County of Fairfax, Virginia

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

February 22, 2011

Honorable Board of Supervisors
County of Fairfax
Fairfax, Virginia

Chairman and Board Members:

Each budget year brings its own unique challenges. Since the recession began in December 2007, this year marks the third consecutive year in which our budget forecast projected a multi-million dollar shortfall. While these projected shortfalls have progressively lessened in severity, the corresponding challenges for our decision-makers are increasing. Over the past two years, we have cut General Fund and General Fund supported spending by more than $180 million and we have eliminated nearly 500 positions. In fact, our Fiscal Year 2011 budget is over $40 million less than the adopted budget of FY 2009. We have worked hard to make strategic reductions in County spending while maintaining the high quality of our most critical services. We have continually sought out opportunities to make organizational change to streamline our government, find efficiencies to reduce operational costs, and identify further reductions to lower the cost of providing services. We have conscientiously sought to maintain a consistent level of taxes for our residents and businesses, recognizing that the economic downturn has had negative impacts on them as well, but that a financially strong County government provides the foundation for economic stability for all. This array of strategies has not been easy to accommodate or achieve, but thankfully through the collaborative work of our residents, elected officials and staff, we are emerging from the ravages of the recession as well as can be expected.

At the same time, the downturn in the local economy over the past several years has resulted in an upsurge in demand for many County services, especially in the arena of human services. Many members of our community have turned to us in need, so while our resources are diminished, the need for help is greater than ever. These challenges are not unique to Fairfax County, as many state and local governments wrestle with these same problems. This budget continues to feature reductions in operating costs and program funding, both in terms of agency reductions and in savings and efficiencies from reorganization. Yet, this budget does not include any significant program eliminations or Reduction-in-Force (RIF) procedures as was necessitated by expenditure cuts in FY 2010 and FY 2011. Perhaps more significantly, this budget does not provide for any County-supported expansion or increase in service, does not provide for any increases in compensation for our employees, and provides for only limited funding to support our infrastructure.

Despite significant reductions in program funding and personnel, our staff has continued to perform great work under less than ideal circumstances. Perhaps what has impressed me the most over the past two years is the dedicated and professional spirit and attitude of our employees who in the face of employee compensation freezes, have continued to strive to do the right things in the right way while being conscious to spend wisely and maximize and leverage resources prudently. Over the past year, our staff has won numerous state and national awards for excellence. These achievements epitomize the caliber and quality of the men and women who work for our residents every day. It is gratifying to see that the rest of the nation recognizes the excellent work that our staff does. While we do not yet have the financial resources to provide a restoration of pay increases for our staff for this excellent work, this budget continues to include funding for retirement and health benefits requirements. I also continue to support increases in employee compensation as soon as funding is available.

The FY 2012 budget recommendations present a balanced, no expansion budget. The FY 2012 budget recommendation includes no tax rate increase. Instead, the moderate growth in our revenue base is sufficient to cover our operational requirements. We have held spending to a minimum, covering only required increases, and allowing for no compensation increases and only limited infrastructure investments. In many respects, this is a bare-bones budget which enables us to fulfill our minimum fiscal obligations and ensures the funding of essential services and core functions necessary for the continuity of our operations. With strategic decisions by the Board of Supervisors in setting aside available funding at the end of FY 2010 and during FY 2011, we have generated nearly the same level of balances as used in the FY 2011 budget. These balances are important to fill the continuing gap between our revenue base and disbursement requirements. The result of these recommendations is an available balance of $30 million. My proposal includes a number of recommendations for the use of this balance, including retaining it for use in the FY 2013 budget.

FY 2012 Budget Summary

Projected increase in Revenues And Transfers In	$103 mil
Required Disbursements increase	($68 mil)
Change in Balances	($5 mil)
Available Balance	**$30 mil**

While this budget recommendation primarily focuses on FY 2012, it is also necessary to adopt and maintain a longer range approach to deal with future challenges and opportunities. Therefore, this balanced budget proposal is built upon a foundation of effective strategies and approaches to maintain long-term financial sustainability and stability and steers away from choices that may result in future structural imbalances.

We are cautiously optimistic that County revenues will continue to experience positive growth. However, we are not out of the woods yet. As most experts readily admit, it is almost certain that we will continue to see some mixed signals and periodic fluctuations in the economic indicators as well as other bumps on the road to economic recovery. Perhaps the best that can be said is that we have hit bottom and are now digging our way out of the hole caused by the "Great Recession."

FY 2012 Budget Summary

The FY 2012 Advertised Budget Plan totals $6,099,305,889, including General Fund Disbursements of $3,376,351,675, a decrease of $17,909,818 or 0.53 percent from the *FY 2011 Revised Budget Plan* and an increase of $68,232,761 or 2.06 percent over the FY 2011 Adopted Budget Plan. Funding increases in this budget are minimal and are tied to required disbursement allocations to fund infrastructure-related obligations for capital and IT-related projects, contract rate increases, County insurance, Metro/CONNECTOR increases, and benefit-related increases.

The recommended General Fund Transfer to Schools this year is equal to the level of funding given in the FY 2011 Adopted Budget Plan. Consequently, this funding level continues to reflect education as our highest priority and is consistent with the percentage proportion allocated to FCPS over the past few years at 52.5 percent. The proposed County General Fund transfer for school operations and debt service in FY 2012 totals $1,773.8 million, an increase of $2,761,538, or 0.16 percent, over the FY 2011 Adopted Budget Plan. Within this amount, the transfer for School operations remains at the FY 2011 level of $1,610.3 million and the transfer in support of School debt service is $163.5 million. The County also provides additional support for the Schools in the amount of $58.9 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. On February 3, 2011, the Fairfax County School Board approved a $2.2 billion advertised budget for FY 2012 that would give school employees raises, add more positions to address increased enrollment, maintain class sizes and necessitate a $48.8 million, or 3 percent, increase in the General Fund Transfer from the County to Schools. This request would require nearly a 3 cent Real Estate Tax rate increase to fund and has not been included in my budget proposal. I must take this opportunity to caution that Fairfax County Public Schools will face more serious financial issues over the next couple of years. Among these challenges facing Schools in FY 2012 and beyond will be the cessation of federal stimulus funding in 2011 and 2012, an anticipated change in the state funding formula or Local Composite Index (LCI) for public schools, which will probably result in less State aid to the County schools next year (FY 2013), and the repayment of the Virginia Retirement System (VRS) contribution that the legislature allowed school districts to defer this year.

Both the County and Schools need to continue exercising restraint in our budgeting forecasts for the near- and long-term. Standard & Poor's reported on November 8, 2010 that, "We believe that even governments capable of weathering an economic slump significantly deeper than the recent one could lose this ability if they ignore or delay current and future imbalances." Consequently, the policy choices we pursue and adopt will have significant long-term implications for the fiscal solvency of the County and Schools. The time for tough decisions is now. We must look past the next budget year to the interests of the next generation.

