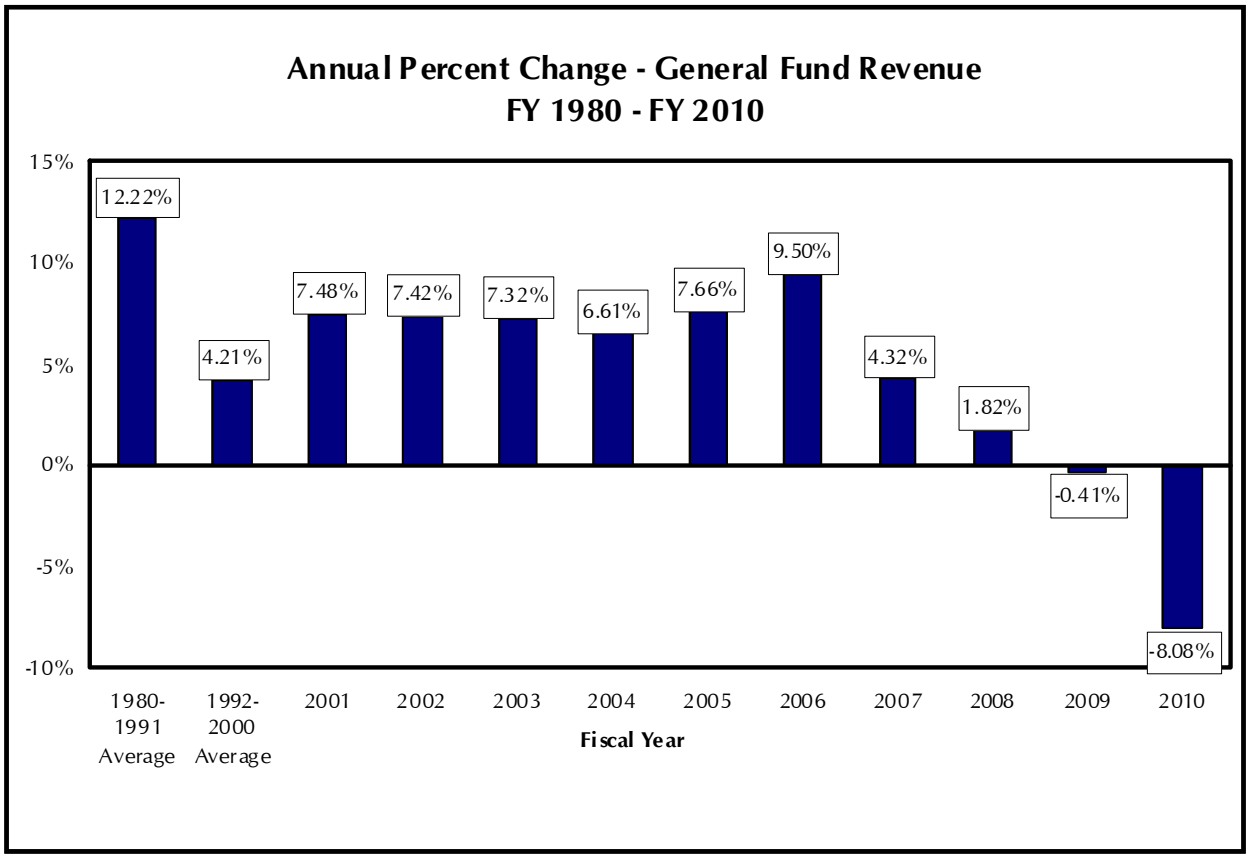
Development of the FY 2010 budget occurred in stages. First, a baseline budget was completed which included revenue estimates for FY 2010 reflecting current economic activity and rates. The baseline revenue estimates projected FY 2010 revenue at $3.017 billion. In addition, agency budgets were prepared which identified funding in order to fund the basic requirements of County government. This budget provided funding increases for only the most critical, contractual and legal requirements. FY 2010 General Fund disbursements in the baseline budget are $3.433 billion. Once the baseline budget was completed, the FY 2010 Budget Proposal was developed to balance the budget. To address the projected deficit, three strategies have been utilized: (1) Eliminate non-contractual or non-legally obligated growth in the budget which would have provided for inflationary increases, salary adjustments and increasing workloads; (2) Reduce, reengineer, reorganize, redesign and eliminate various County lines of business; and (3) Include revenues enhancements to keep the same relative tax burden on the residential homeowner and increase user fees to recover an equitable return of County costs.

Prior to addressing the proposed strategies to deal with the forecasted shortfall, the following summarizes County revenue and expenditure requirements that make up the FY 2010 baseline budget.

The FY 2010 Baseline Budget

FY 2010 Revenue Outlook and Baseline Revenue Projections

The FY 2010 General Fund revenue estimate is $3,016,914,510, a decrease of $303.7 million or 9.1 percent from the FY 2009 Adopted budget estimates and $265.2 million or 8.1 percent from the FY 2009 Revised budget level. This baseline revenue estimate is based on a decrease of $208.2 million as a result of the 9.95 percent decrease in real estate property assessed values and a net reduction of $57.1 million or 4.6 percent in all other revenue categories.



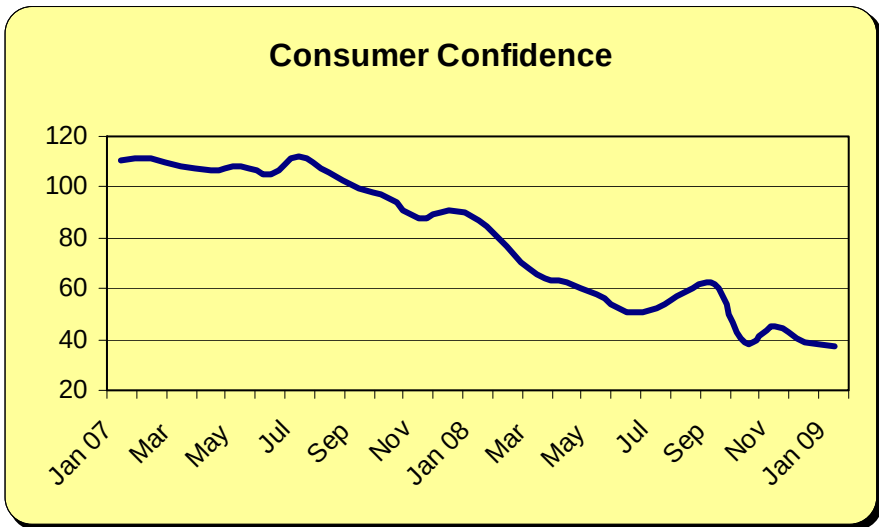
The County's fiscal outlook is shaped by the strength or weakness of the local housing market. Real Estate tax revenues comprise more than 60 percent of General Fund revenue while residential housing values make up approximately 73 percent of the Real Estate tax. Accordingly, declines in the value of residential property which resulted from the economic downturn have dramatically impacted the County's FY 2010 revenue base. In addition, other significant County General Fund revenues such as Personal Property tax, Sales tax, Business, Professional and Occupational License (BPOL) taxes, investment income, and Recordation and Deed of Conveyance taxes are greatly influenced by economic swings. Unfortunately, the economy has recently placed downward pressure on these important sources of County revenue as well.

From early 2000 through 2006, the national economy was booming; job growth was strong creating demand for housing and home prices appreciated rapidly. Profit led speculation in the housing market added fuel to this price appreciation. Demand for housing was also driven by loans made to new borrowers with shaky credit histories. Credit was easy to obtain. Some loans were made with little or no documentation of income, assets, or proof of employment. Some loans were offered as "interest only," others with no money down. With interest rates falling nationwide, mortgages could be offered at low "teaser" rates for the first 2 to 3 years after which, the rate and monthly payment would balloon. The general understanding was that housing values would continue to rise and borrowers would be able to refinance their mortgages to lower

rates once the teaser rates expired. But home values began to drop in 2006. Many borrowers, especially those considered subprime, were unable to refinance when their rate reset and could not afford the higher monthly payments resulting in default and widespread foreclosures. Subprime lending also led to the collapse of financial institutions that were heavily invested in mortgage-backed securities. Fearing losses, banks have tightened credit standards effectively freezing lending to consumers and businesses. By the end of 2008, even those with stellar credit found it difficult to borrow. The decline in the housing market spread to the broader economy resulting in job losses, declining consumer confidence and weak consumer spending.

The national economy was declared to have been in recession since December 2007. Currently in its 14th month, the current recession is already longer than the downturns experienced in 1990-91 and 2001, which lasted 8 months each. Economic indicators point to a deepening recession.