The County's real estate values are clearly stabilizing. There is significant improvement in the change in real estate property values in FY 2012 from FY 2011. Rather than another year of loss in values, both residential and non-residential properties are experiencing positive growth. Overall residential equalization reflects a 2.34 percent increase in FY 2012, compared to a 5.56 percent decline in FY 2011, while non-residential equalization has rebounded from a decline of 18.29 percent in FY 2011 to a 3.73 percent increase in FY 2012. We continue, however, to be cautious in our revenue projections for both FY 2012 and beyond. It is not unlikely that short term upticks in our revenue could be followed by short term declines. In fact, the revenue scenario for the next several years includes projections of relatively modest revenue growth.

The value of a penny on the Real Estate Tax rate is projected to increase from $18.7 million in FY 2011 to $19.3 million in FY 2012. Each penny change in the tax rate equals $44.35 on a taxpayer's bill. My budget recommendation proposes maintaining the Real Estate Tax rate at $1.09 per $100 of assessed value. Assuming no change in the Real Estate Tax rate of $1.09 per $100 of assessed value, FY 2012 Real Estate taxes per "typical" household would increase just $110.55 over FY 2011. Perhaps more significantly, the "typical" household will pay $11.70 less in Real Estate Tax in FY 2012 than it paid five years earlier in FY 2007.

Last Seven Years of Average Homeowner's Taxes

Fiscal Year	Mean Assessed Value of Residential Property	Real Estate Tax Rate per $100	Tax per Household	
FY 2006	$448,491	$1.00	$4,484.91	
FY 2007	$544,541	$0.89	$4,846.41	
FY 2008	$542,409	$0.89	$4,827.44	
FY 2009	$525,132	$0.92	$4,831.21	
FY 2010	$457,898	$1.04	$4,762.14	
FY 2011	$433,409	$1.09	$4,724.16	
FY 2012	$443,551	$1.09	$4,834.71	+$110.55

The recurring theme for the FY 2012 budget is the *stabilizing* nature of the external and internal conditions and circumstances which influenced the development of this budget proposal. The economy is showing signs of stabilization although ups and downs are still likely. Past budget actions and current year budget options must focus on stabilizing our organization and our budget, while adjusting to the realities of very limited revenue growth over the next several years. Over the past three years, we have charted a sound, long-term course to help us weather this budget storm. Our reductions, while painful, were not as severe as those which have occurred in other similar-sized communities, nor did we witness major tax increases to offset major revenue declines to the degree that other jurisdictions did. As we adjust our service delivery expectations and levels of service and operations, we also continually readjust our budget to live within our means, realizing that we cannot and should not fund everything that everyone wants. The historical nature of boom-bust economic cycles demands that we continue to live within our means as the economy continues to stabilize. Nevertheless, there are signs that our national and local economies are rebounding and recovering, albeit slowly in some respects.

Economic Overview

It is evident that the national, regional and local economies are *stabilizing*, although most analysts contend that we will continue to witness fluctuations punctuated by dips and uncertainties. While the revenue forecast for Fairfax County for FY 2012 and FY 2013 is slightly improving, most experts predict that economic growth will be slow to moderate for the next few years. Therefore, it is fair to assume that the County's revenue base will grow only moderately for the foreseeable future, and there will be little growth in discretionary disbursements in our budget. Growth averaging just three percent is expected over the next several years.

National Economy

On the national front, the U.S. economy keeps inching out of the deep hole left by the "Great Recession" which officially ended in June 2009. However, after the 18-month contraction, the expansion has not been as strong as previous economic recoveries. In January 2011, Federal Reserve chair William Bernanke suggested that the U.S. economy was in better shape, but a full recovery will only be achieved once small businesses begin to prosper. Predicting that the economy will expand at a healthy pace of 3 to 4 percent in 2011, Bernanke expressed concern about the nation's high unemployment rate. Small businesses are still adversely affected by the stringent lending standards of banks squeezed by the credit crunch. While many big businesses have bounced back with healthy profits, smaller companies remain the weak sector in the economy. It should be noted that small firms account for about 50 percent of the nation's private sector economy. All in all, according to the Federal Reserve in January 2011, the economy is "very slowly gaining momentum, with some continued pockets of distress but also definite signs of progress as 2011 gets underway." Signs of recovery are seen in other sectors of the economy including unemployment, which has fallen to 9.0 percent, its lowest level since April 2009, retail sales and consumer confidence. Offsetting these optimistic indicators are record consumer debt levels, home price instability and inflation.

Local Economy

No region of the country was totally insulated from the adverse effects of the economy. In Fairfax County, nearly all homeowners saw losses in the value of their homes while several thousand lost their homes altogether through foreclosure. The current unemployment rate in Fairfax County is 4.6 percent, with slow to no job growth in construction, financial services, information and communication industries, and manufacturing. However, the County's unemployment rate during the recession peaked at 5.5 percent in February 2010 so it appears that unemployment is stabilizing in the County and slowly reversing its upward trend. There are signs of optimism as the local economy stabilizes and improves. Job growth and expansion of the economy are being fueled by continued growth in the private sector. For instance, in 2010, defense contracting giant Northrop Grumman Corporation announced that it was relocating its corporate headquarters from Los Angeles to Fairfax County in summer 2011. Following its signing of a $3.8 billion deal last summer with National Geospatial-Intelligence Agency (NGA), the Loudoun-based company GeoEye announced that it was relocating to Fairfax County to be closer to NGA which is also relocating from Bethesda, Maryland to Fort Belvoir. Fairfax County is currently home to eight Fortune 500 company headquarters: Capital One Financial, CSC, Freddie Mac, Gannett Corporation, General Dynamics, SAIC, Sallie Mae, NII Holdings, Inc., and the addition of Northrop Grumman will make it nine.

Real Estate

After declining for four consecutive years, residential property values, which make up over 75 percent of our real estate base, rose 2.34 percent. Another signal that the County's housing market is stabilizing is a downward trend in mortgage delinquencies. Nonresidential property values also improved primarily due to strong increases in apartments and hotels. Office property values rose modestly, as lease rates stabilized and office vacancy rates declined.

FY 2012 General Fund Revenues

FY 2012 General Fund revenues are projected to be $3,340,353,056, an increase of $102,848,445, or 3.1 percent, over the FY 2011 Adopted Budget Plan level and $92,710,572 over the *FY 2011 Revised Budget Plan*. The net increase is primarily the result of a $60.7 million increase in current Real Estate Taxes based on rising assessments and no change in the Real Estate Tax rate of $1.09 per $100 of assessed value. In addition, Personal Property Taxes are projected to increase $23.7 million mostly due to an increase in vehicle levy, and Other Local Taxes are expected to rise $7.0 million based on modest growth in various categories.

FY 2012 Disbursements

FY 2012 General Fund disbursements are $3.376 billion, an increase of $68.2 million, or 2 percent, over the FY 2011 Adopted Budget Plan and a decrease of $17.9 million, or 0.5 percent, from the FY 2011 Revised funding level. The increase over the Adopted budget is based on FY 2012 increased requirements of $78 million, offset by savings from agency budget cuts and reorganizations totaling $9.8 million. Increases in the County General Fund budget totaling $78.0 million fall into the following main categories: cost of County operations, human services requirements, debt service and capital construction, transportation, information technology and other.