- The U.S. economy shrank 3.8 percent in the fourth quarter of 2008, the worst contraction since 1982
- Nearly 2.6 million jobs were lost in 2008, the largest since the end of World War II
- Jobless claims hit a record high in mid-January 2009 and unemployment rose to 7.6 percent
- Sales of new single-family homes slumped to their lowest levels since records started being kept in 1963
- Mortgage applications in late January fell by the largest amount in 16 years
- Consumer Confidence sank to a record low in January breaking the low hit in December



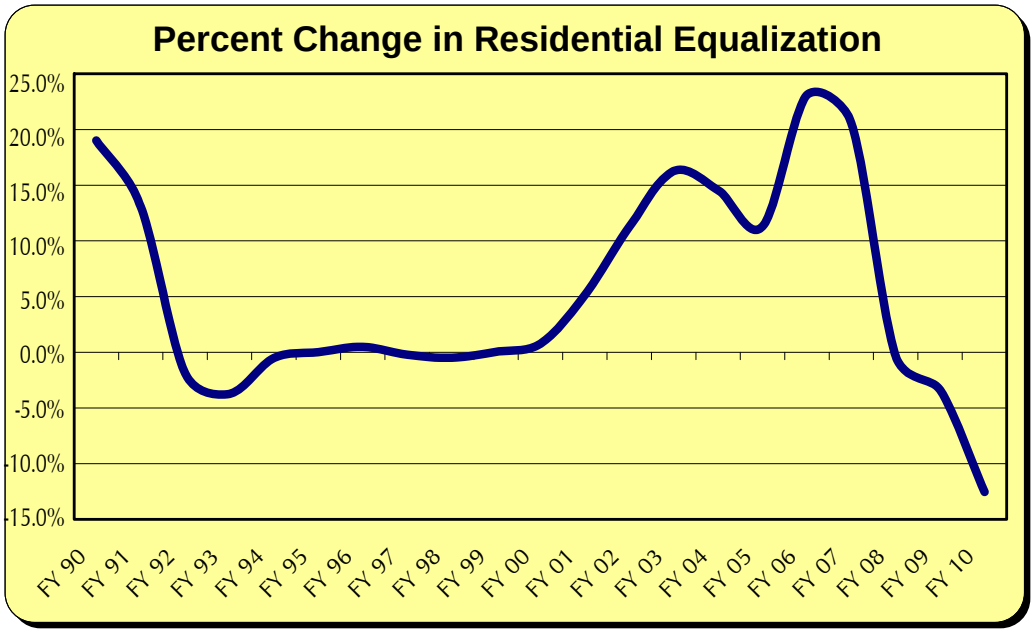
Consumer and business confidence and expectations in the economy are reliable predictors of economic activity. Consumer spending accounts for roughly two-thirds of the national economy. When consumers are reluctant to spend, the economy sputters and sometimes deteriorates. When business managers and investors are not optimistic about market share and profits, they are unwilling to authorize facility expansion, new hires or equipment and supply increases. Likewise, job growth and retainage are important measures of the strength of the economy. Loss of employment halts most non-essential spending. This decreased activity and spending impacts County personal property, sales, business and real estate transfer tax revenues. Even more significant, the national economic crisis has significantly impacted real estate property values.

Real Estate Taxes

Declines in both residential and nonresidential property values have resulted in the largest drop in total property value within the County since at least 1961. In FY 2010, the real estate tax base is projected to decline 9.95 percent, or $22.9 billion, more than erasing gains accumulated from FY 2007 through FY 2009.

Fiscal Year	*Total Assessed Value of Real Property*	*Percent Change*
2005	144,804,746,670	
2006	178,818,426,150	23.49%
2007	219,405,403,770	22.70%
2008	228,499,236,560	4.14%
2009	229,669,844,640	0.51%
2010	206,808,012,920	-9.95%

Residential equalization, the reassessment of existing property based on economic conditions, fell 12.55 percent in FY 2010, following reductions of 3.38 percent in FY 2009 and 0.33 percent in FY 2008.



The value of nonresidential properties in FY 2010 fell for the first time in six years. This decline reflects the overall slowdown in the economy and rising office vacancy rates in the County. The steep decline in residential values combined with a more moderate decrease in nonresidential property values resulted in an increase in the Commercial/Industrial percentage of the County's Real Estate tax base from 21.06 percent to 22.67 percent.

Other General Fund Revenue Categories

Significant other revenue categories include:

Current Personal Property Taxes (down $23.6 million or 4.7% in FY 2010)

- New model vehicle registrations fell 20 percent in Fairfax County – a reduction of over 13,000 vehicles.
- Used vehicles, especially SUVs and trucks have depreciated at a higher than normal rate.

Sales Tax Receipts (down $3.9 million or 2.5% in FY 2010)

- Recent Sales Tax receipts have been negatively impacted by declines in virtually all areas of retail sales from eating out to purchases of durable goods as consumers are battered by a recession, a severe credit crisis, and job losses. Year to date sales tax receipts reflect a decrease of 1.8 percent from FY 2008 receipts.
- The record lows in the Consumer Confidence Index portend a continued weakness in retail sales.

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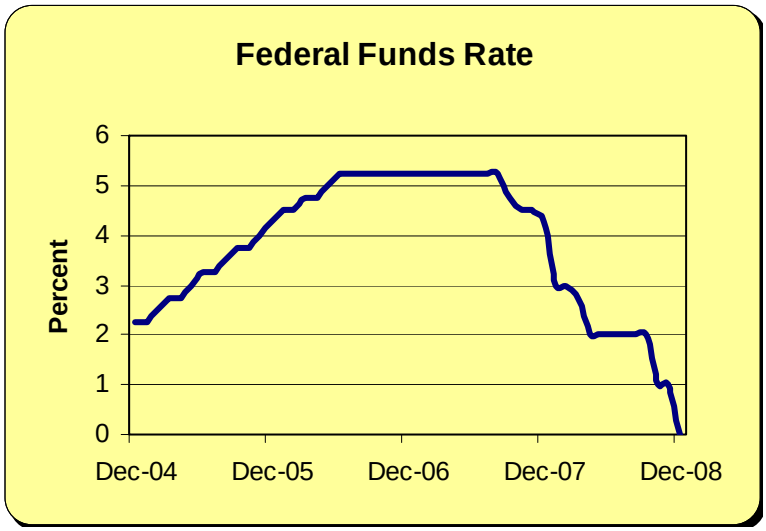
Investment Interest (down $18.5 million in FY 2010)

- Interest earned on County investments has fallen along with the federal funds rate.
- At the start of 2008, the federal funds rate was 4.25 percent.
- The rate was lowered to 2.0 percent in April and to 1.0 percent in October.
- In December 2008, the target rate was set at 0.0 to 0.25 percent.
- County's interest earnings are projected to plummet $18.5 million in FY 2010 from $28.9 million in FY 2009 to $10.4 million in FY 2010. By comparison, FY 2008 earnings were $78.2 million.



Revenue from the Commonwealth

- The 2008 Virginia General Assembly approved a $50.0 million reduction in state aid to localities in both FY 2009 and FY 2010 due to declining state revenue. The County's share of the reduction was set at $3.9 million each year. Further funding reductions were included in the Governor's proposed budget totaling $2.8 million in FY 2009 and $7.4 million in FY 2010. The proposed budget takes into account these reductions and an additional $4.7 million in FY 2009 and $3.3 million in FY 2010 for potential cuts that may be made during the 2009 General Assembly session or during FY 2010 if the Commonwealth's revenue situation worsens further.

More detailed information on the FY 2010 revenue projections, both as part of the baseline projection as well as the proposed adjustments, is included in the General Fund Revenue Overview section of the FY 2010 Advertised Budget Plan: County Executive's Proposal.

FY 2010 Baseline Spending Requirements

In order to fund the basic requirements of County government, a baseline budget was prepared. This budget provided funding increases for only the most critical requirements and in fact, began to pare back many requirements in many areas. FY 2010 General Fund disbursements in the baseline budget are $3,432,703,839, an increase of $80.11 million or 2.39 percent over the FY 2009 Adopted Budget Plan and a decrease of $8.2 million or 0.24 percent from the FY 2009 revised budget.

Major items in the baseline budget include:

- Funding of $1.627 billion for the County transfer for School operations reflecting no increase or decrease from the FY 2009 transfer.

- Level funding for almost all agency operating requirements. Based on the budget outlook, agency budgets were held at the FY 2009 level with exception of funding associated with FY 2009 adjustments, annual lease escalation requirements, maintenance and utility costs associated with opening new facilities and limited contractual increase requirements for custodial services, engineering services, and grounds maintenance contracts. This is well below the typical increases funded for Personnel Services based contracts in various agencies. It should be noted that, consistent with the FY 2009 level, agency salary budgets have been decreased by 4 percent above historical position vacancy levels.

- Funding for merit increments for uniformed public safety employees and pay for performance for all general County employees totals $16.2 million. (It should be noted that this funding is eliminated as part of the FY 2010 budget proposal). In addition, agency budgets have been increased to cover the full year impacts of FY 2009 merit increments and pay for performance impacts as well as to fund actual grade and step of current employees. No funding was included for a market rate adjustment, which based on our current methodology, would have provided an increase of 3.49 percent to our pay scales. The estimated impact of the market rate adjustment would have been $16.1 million. In addition, no further reduction: included in FY 2010 for the continuation of the phased reduction in employee contributions to the Police Retirement system. This adjustment was part of a multi-year plan to make the police benefits package more competitive with surrounding jurisdictions.

- Required increases in employee benefits of $15.5 million primarily associated with increase of $8.9 million in group health insurance costs based on experience and planned rate increases effective January 1, 2010. Fairfax County government offers its employees and retirees several health insurance alternatives. In FY 2010, the Point of Service plan increase is 5 percent, the Preferred Provider Option plan rate increase is 12 percent, the Open Access Plan rate increase is 18 percent and rates for the HMO plan are projected to increase 15 percent. Both the County and the employees will pay the rate increase. Social Security funding reflects a net increase of $2.6 million based on FY 2010 wage levels and to reflect the change in the federally set maximum pay base against which contributions are calculated. Retirement funding (Fairfax County Employees', Uniformed and Police) reflects a net increase of $2.7 million based on County salary levels, and the results of the June 2008 actuarial valuation which reduced the funding ratio in the Employees system.

- The County's required support of the Governmental Accounting Standards Board (GASB) 45 Liability Reserve in the amount of $9.9 million. In FY 2009, this funding was supported by balances available in the Health Benefits Trust Fund. GASB requires local governments to account for and report costs related to other post-employment non-pension benefits (OPEB). As of July 1, 2008, the Annual Required Contribution (ARC) is approximately $25 million. The FY 2010 OPEB contribution of $9.9 million will be used in meeting annual ARC requirements.

- Funding in support of grant programs is increased $2.0 million. In order to secure grant funding, the grantor often requires that a certain percentage of funds be matched from local funding sources. In FY 2010, the total General Fund commitment for Local Cash Match totals $2,962,420. This is a significant increase from the FY 2009 Adopted Budget Plan total of $989,833. It should be noted that the total FY 2009 anticipated need for Local Cash Match was $2,989,833. However, the General Fund commitment for Local Cash Match was reduced by $2,000,000 due to the availability

of Local Cash Match carried over from previous years. Therefore, the FY 2010 funding is actually a decrease of $27,413, or 0.9 percent, from the total FY 2009 anticipated need for Local Cash Match.

- As a result of the deteriorating economy the County has seen a significant increase in the number of people needing assistance as well as in the complexity of the cases that are being presented. To address this rising need, adjustments have been included to support services to residents in need. In many cases these individuals and families are the most susceptible to the economic downturn forcing them from the margin of self sufficiency to requiring assistance for basic needs very quickly. The County's one stop front door for accessing human services, Coordinated Services Planning (CSP), has seen significant growth in requests from the community. In FY 2008, there was a 21 percent increase in daily CSP call volume from FY 2007 as individuals and families sought assistance. In the second quarter of FY 2009 there was an additional 11 percent increase over the same period in FY 2008. So far in FY 2009, 52 percent of the time the daily volume is 400 or more calls while in FY 2007 there were only 5 such days the entire year. In addition, on average 500 new individuals and families that had never contacted Coordinated Services Planning in the past are requesting assistance each month. The County has built an effective safety net in concert with community organizations that needs to be maintained in these difficult times. As County staff in various Human Service agencies grappled with addressing these growing needs a number of specific decisions were made, including:

    - Restoring $2.0 million in Personnel Services funding to the Department of Family Services, Self Sufficiency Division so that case worker positions being held vacant to meet budget requirements can be filled to help address the escalating numbers of people requiring assistance with basic needs such as food stamps, TANF, Medicaid and employment.

    - Holding support for the Consolidated Community Funding Pool to the FY 2009 level rather than considering any reductions.

    - Ensuring that service delivery capacity is not reduced in Coordinated Services Planning by maintaining existing staffing levels directing clients to the most appropriate service options and facilitating emergency assistance.

    - Minimizing adjustments in staffing supporting community organizations.

    - Providing a reserve of $1,000,000 for **e**mergency support for community organizations in the form of one-time grants to community organizations in need of additional assistance as a result of economic stress in order to sustain the organization's operations and provision of services to the community in the short term.

- Debt service requirements for County and Schools increases $6.9 million over the FY 2009 level. The FY 2010 debt service budget has been prepared on the basis of the construction and bond sale limitations set in place by the Board of Supervisors. The transfer increase for debt service is necessary to support the existing level of debt associated with outstanding bonds and recent bond sales in support of the FY 2010 - FY 2014 Advertised Capital Improvement Program (With Future Years to 2019).

- General Fund support of Capital Projects is increased $5.1 million, primarily as a result of the use of balances in FY 2009 which are no longer available to offset FY 2010 requirements. The FY 2010 Advertised Budget Plan includes $20.02 million for Paydown Capital Projects, slightly lower than the FY 2009 Adopted Budget Plan Paydown level of $20.79 million. This funding level is supported by the General Fund in the amount of $15.7 million and $4.3 million in balance based on unexpended revenues. The FY 2010 program enables the County to fund only the most critical capital renewal projects, continue level support of the County's park and school athletic field maintenance programs, park maintenance requirements, maintenance costs associated with Laurel Hill, and fulfills other annual required payments and obligations. Both the FY 2009 and FY 2010 Paydown Programs were developed by conducting a project-by-project review.

  FY 2010 funding includes $6.8 million in capital renewal projects. This level of funding addresses only the most critical projects in category F, those that present safety concerns or where critical systems are in danger of possible failure. FY 2010 funding in the amount of $5.0 million has been included for athletic field maintenance. This level of funding includes General Fund support of $4.0 million and revenue generated from the Athletic Services Fee in the amount of $0.95 million. An effort has been made to provide continuous maintenance to ensure quality athletic fields at acceptable standards and improve safety for users. Maintenance of athletic fields includes: field lighting, fencing, irrigation, dugout covers, infield dirt, aeration, and seeding. Funding of $2.2 million is included for park facilities and ground maintenance. An amount of $2.9 million is provided for property management requirements of the Laurel Hill property and other on-going development efforts. Finally, an amount of $4.1 million is included for costs related to annual contributions, contractual obligations, and revitalization and environmental initiatives.

CIP ISSUES AND BOND CAPACITY

The FY 2010-FY 2014 Advertised Capital Improvement Program (With Future Fiscal Years to 2019) continues 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 ratio of debt to taxable property value is projected to remain less than 3.0 percent and the ratio of debt service to Combined General Fund disbursements is projected to remain less than 10.0 percent. Actual County and School bond sale amounts are based on the cash requirements for each project and municipal bond market conditions.

As with the rest of the budget, the revenue shortfall and projected deficits have prompted an in-depth review of bond program expenditures. Any curtailment or slowdown in growth of General Fund revenues directly impacts the County's ability to support increasing debt service requirements. In addition, as debt service expenditures grow in relation to the rest of the budget, they consume an increasing percentage of overall disbursements, thereby reducing the amount available to fund essential operating programs. The County's self imposed limit of 10 percent is designed to maintain a balance between essential operating program expenditures and those for capital needs while preserving the County's AAA credit rating. The credit rating is vitally important to reduce the overall costs of borrowing and maintain access to the capital markets in this very uncertain and turbulent economic situation. The County estimates that it has saved $390 million in debt service costs since 1978 as a result of its superlative credit quality. Access to the market is vital to maintaining a robust capital program. The County's rating helped ensure placement of over $360 million of notes and bonds since October 1, 2008 at a time when many jurisdictions were frozen out of the capital markets due to the credit crisis.

The FY 2010 CIP does include the deferral of several projects and a slowdown of bond expenditures; however, it is important to note that all projects are still authorized and no project has been eliminated. These adjustments are absolutely necessary for affordability and to position the five year CIP to respond to further potential revenue loss if necessary. The total impact to the County program is a reduction of $52 million over the 5-year CIP period or approximately 10 percent. The total impact to the County and Schools program is a reduction of $87 million over the 5-year CIP period or 6.8 percent.

- Information Technology project funding in FY 2010 totaling $9.5 million which includes a General Fund transfer of $7.4 million, a transfer from Fund 105, Cable Communications, of $1.0 million, and interest income of $1.1 million, is provided to meet contractual obligations and complete planned phases of existing IT projects in Fund 104. The FY 2010 General Fund support is unchanged from the FY 2009 level. Funded projects are critical and will support initiatives in General County Services and Public Safety program areas, and sustain enterprise technology foundation systems and infrastructure. In accordance with the FY 2010 Budget Guidelines, funding requests for Fund 104 IT projects were limited to mandates and existing IT projects requiring a planned funding increment to meet contractual obligations and/or to complete a planned phase. No new IT initiatives were considered. This change from prior years reflects significant limitations on the County's IT program based on the substantial projected budget shortfall in FY 2010.