Cost of County Operations $53.6 million

Over two-thirds of the increase in County General Fund disbursements is due to costs associated with ongoing County operations. These cost increases are driven primarily by current benefit requirements supporting the thousands of County employees who provide the quality services enjoyed by our residents. As noted above, no funding is included for employee salary increases for the third consecutive year. However the costs of insurance, retirement and other factors necessitate the majority of the FY 2012 increase in this category.

- **Retirement Funding**

  The FY 2012 budget includes a $15.4 million increase for fiduciary requirements associated with the County's retirement systems. All three of the County's retirement systems experienced significant value loss as a result of the global financial crisis during FY 2009. Consequently, the funding ratio of the Uniformed, Police Officers and Employees' retirement systems dropped further outside of the approved funding corridor of 90-120 percent. Following the established corridor funding policy, the employer contribution rates for each system are increased to amortize the unfunded liabilities created by the fall in values. Like most public pension plans, upturns and downturns in the value of plan equities are smoothed over a period of 3 years and, as a result, the full impact of the FY 2009 equity loss will not be fully evident until FY 2013. In order to prepare for the fiscal impact of the anticipated increase in the employer contribution rates, $15 million was identified at the *FY 2010 Carryover Review* and held in reserve to offset the FY 2012 requirements.

  Because of the funding issues associated with our plans in conjunction with the need to ensure competitiveness, the County is currently studying its retirement programs and policies. The results of this analysis will be available in summer 2011.

- **Other Post-Employment Benefits (OPEB) Requirements**

  Beginning in FY 2008, the County was required to account for and report costs associated with Other Post-Employment benefits, which include a graduated (based on years of service) monthly subsidy to retirees to help offset the cost of health insurance, as well as an implicit subsidy by including retirees in the County's health insurance plans. Historically, these costs were funded on a pay-as-you-go basis. However, regulation changes in the Governmental Accounting Standards Board (GASB) Statement No. 45 require that the County accrue the future costs of these benefits. This methodology mirrors the funding approach used for pension benefits. Based on the actuarial valuation as of July 2010, the County's actuarial accrued liability for OPEB is $489 million. As a result, the annual required contribution is $35 million. For the past several years, much of the annual required contribution has been funded through the application of balances that were accumulated based on excess revenues received from employer contributions and additional General Fund contributions. However, these reserves have been exhausted and an increase in the General Fund transfer of $10.1 million is required in FY 2012. As a result of this action, funding for the annual OPEB requirement will be included in the baseline budget and this recurring cost will be covered by recurring funding.

- **Health Insurance**
  FY 2012 funding for health insurance and other benefits is increased $8.7 million over FY 2011 levels. This increase is primarily attributable to $8.4 million required for health insurance, including the impact of projected premium increases of 10 percent for all County health insurance plans effective January 1, 2012 and the full-year impact of January 2011 premium adjustments. It should be noted that these premium increases are projections only; final premium decisions will be made in the fall of 2011 based on updated experience. Premiums will be set based on the impact to employees and retirees, the actual claims experience of each plan, the maintenance of adequate reserves, and the impact on the County's GASB 45 liability. The remaining increase of $0.3 million is the net impact of adjustments in other benefits categories including Social Security, dental insurance, and life insurance.

- **Worker's Compensation and Self-Insurance**
  An increase in the General Fund transfer to Fund 501, County Insurance, of $7.2 million is required for FY 2012. Fairfax County has a statutory responsibility to provide Workers' Compensation benefits, including medical treatment and loss of wages due to related disability, to employees who sustain occupational injuries and illnesses. The County Insurance Fund was established to fulfill this obligation. The Fund also provides for countywide commercial insurance and self-insurance. The County self-insures automobile and general liability claims. As a result of a number of significant injuries requiring long-term care and surgeries, an increase in medical costs in Workers' Compensation claims is projected for FY 2012 consistent with estimates for FY 2011 expenditures as approved by the Board of Supervisors at the *FY 2010 Carryover Review*. In addition, potentially significant liability losses are projected based on pending self-insurance claims in litigation.

- **Movement of a Portion of Grant Funding to General Fund**
  As part of the replacement of the County's legacy corporate computer systems, $6.1 million of grant revenues formerly accounted for in Fund 102, Federal/State Grant Fund, are now reflected in the General Fund, resulting in a commensurate increase in General Fund expenditures. This funding, primarily from 9 grants, no longer meets the grant definition as defined by the new system and now needs to be posted as General Fund revenue and expended directly from the General Fund. A corresponding adjustment has been made in Fund 102, Federal/State Grant Fund, for no net impact.

- **Limited Term Position Conversion**
  The County has reviewed the status of non-merit positions to ensure compliance with existing and new (both defined and evolving) requirements. This review is being driven by the Patient Protection and Affordable Care Act (PPACA), the Health Care and Education Reconciliation Act (HCERA), and Section 125 of the IRS Code on the provision of benefits to employees in certain non-merit positions. In addition to the regulatory compliance issues, the County has also reviewed personnel and payroll business practices as part of the FOCUS "blueprinting" process.

Positions that are currently categorized as Exempt Limited Term (L) or Exempt Part-Time (T) have been reviewed to determine what status adjustment is appropriate. Among the significant changes that will occur are the redefinition of the maximum number of hours to be worked by an employee in each of the new non-merit categories defined below; the opportunity for those non-merit employees who work between 20 hours a week and 30 hours a week to participate in County health care, dental care and flexible spending programs; the elimination of the break in service requirement for L status positions; and the opportunity to convert a limited number of L status positions to merit positions.

As a result of this review and consistent with Board approval in September 2010, 400 positions have been converted to Merit Regular and the process of competitively filling the positions has begun. New categories of non-merit positions – "Benefits Eligible" and "Benefits Non-Eligible" – are being created to accommodate the other business needs that must continue but which do not support full-time merit employees. A total of $4.0 million in additional General Fund resources have been included in the FY 2012 budget to reflect the full-year cost of the conversion.

- **Line of Duty Act**

  Currently, the Commonwealth of Virginia funds the Line of Duty Act, which provides funding for healthcare benefits for public safety personnel disabled in the line-of-duty. The Act also pays benefits for qualified dependents of members who died in the line-of-duty. As of July 2011, the Commonwealth will still process and, if approved, pay the benefits. However, the County will now be required to reimburse the Commonwealth for all payments. Currently, the County is billing the state for approximately $44,000 per month for health and dental insurance coverage for 40 County personnel covered under the Line of Duty Act. In order to allow flexibility for premium increases and applications pending approval, the FY 2012 budget recommends the funding of $575,000 in Agency 89, Employee Benefits, to fund these benefits. It is important to note that as the state makes final decisions, there may be additional requirements that the County will be required to fund beginning in FY 2012.