  County support of Metro contribution and CONNECTOR systems remain at FY 2009 levels. The General Fund Transfer of $7.5 million for the County's Metro contribution represents no change from the *FY 2009 Revised Budget Plan* level. State Aid, fund balance and interest earnings are used to support increases in Metro operations costs. The FY 2010 subsidy requirement for Washington Metropolitan Area Transit Authority (WMATA) Operating Expenses totals $80.8 million, an increase of $9.7 million or 13.7 percent over the *FY 2009 Revised Budget Plan*, due to initial estimated funding requirements obtained from WMATA budget staff in fall 2008. This funding level supports existing Metrorail and Metrobus service levels including $51.5 million for Metrobus and the continuation of Springfield Circulator service started in FY 2001, $20.5 million for Metrorail, and $8.8 million for MetroAccess service.

  The General Fund transfer for County Transit, which reflects the County cost for the CONNECTOR service and the County contribution for the Virginia Railway Express (VRE), is $35.9 million, no increase over the FY 2009 level. Inflationary and expansion increases for FY 2010 have been met through a combination of additional fare revenue, based on the approval of a fare increase effective January 4, 2009 to follow the same structure as WMATA, funding available through the commercial and industrial tax for new routes and services, state aid and fund balance. Total FY 2010 CONNECTOR funding of $81.5 million provides the full year of operations of the new West Ox Bus Operations Center, inflationary increases, expansion costs, and updated pricing associated with the annual bus replacement program.

  In addition, County staff is considering the implementation of parking fees at County-owned park-and-ride lots and VRE parking lots throughout the County. Fees collected would support the on-going maintenance of these facilities, as well as implementing, operating and maintaining the fee collection system.

- Consistent with FY 2009, $20.5 million or the approximate value of one penny on the real estate tax has been included in The Penny for Affordable Housing fund to preserve and create affordable housing opportunities.

- As part of the FY 2010 Baseline Budget, a new service district is proposed to support the stormwater management program, as authorized by Va. Code Ann. Sections 15.2-2400. The proposed FY 2010 levy is $0.015 per $100 of assessed real estate value, an amount that will support both staff operating requirements and stormwater capital projects. Since FY 2006, the Board of Supervisors has dedicated the value of one penny of the real estate tax, or approximately $20 million annually to stormwater capital projects. In FY 2009, due to budget constraints, staff and operating costs were charged to the stormwater penny fund, resulting in approximately $15 million remaining for capital project support. The proposed levy of $0.015 will provide approximately $18 to $20 million in a typical budget year for program implementation of capital projects, an amount roughly equal to the value of the original dedicated penny. The remaining funding from the service district fee will support the staff and operations costs. The proposed effective date of the service district and tax rate is July 1, 2009. Therefore, during the service district's first year, taxpayers will be billed for the second half of calendar year 2009, generating approximately $15 million for both operating and project support in FY 2010. It is anticipated that approximately $5 million will remain unexpended within the current stormwater program in FY 2009 based on project timelines and completion schedules. This funding

will be transferred at year-end to the new service district, in order to support a total stormwater program of approximately $20 million in FY 2010. It is estimated that beginning in FY 2011, the service district will be fully supported by a projected $30 million annually, enabling much needed capital projects to move forward.

Research has indicated that most jurisdictions have, or are proposing, stormwater fees or taxes to ensure a dedicated funding source to address both operation and capital project stormwater requirements. The proposed $0.015 per $100 of assessed value results in approximately $69 annually to the typical homeowner. The service district tax is much less costly for the County to establish, administer and maintain than a stormwater utility. In addition, the service district tax may be deductible from state and federal income tax, offsetting its impact to property owners.

- Funding for the County's Elderly Housing program is increased. The General Fund increase of $500,000 is the result of an award of a new operating contract for the Lincolnia Senior Center and Residences, a 52-bed adult care residence, and increasing maintenance costs at the aging facility. The contract increase reflects an increase of approximately 13 percent and cannot be supported by increased fees from residents whose rents are largely funded through the State auxiliary grant for indigent care which is capped by the State. In addition a number of recent system failures will require additional expenditures in FY 2010 to ensure that systems are operational and meet licensure requirements. A further review of the scope of capital needs is underway for the facility. In addition to the adult care residence, Lincolnia includes a congregate residence of 26 units which provides independent living for senior citizens with limited means, a senior center, an adult day health care center and a congregate meal program for all program participants and residents.

FY 2010 Projected Shortfall Prior to FY 2010 Budget Proposal

As a result of the revenue estimates described above and the baseline funding and managed reserve requirements, as well as the loss of one time balances and balances transferred in from other funds in FY 2009 in the amount of $28.3 million, the FY 2010 County baseline budget was in deficit by $413.6 million. With the addition of the School forecasted shortfall of $218 million, the combined FY 2010 shortfall prior to any balancing proposals was $631.6 million.

Our Process for Meeting Budget Challenges

As part of the FY 2010 Budget Guidelines approved by the Board of Supervisors on April 21, 2008, the Board set forth direction for the County and School system regarding information gathering, analysis, and community engagement around ideas and strategies that may be necessary to balance the FY 2010 budget shortfall. As a result of these directives, several ongoing activities took place simultaneously during Fall 2008 which provided the foundation for the FY 2010 budget proposal.

- Regular updates on the FY 2010 financial forecast and information on the FY 2009 budget were made available to the Board of Supervisors, the School Board and our residents to identify the scope and deepening projected shortfall in FY 2010.

- The Board of Supervisors conducted an extensive and comprehensive Lines of Business (LOBS) review, including focused discussions with County agencies regarding program and service priorities, possible areas for elimination, reduction, reorganization, consolidation, and/or alternative service delivery. Every General Fund and General Fund supported County agency and the School system participated in this review. County agencies were required to present reduction options totaling 15 percent over the course of 9 meeting days through the fall. In addition and through joint resolution, the School Board also shared in this process and also undertook a review of School spending which was presented to the Board of Supervisors on November 14, 2008. Presentations included many proposals for efficiency and cost-saving initiatives, reductions in levels of service, and alternative recommendations for use of other funding streams. Materials presented at the meetings, including proposed reductions, have been posted on the County's website.

- In a cooperative effort between the County and Schools, a series of Community Dialogues on the Budget and employee brown bag sessions were held between September and December to engage our residents and employees in the discussion of what Fairfax County's priorities should be during difficult economic times. Nearly 1,000 residents and employees attended the 20 Community meetings and 5 employee sessions and provided excellent information and suggestions for the development of the FY 2010 budget. This extensive process on the County's budget was comprehensive and occurred at an earlier juncture than in any budget cycle in recent memory.

- In addition, employee surveys, online and telephone forums for public questions, suggestions, and comments were set up. As of January 2009, nearly 2000 distinct comments via telephone and web submission have been processed. The topic areas that have garnered the most comments include the Schools, compensation, taxes, community and recreation services, overall expenditures, and health. These comments are posted on the County's web site in addition to responses to the Board's budget questions and frequently asked resident questions and suggestions.

From this wealth of information, suggestions, ideas and comments, the FY 2010 budget proposal was developed, presenting a budget strategy that strikes a balance between expenditure reductions and revenue enhancements and shares the burden of the reductions between the County and the Schools.

The FY 2010 Budget Proposal

Summary

The FY 2010 Advertised Budget Plan, as proposed, totals $5,839,237,244 including General Fund Disbursements of $3,313,476,563, which represents a decrease of $127.4 million or 3.70 percent from the *FY 2009 Revised Budget Plan* and a decrease of $39.1 million or 1.17 percent from the FY 2009 Adopted funding level. Direct General Fund Expenditures total $1,192,499,108 and reflect a decrease of $112.6 million or 8.63 percent from the *FY 2009 Revised Budget Plan* and a decrease of $43.8 million or 3.54 percent from the FY 2009 Adopted Level. The total non-School related portions of the FY 2010 proposed budget total $1,523.1 million, a decrease of $48.3 million or 3.1 percent from the FY 2009 Adopted level. The FY 2010 Budget Proposal includes County spending reductions of $106.4 million, including the elimination of 524 County merit positions.

The General Fund transfer in support of Fairfax County Public Schools operations has been held at the FY 2009 level of $1.627 billion. It should be noted that the actual transfer request approved by the School Board on February 5, 2009 is $1.683 billion, an increase of $56.8 million or 3.5 percent over the FY 2009 Adopted Budget Plan transfer. In addition to the operating transfer of $1.627 billion, $163.8 million is included for School Debt Service to fund school bond sales for school construction, for a total in transfers of $1.790 billion. This represents 54 percent of total General Fund Disbursements. The County also provides additional support for the Schools for programs such as Head Start, School Health, School Resource Officers, School Crossing Guards, after-school programming, field maintenance and recreational programs, among others. The FY 2010 budget proposal is based on a Real Estate Tax rate of $1.04 per $100 of assessed value and includes revenue enhancements of $12.6 million.