Major Human Services Requirements ***$12.1 million***

It continues to be critical that we leverage our ability to assist the neediest in the community and maintain the safety net to which the Board is so committed. We have been able to increase expenditures in support of many of our neediest, meet some of our highest priorities, and strengthen the public-private partnerships in this budget with limited County dollars. The $12.1 million General Fund expenditure increase and another $1 million increase in the Community Services Board are leveraged with federal and state funds. Some of the most significant adjustments are discussed below:

- **Comprehensive Services Act (CSA) Support**

  An increase of $1.8 million is associated with the implementation of the state changes to programs for at-risk children. Specifically, the Human Services system will be implementing a System of Care initiative to support Intensive Care Coordination, the Family Partnership Program and enhanced Utilization Review. It is anticipated that providing these new services to the families and youth in CSA will reduce residential placements, increase the utilization of community-based services, reduce costs, and improve outcomes. The expenditure increase is offset by additional State revenue.

- **Child Care Assistance and Referral (CCAR) Program**
  An increase of $1,275,000 in Operating Expenses is associated with the Child Care Assistance and Referral (CCAR) Program. Funding is due to an increase in federal and state revenue to provide services which assist families with childcare costs, based on income levels. The expenditure increase is fully offset by an increase in state and federal revenue, for no net impact to the County.

- **School Health Program Resources**
  Twelve (12/12.0 SYE) additional positions are included for the School Health Program to begin implementation of a strategic plan to align school assignments by Fairfax County Public Schools (FCPS) clusters in order to maximize efficiencies and better respond to community needs. The additional 12 positions will allow the Health Department to target resources in those schools with a concentration of high-risk students with chronic medical conditions such as diabetes, asthma, seizure disorders, and life-threatening allergies. Funding to fully support the costs of these positions is provided by the Virginia Department of Education through its Standards of Quality monies and is based on the number of nursing hours provided to school-age children. The funding can only be used to support school nurse positions or for contracted service professionals providing health services. These funds, allocated to the FCPS, will be provided to the County through a transfer from the School Operating fund. Of the total funding of $3.8 million, half will support salaries, benefits, and operating costs associated with the new positions and other Health Department support for the School Health program, and half will be made available to the School system for services provided by FCPS in support of the School health functions.

- **Fairfax-Falls Church Community Services Board (CSB) Intensive Community Treatment Teams**
  In FY 2012, 20/15.5 SYE new positions are being created, with no additional net cost to the General Fund. The positions will add six Intensive Community Treatment Teams (ICT). These teams will provide intensive, community-based case management and outreach services to persons with serious mental illness and/or serious substance use disorders. This treatment model aligns with the principles and recommendations of the Josiah H. Beeman Commission as well as the Fairfax-Falls Church Community 10 Year Plan to Prevent and End Homelessness and will ensure that individuals served by the CSB with the most acute and complex needs will receive appropriate levels of support.

  Services will be focused on both homeless services and outpatient services. Consistent with the CSB's efforts in recent years, utilization of this intensive model of services will allow full maximization of Medicaid revenues through the billing of Case Management, Mental Health Supports, Crisis Intervention and Medication Management services. The ICT Homeless Services component includes the creation of three teams and 8/5.0 SYE positions, while the ICT Outpatient Services component includes the creation of three teams and 10/8.5 SYE positions. Also included are two business support positions. These business support positions are vital to ensuring Medicaid reimbursement of eligible consumers and eligible services. The FY 2012 total expenditure requirement, reflected in the Community Services Board budget, is $1,063,976, partially offset by $936,072 in new Medicaid revenues, with the remaining requirement of $127,904 appropriated from the CSB Beeman Commission balance which was established to help support recommendations from the Commission in the area of mental health services. These expenditures are anticipated to be fully offset by Medicaid revenues by FY 2013.

- **Herndon Neighborhood Resource Center**
  Additional recurring funding of $245,000 is required to address the transition of funding for the Herndon Neighborhood Resource Center. The Herndon Neighborhood Resource Center (HNRC) opened in July of 1999 as a collaborative effort of the Town of Herndon and Fairfax County. The Center offers integrated services, including the WIC program administered by the Health Department, to address the complex social and physical challenges facing many of Herndon's neighborhoods. It is within walking distance to many of the neighborhoods in the Dulles Park/Alabama Drive area and located on the Fairfax Connector bus route 950. Beginning in FY 2012 the County will fully fund the HNRC. The services provided are essential to meet prevention objectives of the County's Human Service system and the clients served by the HNRC have limited options for these services. County staff has been working to identify options to maintain the services in this community and will be working to partner with a non-profit for management of the HNRC.

- **Contract Rate Increases**
  An increase of $3.2 million supports contract rate increases for the providers of mandated and non-mandated services in the Department of Family Services, Community Services Board, Health Department, and Office to Prevent and End Homelessness. The expenditure increase is partially offset by an increase of $0.6 million in revenue for a net cost to the County of $2.6 million.

- **Revenue Alignment for Self Sufficiency Positions**
  An increase of $1.2 million in the Department of Family Services is associated with caseload requirements as a result of sustained and significant increases in requests for public assistance and the distribution of federal and state dollars for programs such as food stamps and Medicaid, which has required an increase in staff resources. The expenditure increase is fully offset by an increase in state revenue for no net impact to the County.

Capital Construction and Debt Service $0.8 million

- **Capital Construction**
  The Capital Construction Program is essential to the sustainability of County services and is organized to meet the existing and anticipated future needs of the residents of the County. Reinvestment in County facilities is critical to avoid deterioration and obsolescence. The Capital Program is primarily financed by the General Fund, General Obligation Bonds, fees, and service district revenues. The General Fund supported Capital Program of $16,084,369 reflects an increase of $506,963 over the FY 2011 Adopted Budget Plan level of $15,577,406. The $16.1 million Paydown Program represents General Fund support only for the following projects and programs: Park Authority Grounds Building and Equipment Maintenance of $1.88 million; Athletic Field Maintenance of $4.65 million; Americans with Disabilities Act (ADA) compliance funding of $2.17 million; construction funding associated with the renovation of a fourth courtroom of $0.55 million; continued revitalization maintenance and support of $1.1 million; funding associated with the County's environmental commitment to the Clean Air Partners and the Invasive Plant Removal Program of $0.085 million; ongoing support for Laurel Hill

development, emergency road repairs and developer defaults of $2.24 million; and obligations and commitments to the School-Age Child Care (SACC) program, the Northern Virginia Community College, and the annual Salona property payment of $3.42 million. General Fund support for these areas was reviewed critically on a project-by-project basis and funding was provided for only the most essential maintenance projects and legally obligated commitments.

It should be noted that to supplement the Paydown program, short-term borrowing of $15,000,000 will provide for capital renewal project funding in FY 2012. In FY 2012 the County will have a projected facility inventory of over 8.5 million square feet of space which requires the planned replacement of building subsystems such as roofs, electrical systems, HVAC, plumbing systems, carpet replacement, parking lot and garage repairs, fire alarm replacement and emergency generator replacement that have reached the end of their useful life. As part of the FY 2011 Adopted Budget Plan, the Board of Supervisors approved a 3-year plan of short-term borrowing. FY 2012 is the second appropriation for capital renewal projects supported by short-term borrowing. A total of $35 million is anticipated to eliminate the current backlog which will allow for a more preventative and proactive maintenance program, increase the life cycle of County buildings, and enable the renewal program to reach a fairly consistent level of annual funding. Borrowing will be based on actual project completion schedules and cash flow requirements and will be achieved through the establishment of a variable rate line of credit in order to take advantage of very low short-term interest rates. The renewal program is entirely supported by the short term borrowing plan and no General Fund funding is included in FY 2012.

- **Debt Service**
  FY 2012 General Fund support of the County and Schools debt service requirements is $282.8 million, an increase of $0.3 million over the FY 2011 level. The FY 2012 funding level supports debt service payments associated with existing debt service requirements. During FY 2012 it is anticipated that a general obligation bond sale of approximately $280 million will be conducted to fund cash requirements for on-going capital projects for School and County purposes. This bond sale estimate is consistent with the FY 2012 - FY 2016 Advertised Capital Improvement Program (With Future Fiscal Years to 2021). It should be noted that the Capital Improvement Program assumes School bond sales of $155 million per year for the next five years. This represents an increase from $130 million to $155 million in FCPS bond sales between FY 2013 and FY 2016.

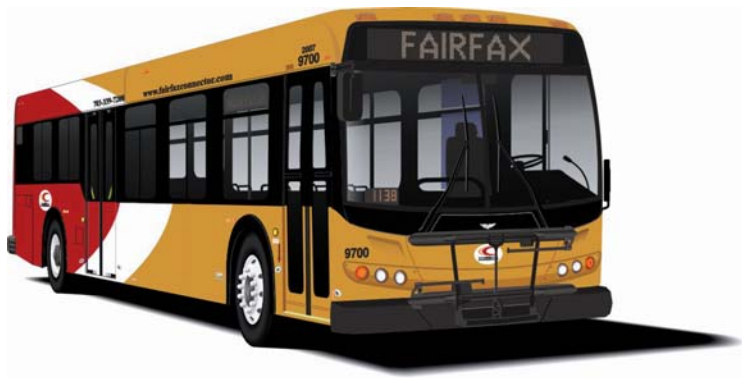
Transportation — *$6.4 million*

FY 2012 funding increases of $6.4 million are required to support mass transit related costs.

- **Metro Operations and Construction**
  The FY 2012 General Fund transfer in support of Metro Operations and Construction is increased by $3.9 million to $11.3 million. Based on current Metro system needs, Washington Metropolitan Area Transit Authority (WMATA) staff project an increased FY 2012 operating subsidy requirement from local jurisdictions of approximately 7 percent. The increased General Fund transfer, in combination with an additional $3.5 million in applied State Aid, will meet the anticipated increase in the subsidy requirement, as well as a prior year audit adjustment. State Aid and gas taxes, held on behalf of Fairfax County by the Northern Virginia Transportation Commission (NVTC), are used in support of both Metro and CONNECTOR requirements, and

minimize the impact of increases on the County's General Fund. The use of these balances in the last several years made it possible to lower General Fund support to Metro; however; these one-time balances are limited and are not anticipated to be available to fully meet future year operating budget requirements associated with rail to Dulles, and bus transit in support of new silver line Metro rail stations and beltway HOT lanes.

- **County Transit**
  The FY 2012 General Fund transfer for the County Transit Systems, the Fairfax CONNECTOR and the Virginia Railway Express (VRE), is $34.45 million, an increase of $2.5 million, or 7.7 percent. This increases funds the expansion of bus services in the Fort Belvoir area, required as a result of the federal Base Realignment and Closure (BRAC). It also supports relocating bus services to a new Reston East Park & Ride. The current site will be permanently closed in March 2011 in preparation for the construction of the Wiehle Avenue Metro Station. In addition to increased General Fund support for County Transit, additional commercial and industrial tax funding will support expanded service to implement critical routes identified within the Transit Development Plan, including a new route servicing Tysons to Dulles Airport and improved frequency of routes in the Richmond Highway corridor. One-time State Aid balances, held on behalf of the County by NVTC, will support the purchase costs of 25 buses for future beltway HOT Lanes. It is necessary to place buses on order at least 18 months prior to the initiation of any service.



Information Technology Requirements for Enhanced Operations and Efficiencies — *$3.4 million*

- **Information Technology Projects**
  Total General Fund support of projects in Fund 104, Information Technology, is $5.3 million, an increase of $2.1 million over the FY 2011 Adopted Budget Plan level. This funding supports several critical Information Technology projects which will replace existing legacy systems, complete the Public Safety wireless mobile replacement, and fund key projects for enhanced operations and security. In addition, an increase of $1.3 million to support annual software license and database license maintenance agreements is included in the Department of Information Technology agency budget to support systems requirements of the FOCUS project, as well as ongoing operations from other projects in the post-implementation phase.

- **Use of Cable Funding to Support Key Technology Initiatives**
  It should be noted that two new information technology projects are being financed by a transfer from Fund 105, Cable Communications. Revenue in the cable fund is derived from franchise fees and may only be used for cable and I-NET related projects. In FY 2012, funding of $2.0 million is made available from cable revenues to support requirements associated with the

deployment of technologies to secure access of new web-based social media functionalities. Utilizing the County's IT infrastructure, including the I-Net, this project will implement a protected web security gateway to provide for secure access for agency business needs, smart media/video streaming and data leakage protection. This project also improves compliance with regulatory standards, mitigates against cyber security threats to the County's networks, and enables real-time security monitoring. Funding of $3.7 million supports the Police Department's In-Car Video System project to install digital surveillance video cameras in the Police Department's 800 vehicle fleet. The In-Car Video system enables accurate recording of events, statements and scenes, enhances both the Commonwealth and County Attorneys' abilities to support cases and improves the department's accountability to the public. The In-Car Video System will utilize the County's I-Net to transmit, store, and access the video data.

Other Adjustments $1.7 million

There are a small number of other increases in the budget based on requirements, including $0.8 million associated with new positions added at the *FY 2010 Carryover Review* in support of the Tysons Plan Amendment, $0.4 million in the Office of Elections for expenses related to redistricting, and $0.25 million in increased advertising funding for the Economic Development Authority.

Agency Budget Reductions and Reorganization Opportunities/Savings ($9.8) million

In accordance with direction provided to agencies immediately after the adoption of the budget in Spring 2010, the FY 2012 budget includes agency budget reductions totaling $9.5 million. These reductions, which impact most County agencies, do not result in significant programmatic reductions but require agencies to hold positions vacant longer, to not fill some key position vacancies and to maintain work and service levels within reduced resource levels.

To generate the savings, I identified targets and worked with agencies to identify savings opportunities. In addition, I have been guided by suggestions from our senior leadership group. A commensurate savings of approximately $9.6 million will be identified as part of the *FY 2011 Third Quarter Review*. These savings have been anticipated and have been applied in the FY 2012 budget proposal.