Summary General Fund Statement

(in millions of dollars)

	FY 2008 Actuals	FY 2009 Revised Budget Plan	FY 2010 Advertised Budget Plan	Inc/(Dec) Over Revised	% Inc/(Dec) Over Revised
Beginning Balance [1, 2]	**$184.20**	**$159.47**	**$71.82**	**($87.65)**	**(54.96%)**
Revenue [1]	$3,295.61	$3,282.16	$3,296.31	$14.15	0.43%
Transfers In	$2.53	$11.09	$11.62	$0.53	4.76%
Total Available	**$3,482.34**	**$3,452.72**	**$3,379.75**	**($72.97)**	**(2.11%)**
Direct Expenditures	$1,202.90	$1,305.06	$1,192.50	($112.56)	(8.63%)
Transfers Out					
School Transfer [3]	$1,586.60	$1,626.60	$1,626.60	$0.00	0.00%
School Debt Service	147.86	154.63	163.77	9.14	5.91%
Subtotal Schools	*$1,734.46*	*$1,781.23*	*$1,790.37*	*$9.14*	*0.51%*
Metro	$20.32	$7.51	$7.51	$0.00	0.00%
Community Services Board	100.32	103.78	95.50	(8.28)	(7.97%)
County Transit Systems	34.67	35.87	26.51	(9.36)	(26.09%)
Capital Paydown	25.63	21.91	15.03	(6.88)	(31.40%)
Information Technology	12.36	13.52	7.38	(6.14)	(45.42%)
County Debt Service	113.37	113.17	110.93	(2.25)	(1.98%)
Other Transfers	78.84	58.83	67.75	8.92	15.16%
Subtotal County	*$385.51*	*$354.59*	*$330.61*	*($23.98)*	*(6.76%)*
Total Transfers Out	$2,119.97	$2,135.82	$2,120.98	($14.84)	(0.69%)
Total Disbursements	**$3,322.87**	**$3,440.88**	**$3,313.48**	**($127.40)**	**(3.70%)**
Ending Balance	**$159.47**	**$11.84**	**$66.27**	**$54.44**	**459.50%**
Less:					
Managed Reserve	$67.67	$68.82	$66.27	($2.54)	(3.70%)
Reserve for Board consideration as part of the FY 2009 budget [4]	22.46				
Revenue audit adjustments [1]		1.25			
Anticipated *FY 2009 Third Quarter Review* adjustments [5]		(58.23)			
Total Available	**$69.34**	**$0.00**	**$0.00**	**$0.00**	**-**

[1] In order to appropriately reflect actual revenues received and revenue growth rates, FY 2008 actual revenues are increased $1.25 million to reflect audit adjustments as included in the FY 2008 Comprehensive Annual Financial Report (CAFR). As a result, the FY 2009 Revised Beginning Balance reflects a net increase of $1.25 million based on this increase in revenues. Details of the FY 2008 audit adjustments will be included in the FY 2009 Third Quarter Package. It should be noted that this amount is held in reserve in FY 2009 to offset anticipated reductions as part of the *FY 2009 Third Quarter Review*.

[2] As a result of Board of Supervisors actions on April 21, 2008 to mark-up the FY 2009 Budget, a balance of $165,753 was available and was carried forward for FY 2009 requirements or FY 2010 budget development. As a result of actions taken as part of the *FY 2008 Carryover Review*, a total of $12.4 million, including the $165,753 balance, was appropriated and set aside in reserve in Agency 87, Unclassified Administrative Expenses, for FY 2010 budget development. It should be noted that the FY 2010 Beginning Balance assumes the carryover of $3.0 million from these reserves in order to balance the FY 2010 budget.

[3] The proposed County General Fund transfer for school operations in FY 2010 totals $1,626,600,722, a 0.0 percent increase over the FY 2009 Adopted Budget Plan level. It should be noted that the actual transfer request approved by the School Board on February 5, 2009 reflects a General Fund transfer of $1,683,372,525, an increase of $56,771,803, or 3.5 percent, over the FY 2009 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. This reserve was utilized to balance the FY 2009 Adopted Budget Plan.

[5] Adjustments totaling a net reduction of $58.23 million are anticipated to be made as part of the *FY 2009 Third Quarter Review* as a result of a loss in revenue as outlined by the County Executive in a memorandum to the Board of Supervisors on October 14, 2008.

FY 2010 Spending Reductions

The FY 2010 Budget Proposal includes reductions in County spending totaling $106.4 million. These reductions impact all areas of County government. The reduction plan takes into consideration the following:

- All reduction proposals were reviewed and evaluated. These proposals were put forth by County agencies after extensive analysis and professional assessment. They represented creative and innovative approaches to make service delivery more efficient and sought to preserve core County services and those services which protect the health and welfare of County residents. In total, $78.1 million in suggested reductions have not been included in the FY 2010 Spending Reductions proposal. While all the proposed adjustments had negative impacts, these suggestions held significantly adverse impacts for County residents and programs. Items which were not included in the proposal include the closing of fire and police stations, elimination of the entire clinic room aide program, closing of the Boy's and Girl's Probation Houses, and elimination of the Crossroads Adult Substance Abuse Residential Treatment Program. In some cases, alternatives to the proposed reductions were considered and recommended in place of the original proposal based on consultation with agencies. In other instances, additional reductions have been recommended as a result of budget discussions with the senior leadership team.

- The recommended spending reductions were surgically made across County departments and programs. Recognizing that some services are fundamental to the County's core mission, additional reductions were recommended in lower priority programs after first considering any opportunities for efficiency that would have avoided service reductions.

- In some agencies, unavoidable cost requirements limited the ability for full reductions. In the Office of Capital Facilities, for example, the electricity costs of all publicly-owned streetlights in the County make up 64 percent of the total agency budget. Other than turning off streetlights, which is a long term process that would not have generated savings for FY 2010, there were few options for reductions. Likewise, approximately 46 percent of the Department of Finance's budget goes to Information Technology and audit-related charges. These IT-related charges help support the County's financial system used by every County and School program and preclude significant reductions in this area.

- The delivery of County services relies on a strong and efficient administrative infrastructure. Investment in these behind-the-counter functions ensure that the organization is well trained, managed, and developed with the tools and equipment necessary to deliver services to the community. Financial and support systems and staff must continue to be funded to support the work of all County departments. Reductions have been made in the areas of finance, human resources, purchasing, budget, information technology and other internal departments but the programs that support business continuity, security, accountability and performance will continue. Likewise, administrative staff within agencies have been reviewed and many reductions have been included. However, staff must be available to process payments, manage payroll, monitor budgets and support desktop technology.

- The proposed reductions include program eliminations, program efficiencies and program restructuring to streamline and consolidate services and facility closure/reduced service hours or service levels. Many of the proposed reductions impact County employees in areas such as training, uniforms, etc. A large number of proposed reductions reflect suggestions received during the Community Dialogue and Brown Bag meetings with employees.

    - ***Program Elimination***: Examples include; elimination of the Supervised Visitation and Exchange program, elimination of the Hospital-Based Medical Detoxification services, elimination of staffing for the County's Watch Center; elimination of the *Seniors on the Go!* transportation program, and elimination of the County's Publications Desk/Gift shop.

- ***Efficiencies and Restructures***: Examples include assorted management and administrative positions, outsourcing of delinquent personal property and BPOL collections, consolidation of Planning Commission support in Department of Planning and Zoning; and revised vehicle replacement schedules.

- ***Facility closure/reduced service hours/level***: Examples include reduced library and CONNECTOR hours, and the closure of Groveton Senior Center, the David R. Pinn Community Center, and the Western Fairfax (Chantilly) Outpatient clinic site.

- ***Employee related reductions***; Examples include elimination of cash awards for most employee awards programs, reductions of employee training funding, elimination of the Magistrate pay supplement, reduction of employer contribution to health insurance premiums for part-time employees and elimination of the Police Cadet program.

- ***Public/Employee Suggestions***: Examples include elimination of the printed *Courier* - an employee newsletter, various energy saving measures, and changes in the County's computer replacement program.

- The Proposed Spending Reductions result in the elimination of 524 regular merit positions in Fairfax County and the equivalent of over 800 positions when including those positions funded through limited term dollars. The proposals did not specifically target vacant positions but a number of position cuts reflect positions that have been held vacant and are in areas where lower level of staffing can be sustained for an extended period. Unfortunately, approximately 400 of the positions recommended for reduction are currently filled. This will require the implementation of a Reduction in Force (RIF). The RIF process is primarily seniority-based and considers total length of continuous paid merit County/Schools service. A sequence of transfers and demotions will occur as RIFed employees are placed in available vacant positions. Because agency salary budgets have experienced across-the-board reductions over the past few fiscal years, funding is not available to fill many vacant County positions, reducing the number of placement opportunities for RIFed employees. It is anticipated that a number of employees will ultimately be separated from service in the County. The County's current severance policy provides between 3 to 6 weeks of severance pay based on years of service. In addition, staff will be asking that the Board approve funding to support the continuation of health insurance benefits for impacted employees. In addition, employees who are laid off will be eligible for unemployment compensation and the County Executive's proposal includes an increase for unemployment compensation funding based on anticipated requirements. Employees who are demoted or laid off under the RIF procedures will be eligible for re-employment for two years from date of lay off or demotion. As a result of the 524 position reductions included in the FY 2010 budget, the ratio of positions per 1,000 citizens decreases to 10.97. Since FY 1992 this ratio had decreased by 19.2 percent, from 13.57 to 10.97 as a result of the abolishment of over 2,500 positions through various redesigns and reduction exercises. The County position count has increased during this period by 244 positions while population grew by over 200,000.