In addition, the FY 2012 budget includes a number of reorganization changes for a total savings to the General Fund of $0.3 million. As you recall, the FY 2011 budget included a considerable number of reorganizations and resultant savings to the General Fund. Staff has been hard at work in FY 2011 implementing these reorganizations. Any reorganization can be a challenge, especially in the County's current environment of several years of reductions, increasing workloads in our human service agencies and the continued uncertainty in the economy. I know each Board member has been briefed on the status of one of our largest reorganizations, the creation of the Department of Neighborhood and Community Services and it, like the rest of our reorganizations, is moving forward thanks to the hard work of staff. Another effort that is underway is the FOCUS project. Though not a "reorganization," the project is still designed to help the County improve our performance and requires an enormous contribution from County and Schools staff, many dedicated full-time to the project and hundreds of others throughout the organization who assist with the project and fill in for staff dedicated full time to the effort. I think it is essential that we provide the resources necessary to make this project successful and ensure that the benefits of improved processing, access to data and financial transparency are achieved. Therefore, I have deliberately focused staff's attention on the implementations of FY 2011 reorganizations and the FOCUS project so the list of reorganizations for FY 2012 is somewhat shorter and the savings, at $0.3 million, is smaller. The more significant reason for making these changes is improved, efficient and effective operations. The changes in the FY 2012 budget include:

- Scheduling, technology support and logistics associated with the use of the conference rooms at the Government Center complex have been consolidated and transferred to Fund 105, Cable Communications, resulting in a savings to the General Fund. This consolidation maximizes operations efficiencies by aligning video technology support with the Communications Productions engineer staff and leveraging technology, scheduling logistics and other resources to provide conference center services.

- Transfer of the Seniors-on-the-Go! and the Taxi Access program from the Departments of Transportation and Family Services to the Department of Neighborhood and Community Services. As a result, human services transportation services are further consolidated and transportation for seniors is coordinated.
- Transfer of Access Fairfax from the Office of Public Affairs to the Department of Neighborhood and Community Services to provide a more focused link to clients at the South County Government Center.

- Transfer of support for the Showmobile from the Department of Purchasing and Supply Management to the Park Authority, as the vast majority of use is at Park sites.

FY 2012 and Beyond

As a result of the revenue increase of $103 million, offset by expenditure requirements of $68 million and balance adjustments of $5 million, the FY 2012 budget proposal results in a balance of $30 million. Prior to addressing possible uses for this balance, I believe it is necessary to summarize some of the more pressing requirements for the County in the near-term. There are a number of significant funding challenges presented in FY 2012 and beyond, and these challenges must be considered during decision-making on the FY 2012 balance, the budget, the tax rate, and Board budget guidelines for the next several fiscal years.

All signs indicate that the economy – nationally, regionally, and locally – is expected to show moderate to low growth at best with no appreciable increases in revenue for the County over the next several years. Since the "Great Recession" of 2007-2009 was deeper and more painful than earlier recessions, it is reasonable to assume that recovery will be slow and extended. Comparatively speaking, economic recovery from the recession in the early 1990s extended almost 8 years before real, significant growth was realized in the County's housing market and other revenue streams. Consequently, we will have to accept the economic realities of the "new normal" and adjust our expectations for expanding existing programs and creating new programs in the face of limited revenue growth.

Past Lessons and Strategic Decisions

Fairfax County's priority services and programs survived the recession better than most local governments because of an adherence to a very sound, strategic approach that streamlined and reduced costs and inefficiencies. This approach required hard choices that have enabled the County to move forward. The bond markets and our creditors point to this approach in their assessments of our overall fiscal health. For example, in January 2011, the global bond-rating agency Fitch reaffirmed our long-standing Triple A (AAA) bond rating, characterizing the County's outlook as *stable*. In reporting the rationale for its rating, it noted that, "Fairfax County's 'AAA' rating is based on its history of exemplary financial management and planning, consistent operating results, and solid general fund reserves....Fitch anticipates stable financial performance, based on the County's continued adherence to sound financial management practices, conservative budgeting, and proven ability to respond to changes in its operating environment."

By staying the course of this sound approach which required strategic reductions in County costs, tax rate adjustments to stabilize County Real Estate Tax receipts and limited use of our reserves and balances, the County has continued to provide those services most important to our residents and businesses. Since revenue growth will be stunted, I strongly recommend that the Board of Supervisors continues to stay the course of restrained spending and maintaining the stable tax rate that it has consistently pursued during the past several years. This approach enabled us to survive the "Great Recession" and an ongoing commitment to this stabilizing approach will help us to eventually recover and progress without having to make any further significant programmatic reductions or invoke significant increases in the Real Estate Tax rate.

The New Normal: No Expansion of Existing Programs, No Creation of New Programs and No Restoration of Previous Reductions or Eliminations

Therefore, our focus in the County budget will continue to concentrate on providing the highest priority services demanded by the public while investing in and shoring up our infrastructure. This strategy will allow us to continue providing good services, maintain safe environments for all who use our facilities, and enable us to remain competent, competitive and cost-effective. The Board's successful strategy demands that we cannot expand existing programs, unless critically required, mandated, or supported by non-County sources. Furthermore, with few exceptions, there will only be limited growth in existing programs in the near future to accommodate mandated initiatives or to fund those needs that are most critical to ensuring the continuity of our operations and core functions. In addition, there will be no restoration of previous program reductions. As such, in this budget, just as in FY 2010 and FY 2011, there are no budgeted increases for compensation or other significant investment in our infrastructure. On the contrary, as we continue to monitor the inventory of our services and programs, we will continue to reprioritize our available funding depending on existing resources in FY 2013. The inevitable ebbs and flows of the economy will necessitate that we make tweaks and adjust our expectations and assumptions as we progress. Our overall budget proposals for these programs and services will have to be balanced with the available resources. Yet, as we continue to stabilize, we will nevertheless continue to explore opportunities to make our services more cost-effective, efficient, and innovative through the creativity and resourcefulness of our staff. We have done this in the past, we are doing it right now, and we will continue to do it in the future by seeking to give our residents the most value for their tax dollar. We will continue to do the right things and do them in the right, most cost-effective way.

Continued Funding for and Partnership with Fairfax County Public Schools

We remain committed to continuing our partnership with Schools, although we both recognize the constraints brought on by slower growth, which will limit what we can jointly achieve in the short-term. Of course, the current economic situation dictates that there will be no increase in the County's General Fund transfer to the Schools in FY 2012 and no significant increase in the transfer in the near term. Nevertheless, the Schools will continue to receive the majority of our General Fund budget, reflective of education being our community's highest priority. All agree that due to other ongoing disbursement requirements, Schools staff must continue to look for and take advantage of opportunities to streamline their programs and reduce costs while living within this new normal along with us. As I noted earlier, the challenges facing the Schools over the next two years are daunting and absent significant tax rate increases, FCPS must continue to wield a surgical approach to reduce costs where it deems it most appropriate while minimizing the impact on the classroom sizes and maintaining the integrity of our Schools' core curricula and programs.

County Infrastructure Investment

In addition to our continued funding of education, one of our most pressing challenges in this era of slow revenue growth is finding the resources to fund investment in our infrastructure. Although little new funding is available for this investment in the FY 2012 budget, there are significant near-term requirements for the two key components: investment in our employees and investment in our infrastructure.

EMPLOYEES

Clearly, our employees are our greatest resource – they are the principal means by which our government provides the services that affect nearly everyone's daily routine more so than any other type of government, from public safety to public health to public education. Thousands of men and women provide these crucial services everyday to our residents.

One of the most difficult challenges we have faced over the past three years is the continued lack of resources to provide our employees with compensation adjustments. While this budget does not recommend increases in employee compensation, I do urge the Board of Supervisors to consider various options to recognize and reward our employees for their contributions through every possible avenue, and to continue to discuss and consider the challenges of employee compensation. In the meantime, it is especially important for the County to keep funding our benefits program, now more than ever. Of course, benefits constitute an important and integral component of our employees' overall compensation package. Moreover, our benefits programs are a mainstay in attracting, recruiting, and retaining highly qualified staff. In order to maintain our competitiveness in this region, especially faced with a significant number of "Baby Boomers" projected to retire within the next five years, it is imperative that we keep our benefits programs competitive and sound while recognizing our limitations to fund compensation increases at the present. Based on the Board's guidance in 2010, staff continues to review the County's retirement policies and programs. With funding designated at the *FY 2010 Carryover Review*, the Department of Human Resources is currently conducting a comprehensive retirement study with results expected to be presented to the Board of Supervisors in summer 2011.

Proposed New Employee Compensation Model

To ensure the ongoing viability of our successful Pay for Performance program, this budget includes changes to the existing system. Specifically, the new proposed system will feature two components: pay for performance (PFP) and a market rate adjustment (MRA). The new pay for performance component features an annual performance evaluation rating between 0 and 3 percent, and a market rate adjustment component totaling 1 to 3 percent, both contingent on available funding in any given budget year. Therefore, compensation increases for staff may increase in a given year between 1 and 6 percent. No funding in support of this new system is included in the FY 2012 budget but it is important that the changes be made and in place so the new process and structure can be implemented with funding availability. In addition, changes to the rating process, including the timing of evaluations can be made more quickly.

Compensation Program Recommendations

Earlier discussions with employee groups and the Board Personnel and Reorganization Committee recommended that the pay for performance program be revised to include both a market rate (MRA) component and a variable pay for performance (PFP) component. As a result the County Executive has recommended a new program to be developed for implementation in FY 2013, subject to funding availability.

The Market Rate Adjustment will:

- continue to be calculated based on the approved formula
- be no less than 1 percent and no greater than 3 percent
- be applied to all employee groups and pay scales
- be implemented at the beginning of each fiscal year; and
- be complemented by a pay scale review every 3-5 years to maintain market competitiveness

Pay for Performance will:

- range from 0 percent to 3 percent
- not have any bonus component
- move to a single anniversary date with the implementation of the new payroll system
- require all reviews be completed in the Fall; and
- apply pay increases associated with PFP at the beginning of the calendar year

Stable Workforce

Despite significant population growth and the building of numerous new facilities to serve the needs of our community since 1990, the County has managed to keep a very stable workforce without significantly increasing staff. In fact, our positions per capita ratio, which currently stands at 11.34 per 1,000 residents, is currently 17 percent lower than the level 20 years ago, largely due to increased efficiencies gained through information technology and reductions in administrative and management positions. This budget proposal includes the modest addition of 35/30.5 SYE new positions with 12/12.0 SYE positions for the Health Department, 20/15.5 SYE positions for the Fairfax-Falls Church Community Services Board and 3/3.0 SYE positions for the Reston Community Center. All of these additional positions are fully supported by non-General Fund sources.

PHYSICAL INFRASTRUCTURE

Physical Infrastructure is perhaps best defined as the physical assets of our government, that is, our public buildings, parks, sewer system, and technology systems that support our efficient operation of local government and significantly contribute to the quality of life in the County. Our past investment in this infrastructure as well as future requirements will support the continuation of high quality County services.

Information Technology

Due to limited growth and resources, the County will continue to leverage efficiencies through technology. Technology makes it possible for us to deliver the same level of service with essentially the same number of staff to more residents and a greater number of public facilities than we did in 1990. Technology continues to transform the way we work and do business in the County. Coping with growth in the demand for services with limited resources, the County is faced with major challenges and opportunities where technological innovation is essential. We also have to operate with high expectations from the County's residents and the business community who want to interact and conduct business with us by using automation to its fullest. To aid greater responsiveness and transparency in government, we are maximizing our web-based capabilities to enable residents and businesses to do business with us more easily and faster. In order to leverage greater opportunities for collaboration and information sharing among Board members, County agencies, other governments, private/non-profit partners, media and the public, the County continues to expand and improve its Web 2.0 platform to support broader usage of social media, such as Facebook, Twitter and YouTube, by County staff. There is not a significant increase in Information Technology funding in the FY 2012 budget, rather the FY 2012 funding supports the completion of high priority projects and the costs associated with our legacy system replacement. There are other pressing and equally important technology infrastructure needs in the areas of human services, public safety, planning and development which must be prioritized over the next couple of years.

New Enterprise Resource Planning System (FOCUS)

One of the primary IT initiatives currently underway, the FOCUS project, is the replacement of our aging legacy corporate mainframe systems with a new Enterprise Resource Planning system. Fairfax County government and Schools have embarked on a multi-year, joint initiative to modernize the portfolio of enterprise systems that support finance, human resources, budget, procurement, and related administrative applications with an integrated approach that has the flexibility to meet current and future requirements. The project seeks to mitigate the risk that antiquated and disjointed systems pose for system failure. The current legacy systems leave us vulnerable to increased risk for fraud and security intrusions. Due to their age, many of these systems have no vendor support and rely on retirement eligible in-house staff for maintenance. Some of the benefits of the new FOCUS system for County and Schools staff include:

FOCUS
FAIRFAX COUNTY

- providing the opportunity for multi-faceted, data-driven decisions;
- improving the efficiency and effectiveness of existing processes;
- enhancing e-government initiatives;
- improving transparency and accountability;
- aligning the reporting strategy for the County government and the School system;

- reducing the number of shadow systems and reconciliations between systems; and
- reducing redundant data entry, storage, and paper processing

The cost of the FOCUS project, estimated at $60 million, has been financed by the strategic allocation of year-end agency savings and other balances, as well as the application of additional recurring dollars for the ongoing systems support of the project. A contractually obligated requirement of approximately $20 million remains for this joint County-Schools project, which will need to be included in a future budget process.

Capital Infrastructure

One of our most vital infrastructure needs centers on capital infrastructure. Much of the County's infrastructure is aging and key parts are in need of repair, renovation, rebuilding, or replacement. In particular, the renewal of the County's building subsystems such as roof replacement, plumbing, and HVAC/ electrical systems require increasing attention and funding. For several years staff has identified an estimated requirement of $22 to $26 million in capital renewal investment annually for the current building inventory. Annual capital renewal funding has never reached these projected required levels in the County. It is estimated that approximately $35 million in capital renewal projects are currently backlogged. The FY 2012 Advertised Budget Plan provides much more detail about a short-term borrowing plan to address this backlog. The capital renewal program is budgeted at $15 million for work on 36 Category F projects which are those projects deemed to be "urgent/safety related, or endangering life and/or property." The County will have to continue monitoring and addressing its aging capital facilities.