- The FY 2010 Budget proposal eliminates pay for performance, merit increments and longevity step increases for County employees and the associated fringe benefit funding for a total savings of $19.1 million. This measure, as well as the elimination of any salary scale adjustments as included in the Baseline budget, will result in no pay increase for any County employee during FY 2010. It should be noted that the reduction in the pay for performance and merit increases in the FY 2010 will also have an impact on employees in terms of the calculation of their retirement. The County is not making an adjustment to the retirement calculation to compensate for this impact.

- The FY 2010 Budget proposal utilizes $6.0 million in FY 2009 balances including $3.0 million in balances identified as part of the *FY 2008 Carryover Review* and $3.0 million in balances identified in the McConnell Public Safety and Transportation Operations Center (MPSTOC) project that can be utilized to reimburse the General Fund.

The FY 2010 Proposed Spending Reductions are summarized in the "Recommended Adjustments" section of this volume.

FY 2010 Proposed Transfer for School Operations

No reductions are proposed in the County transfer to the Fairfax County Public Schools. The County General Fund transfer for school operations in FY 2010 totals $1,626,600,722, the same as the FY 2009 level. It should be noted that the actual transfer request approved by the School Board is $1,683,372,525, an increase of $56.8 million, or 3.5 percent over the FY 2009 Adopted Budget Plan transfer. It is clear that at the proposed transfer level, the Schools will be required to make difficult reductions to their programs. However, combined with the transfer for School debt service, the County's support for the school system is $1.790 billion which equals 54 percent of the total County budget. In fact, the Schools share of the County budget has increased from 51 to 54 percent reflecting the continued priority of public education in our community.

In addition to the direct transfers in support of the Schools, the baseline budget provides additional support in programs such as the Comprehensive Services Act (CSA), Head Start and School-Age Child Care, School Health including Public School Nurses and Clinic Room Aides, School Crossing Guards and School Resource Officers, after-school programming in middle schools, field maintenance and recreational programs and services provided by the Fairfax-Falls Church Community Services Board. Many of the recommendations included in County Spending Reductions will impact these services; however, the core components of these programs will remain.

A transfer of $163,767,929 is provided for School Debt Service, which is an increase of $9,134,754 or 5.9 percent over the FY 2009 level and will support current and projected School bond debt service. It should be noted that, as part of the recommendations for the Capital Improvement Program (CIP), projected sales of School Bonds will be reduced from $155 million per year to $140 million in FY 2010 through FY 2012 and increased from $130 million per year to $140 million in 2013 and 2014, for a total of $700 million over the 5-year CIP period. Bond program reductions for both the County and Schools programs are necessary to maintain debt service expenditures within established policy limits in light of declining future revenue projections.

FY 2010 Revenue Strategies

Developing the FY 2010 budget proposal required reviewing very difficult choices between service reductions and tax increases. This FY 2010 budget proposal includes both. For FY 2010, the Real Estate Property tax rate is recommended to increase at a rate which will hold residential taxpayers payments relatively level.

Real Estate Tax Rate:

Increasing the Real Estate Property tax rate by $0.13 per $100 of assessed value is required to balance the FY 2010 budget as proposed. Since one penny of the FY 2009 rate of $0.92/$100 assessed value was dedicated to support stormwater management activities, the tax rate basis for all County activities absent the stormwater management program was $0.91/$100 assessed value. Therefore, a Real Estate tax rate of $1.04/$100 assessed value is recommended. The current value of the real estate penny is valued at $20.54 million. As a result of the decline assessments offset by the tax rate of $1.04/$100 assessed value, the average tax per household will decrease $55.24 from its FY 2009 tax payment level.

The FY 2010 Proposed Budget recommends the implementation of a Stormwater Service District with a service district tax rate of $0.015 per $100 of assessed value, which combines the existing penny dedicated to stormwater management and adds one half cent on the rate to support increases based on operating and construction requirements.

At this tax rate, and combined with the new Stormwater Management Service District tax rate of $0.015 per $100 of assessed value, the average taxes paid per household in FY 2010 will reflect a slight increase of $2.16 or $13.64 with the full year of the district in FY 2011.

Other Revenue/Fee Enhancements

The FY 2010 Budget Proposals includes a series of revenue enhancements totaling $12.6 million. These increased fees and charges are based on actual costs of service provision, are comparable to rates in our neighboring jurisdictions and are consistent with suggestions from our residents, employees and agencies on budget alternatives. The fee and charge increases are in addition to savings initiatives in these programs and will facilitate retaining these important programs. These enhancements include:

- $5.5 million in Land Development Services building and inspection fees
- $2.0 million in zoning fees
- $1.5 million in penalties for late payment of Personal Property Taxes
- $1.3 million in School-Age Child Care (SACC) fees
- $0.6 million in Alarm Ordinance Violations
- $0.5 million in fire permits, overtime testing fees, and faulty fire alarms
- $0.3 million in Health Department fees
- $0.2 million in library charges
- $0.2 million in facility rental fees
- $0.1 million in fees charged for field use by non-County residents
- $0.1 million in transportation fees for the summer Therapeutic Recreation Program
- $0.1 million in alarm registration fees
- $0.1 million in fees charged for criminal history records
- $0.02 million in taxes on vehicles without a valid Virginia license plate

With the proposed General Fund Real Estate tax increase of 12 cents and other revenue enhancements totaling $12.6 million, total General Fund revenue is anticipated to be $3.296 billion, an increase of 0.4 percent over FY 2009.

The FY 2010 County Executive's Advertised Budget includes an increase in the Athletic Services Application Fee. The organization or group application fee will increase from $5.50 to $13.00 per participant per season. The tournament (from $15 to $35 per team) and one-time use (from $50 to $120 per facility per day) application fees will increase proportionally as well. This increase is proposed to be effective July 1, 2009 and will be used to help offset required programmatic reductions based on the FY 2010 Lines of Business Review, and additional program costs. These additional program costs include creation of a synthetic turf field replacement fund, additional maintenance to keep pace with increased field amenities, and increases in custodial support for indoor sports to keep pace with increased FCPS fees. In addition to the application fee increases, the proposal includes an increase in the adult out-of-County fee from $20 to $30 per participant per season, and the implementation of a youth out-of-County fee that would total $30 per participant per season as well. Of the new revenue associated with the application fee increase ($1,450,000) and out-of-County fee increase ($115,000), approximately 60 percent will fund required reductions and approximately 40 percent will support additional program costs.

Other Revenue Recommendations to Provide Board with Flexibility during Budget Deliberations

To give the Board flexibility in its deliberations of the FY 2010 Budget, I am recommending that the Real Estate tax rate be advertised at $1.07 per $100 of assessed value. As you know, the adopted rate can always be lower than this rate, but the rate cannot be raised above this level once a rate is advertised. The additional 3 cents on the real estate tax rate would provide the Board with nearly $62 million in additional revenue which may be an option in place of some of the reductions with the most negative impacts. At a rate of $1.07 per $100 of assessed value, the average tax per household would be $82.52 more than the FY 2009 level. At this tax rate, and combined with the new Stormwater Management Service District tax rate of $0.015 per $100 of assessed value, the average taxes paid per household for the full year would reflect an increase of $151.41.

In addition, I am recommending that the Board advertise a vehicle registration fee of up to $33 for most passenger vehicles (vehicles over 4,000 pounds could pay up to $38). At the State maximum allowed rates, the fee could generate a projected $27 million in FY 2010.

FY 2011 Forecast and Future Work

Even as the budget proposal for FY 2010 is released, work is underway on strategies, methodologies and framework for the FY 2011 budget to best position the County to effectively manage and respond to the ongoing fiscal challenges and realities before us. While it is anticipated by many economists that the national and regional economy may begin to improve by summer 2009, there is nevertheless a lag before improvements in the real estate market and business cycle are able to rebound and restore improved flows in the County's revenue streams. Consequently, County revenue in FY 2011 is anticipated to be down approximately 3.0 percent from the FY 2010 level. Therefore, even if all County and School spending does not increase, the FY 2011 shortfall resulting from the reduced revenue would be approximately $110 million. Subsequently, continued focus must remain on further developing and executing cost-effective strategies to reduce FY 2011 budget requirements. In order to continue successfully managing and navigating the challenges posed by FY 2011, it will be necessary to further reduce agency budgets and recalibrate service levels to maintain an equilibrium between expenditures and revenues to right size County services and programs. Some of the specific management reviews and critical analysis for FY 2011 will focus on:

- Monitoring the impacts of FY 2010 service reductions and funding adjustments to insure sufficient and adequate service levels, especially in mission critical areas

- Evaluating and streamlining FASTRAN services

- Reviewing and implementing more opportunities for further County/School consolidation or cooperation initiatives. County and School Board and staff have already initiated a review of potential opportunities for additional savings.

- Reviewing regional organizations to which the County belongs to ascertain opportunities for savings and reductions as well as assess alternative service delivery models based on regional approaches. Fairfax County's neighboring jurisdictions have similar fiscal challenges and consequently there may be opportunities for shared services and reduced costs.

- Continuing to develop agency cost saving strategies including redesign, reorganization and restructuring agency programs and services.

- Examining the County's compensation system in terms of providing employees with pay increases during FY 2011.

In addition, staff will be reviewing the requirements placed on the County's retirement system as a result of the economic downturn. As the County continues to address increasing benefit costs, the volatility of the stock market and uncertainty about future funding flexibility, it is an opportune time to examine and refine a number of policies related to the County's retirement systems:

- The first of these policies involves the application of an ad-hoc cost of living adjustment (COLA) increase by the respective retirement systems. Since there is a direct impact on the employer contribution rate as a result of the application of a COLA, staff will be evaluating best practices and looking at policy options to potentially adjust the annual calculation of COLA in combination with the elimination of the ad-hoc approach which is typically outside of the annual budget decision-making process. Pending this review, it is advisable and prudent that the retirement boards forgo any ad-hoc COLAs since no funding will be available in FY 2011.

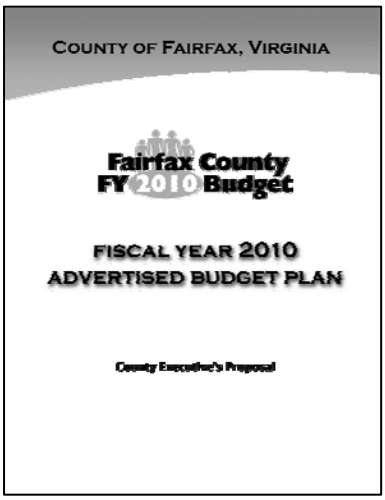
- As part of the annual actuarial valuation of the retirement systems, funding decisions have been made in recent years based on a funding corridor representing 90 to 120 percent of full funding of the systems. After experiences of a number of years related to this approach, it is time to reexamine the funding philosophy for potential adjustment in future years. The examination of the philosophy will include maintenance of the objective of reducing the need to dramatically change contribution rates from year to year but also recognize that the breadth of the current structure makes movement to 100 percent funding more difficult.

The FY 2010 Budget Format

The FY 2010 budget is presented in several volumes. Some of these volumes are slightly different than those normally published due to the Lines of Business review process that took place during the preparation of this budget. A brief description of each document is summarized below:

The Citizen's Guide to the Budget includes a summary of the key facts, figures and highlights of the budget. In FY 2010, this document has been expanded to include brief impact summary statements on all of the reductions proposed by the County Executive as part of his proposed FY 2010 budget.

FY 2010 Baseline Budget. This document presents the **General Fund** budget (Volume 1) and **Capital Construction and Other Operating Funds** (Volume 2). These volumes have been combined for the FY 2010 process, and are included in a single binder. These documents are reflective of a "baseline" budget, meaning that funding for General Fund and General Fund supported agencies reflects the FY 2009 cost of doing business plus the cost of FY 2010 salary adjustments that would be necessary to support the County's current compensation program. It should be noted that figures in this volume do not include any of the proposed reductions highlighted in the Overview Volume and the Citizen's Guide. Detailed budget information is presented by agency/fund, including organizational charts, goals, objectives and performance indicators. This volume also details information associated with Fairfax County funding for Contributory Agencies.



The FY 2010 Advertised Budget: County Executive's Proposal summarizes the budget, thereby allowing a complete examination of the budget through this document. This volume includes the County Executive's message to the Board of Supervisors; budget highlights; and summary documents on the County's fiscal condition, its allocation of resources, financial history, and projections of future revenues and expenditure requirements. In FY 2010, this document has been expanded to include detailed impact statements on all of the reductions proposed by the County Executive as part of his proposed FY 2010 budget. It also includes a list of proposed revenue enhancements and a recommended tax rate increase which, coupled with the proposed expenditure reductions, results in the executive recommended balanced budget proposal for FY 2010.

Capital Improvement Program – The County also prepares and publishes a five-year Capital Improvement Program (CIP) – separate from the budget – which is also adopted by the Board of Supervisors and published as a separate document. The CIP specifies capital improvements and construction projects which are scheduled for funding over the next five years in order to maintain or enhance the County's capital assets and delivery of services. In addition, the CIP also describes financing instruments or mechanisms for those projects. Financial resources used to meet priority needs as established by the CIP are accounted for in the Capital Project Funds. The primary type of operating expenditure included in the budget relating to the CIP is funding to cover debt service payments for general obligation bonds or other types of debt required to fund specific CIP projects. In addition, the cost of opening and operating new facilities is closely linked to the CIP.

Tax Rate and Fee Adjustments for FY 2010

FY 2010 tax rates and/or levies are summarized in the following chart:

Type	Unit	FY 2008 Actual Rate	FY 2009 Actual Rate	FY 2010 Advertised Rate
Real Estate	$100/Assessed Value	$0.89	$0.92	$1.04
Personal Property	$100/Assessed Value	$4.57	$4.57	$4.57
Commercial Real Estate Tax for Transportation	$100/Assessed Value	NA	$0.11	$0.11
Stormwater Service District	$100/Assessed Value	NA	NA	$0.015
Leaf Collection	$100/Assessed Value	$0.015	$0.015	$0.015
Refuse Collection	Household	$330	$345	$345
Refuse Disposal	Ton	$52	$57	$60
Solid Waste – Energy/Resource Recovery Facility	Ton	$33	$32	$31
Solid Waste Landfill Ash Disposal	Ton	$11.50	$11.50	$13.50
Sewer Availability Charge	Residential – Single Family	$6,506	$6,896	$7,310
Sewer Availability Charge	Residential –Townhouses/Apts.	$5,205	$5,517	$5,848
Sewer Availability Charge	Residential – Hotels/Motels	$1,627	$1,724	$1,827
Sewer Availability Charge	Non-Residential	$337	$357	$378
Sewer Service Base Charge	Per bill	$0	$0	$5
Sewer Service Charge	1,000 Gallons	$3.74	$4.10	$4.50
McLean Community Center	$100/Assessed Value	$0.028	$0.026	$0.024
Reston Community Center	$100/Assessed Value	$0.047	$0.047	$0.047
Burgundy Village Comm. Center	$100/Assessed Value	$0.020	$0.020	$0.020
Integrated Pest Mgmt. Program	$100/Assessed Value	$0.001	$0.001	$0.001
Athletic Services Application Fee	Per participant per team per league season	$5.50	$5.50	$13.00

Other Revenue/Fee Enhancements

The FY 2010 Budget Proposals includes a series of revenue enhancements totaling $12.6 million. These increased fees and charges are based on actual costs of service provision, are comparable to rates in our neighboring jurisdictions and are consistent with suggestions from our residents, employees and agencies on budget alternatives. The fee and charge increases are in addition to savings initiatives in these programs and will facilitate retaining these important programs. These enhancements include:

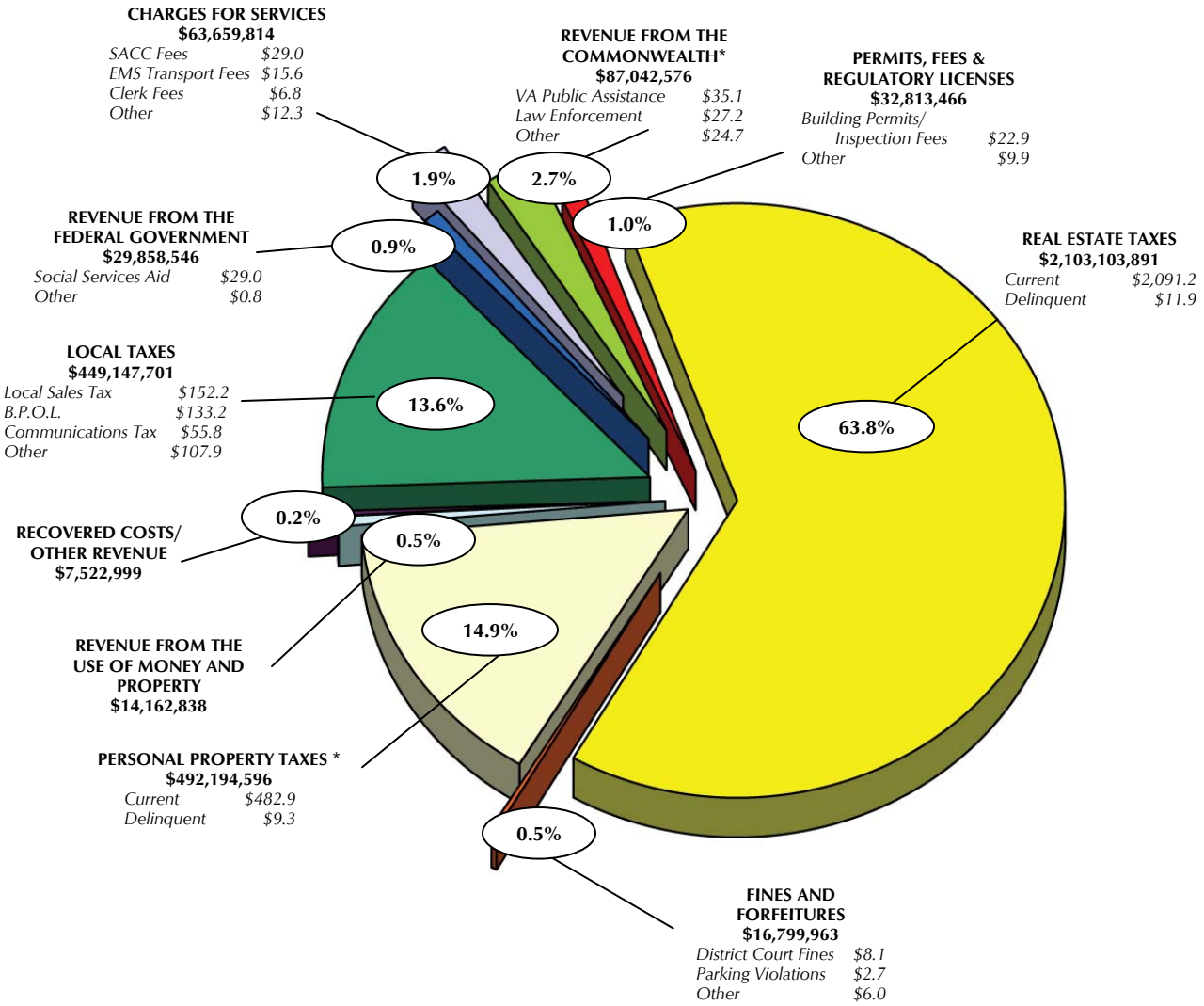
- $5.5 million in Land Development Services building and inspection fees
- $2.0 million in zoning fees
- $1.5 million in penalties for late payment of Personal Property Taxes
- $1.3 million in School Age Child Care (SACC) fees
- $0.6 million in Alarm Ordinance Violations
- $0.5 million in fire permits, overtime testing fees, and faulty fire alarms
- $0.3 million in Health Department fees
- $0.2 million in library charges
- $0.2 million in facility rental fees
- $0.1 million in fees charged for field use by non-county residents
- $0.1 million in transportation fees for the summer Therapeutic Recreation Program
- $0.1 million in alarm registration fees
- $0.1 million in fees charged for criminal history records
- $0.02 million in taxes on vehicles without a valid Virginia license plate

FY 2010 ADVERTISED BUDGET PLAN
GENERAL FUND REVENUES

FY 2010 revenues are projected to be $3,296,306,390, an increase of $14,146,058 or 0.43 percent over the *FY 2009 Revised Budget Plan*. The net increase over FY 2009 is due primarily to an increase in Real Estate Tax revenue and Permits, Fees, and Regulatory Licenses partially offset by decreased Personal Property Taxes, Interest on Investments, and State Aid. Growth in Real Estate Tax revenue is the result of a decrease of 9.95 percent in the assessment base offset with a Real Estate Tax rate of $1.04 per $100 of assessed value. FY 2010 revenue represents the Baseline Budget and proposed revenue adjustments.

$3,296,306,390 **

(subcategories in millions)



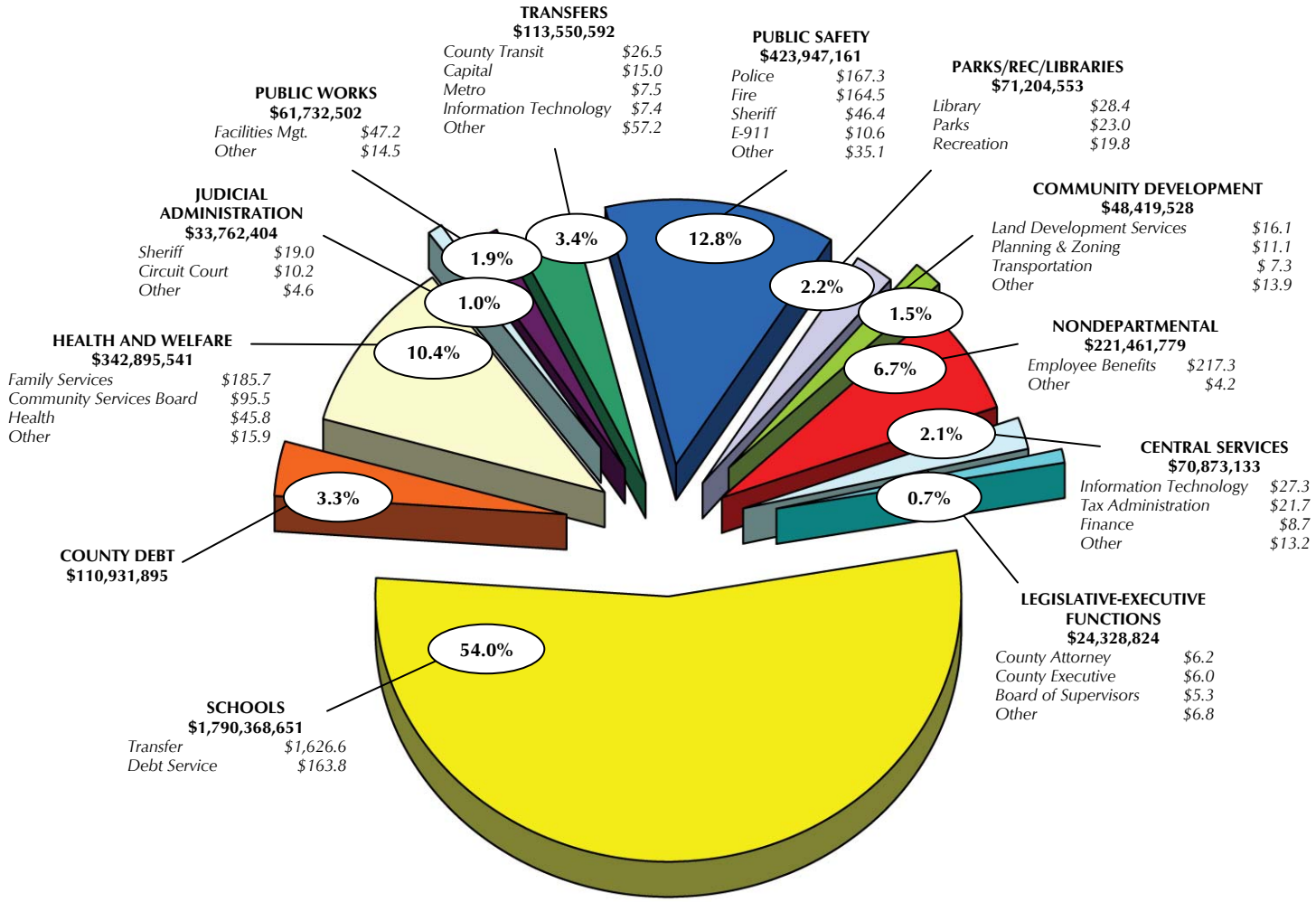
* For presentation purposes, Personal Property Taxes of $211,313,944 that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property Taxes category.

** Total County resources used to support the budget include the revenues shown here, as well as a beginning balance and transfers in from other funds.

FY 2010 ADVERTISED BUDGET PLAN
GENERAL FUND DISBURSEMENTS

FY 2010 disbursements total $3,313,476,563, a decrease of $127,401,110 or 3.70 percent from the *FY 2009 Revised Budget Plan* amount of $3,440,877,673. Excluding adjustments in the current year of $88.3 million, the actual decrease from the FY 2009 level is $39.1 million or 1.17 percent. The County General Fund transfer for school operations in FY 2010 totals $1,626,600,722, which is equivalent to the FY 2009 Adopted Budget Plan transfer. In addition, the County's contribution to School Debt Service for FY 2010 is $163,767,929, reflecting an increase of $9,134,754 or 5.91 percent over the FY 2009 level.

General Fund Direct Expenditures total $1,192,499,108 and reflect a decrease of $112,562,971 or 8.63 percent from the *FY 2009 Revised Budget Plan*.

$3,313,476,563

(subcategories in millions)