Some of the County's Infrastructure

- Over 8.5 million square feet of space maintained by FMD at 189 County owned-facilities, including 11 parking garages and 14 radio towers
- Over 537,000 square feet of buildings maintained by the Park Authority
- 644 miles of walkways maintained by Public Works
- 300 miles of walkways maintained by the Park Authority
- 505 FCPS athletic fields at over 175 school sites
- 287 athletic fields (owned by the Park Authority)
- 32 operational turf fields throughout the County

Future Infrastructure Investments

We have many infrastructure needs and lots of work to be done to shore up our aging buildings, sidewalks, IT systems, and vehicles. The challenge for future funding is compounded by the necessary investments we are currently making in a number of large, significant projects such as the Tysons redevelopment, the replacement of the 43-year-old Massey Public Safety Building, the building of the new Woodburn Mental Health Center, and a significant revitalization effort throughout the County. The County is in the midst of an ambitious and effective plan to revitalize and redevelop the areas of Tysons, Merrifield, McLean, Springfield, Baileys Crossroads, Annandale, and the Richmond Highway corridors. In particular, the County's vision to transform Tysons Corner will make it a livable, walkable, urban downtown for Northern Virginia. Tysons is the heart of the County's commercial growth. Our plans will transform Tysons from a sprawling, car-centered area into a high-density, pedestrian-friendly urban center that will eventually grow over the next few decades to about twice the current 44 million square feet of commercial and residential space. It is projected that the population of the Tysons region could increase from 17,000 to 100,000 over the next 20 years. Our transportation staff estimates that this new urban center will require $3.5 billion in road and transportation improvements over the next two decades. This makeover of Tysons has already begun, and ground was broken in 2009 on the first phase of an extension of the Metrorail system, which will bring four new Metrorail stations to Tysons. Much further analysis, alternative costing, and financing review will be necessary over the next year to develop community consensus and focused decisions on how to pay for these investments.

Construction of the Tysons East Station at Route 123 and Coleshire Road (Capital One Headquarters in background).

These necessary and worthwhile projects, as well as our ongoing infrastructure needs for repair, renovation, and replacement, will pose significant funding challenges for us in FY 2013 and FY 2014. Many of these current infrastructure projects will require funding increases within the next two to four years and will require the Board to prioritize funding and project timelines as deferring or delaying investments in these critical infrastructure needs is not possible. I anticipate much discussion, analysis, study, and consensus-gathering of financing solutions for these vital projects over the next several years.

The Choices Before Us

Like all budgets, this one is extremely important since the choices and decisions we make in the next few months will have long-term ramifications for the progress we make in further stabilizing our government and shoring up much needed investments for our future critical infrastructure needs. In April 2010, the Board of Supervisors directed me to prepare a budget proposal for FY 2012 that "considers the affordability of taxes for our residents and businesses and attempts to keep the taxes steady with FY 2011." This budget reflects this guidance. With the recommendations in this budget proposal, there is a balance of $30 million which equates to less than 1.0 percent of our General Fund budget. As a result, there is flexibility for the Board during its deliberations on the FY 2012 budget. Options include:

1. Use it for employee compensation increases: The balance could be used to fund a one-time, non-recurring bonus for County employees. This could include a 1 percent bonus which would cost approximately $7.8 million or an across-the-board flat-rate bonus. A $1,000 net bonus for County employees would cost approximately $15.7 million.

2. Increase the General Fund transfer to Schools: The balance could be used to increase the County transfer to the Fairfax County Public Schools. The FCPS School Board requested a General Fund transfer for school operations of $1.66 billion, an increase of $48.8 million or approximately 3 percent above the FY 2011 level. This budget proposal includes no increase to the School transfer. Each one percent increase in the School transfer is $16.1 million.

3. Reduce the Real Estate Tax rate: The balance could be used to reduce the Real Estate Tax rate. Each one cent reduction in the tax rate would cost $19.3 million and results in savings to the average homeowner of $45 annually.

4. Use it to make up for potential loss in revenue from the Commonwealth or State authorized revenue sources.

5. Use it to fund other priorities and unfunded initiatives cited in this budget: The balance could be used to fund current unfunded requirements.

6. Use it for the required, contractually obligated $20 million payment which remains for completion of the joint County-Schools FOCUS project.

7. Save it for upcoming critical needs in FY 2013: The balance could be held in reserve to address FY 2013 requirements and beyond or to support the infrastructure requirements noted above.

<u>I believe and strongly recommend that the most prudent and fiscally responsible choice from this array of options is to save this money in our reserves in light of the FY 2013 financial forecast and the crucial need to eventually fund our ongoing, critical infrastructure needs</u>. Many of the above options are not only important and worthy of much consideration but also appealing to many for the short-term. However, I think it is more important that we proceed cautiously considering the uncertainties of future budget years. We have always made these difficult choices by considering the long-term issues and consequences of our choices to maintain our quality of life not just for today but for tomorrow and for the next generation.

Conclusion

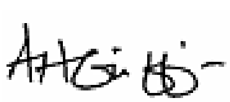
As I have illustrated in this recommended balanced budget proposal, we are emerging from the worst recession in two generations in better shape than most because of the expedient choices we made over the past three years. We now find ourselves in the midst of a period of stabilization, both in terms of our economic recovery and in our existing array of County programs and services.

With the prospects of constrained revenue and slow economic growth in the near-term, I strongly recommend that we stay the current course that has enabled us to survive this severe recession relatively intact without sacrificing the integrity of our core functions. Now is not the time to deviate from this sound, tried and true course. We have many significant challenges before us that will require us to continue to make some hard, priority-based decisions with a concentrated focus on using any available funding balances for our infrastructure needs. This ability to make the tough decisions at the present, forged with a commitment of prudent, responsible investment in the future, has characterized Fairfax County for many years. Our investors know it. Our residents know it. Our employees know it. In fact, many people around the country recognize it, and many people who move here or residents who stay here do so because we have contributed to creating a great community for the present and affirmed the promise it provides for the future.

This budget message reminds us that we cannot go backwards; on the contrary, I have included funding and investments to keep us moving forward. Nevertheless, a "new normal" is here to stay. As we progress into the 21st century, we have to remain true to the foundational principles that have contributed to the growth and stability of our County government. And yet we must also adapt and transform our government to tackle the challenges before us and to shore up our investment in our infrastructure. The challenges I have outlined require us to adhere to the far-sighted policies and strategies outlined and recommended in this budget and to be mindful of the necessity to invest in the future. The history of prudent decision-making and investing by the Board has paid handsome dividends for the County. We will continue to be fiscally sound for the present and sufficiently prepared for the future.

Finally, I would like to thank the Board of Supervisors, many residents, agency directors, staff and other stakeholders who have contributed to the development of this budget proposal. It is in this spirit of collaboration that I respectfully submit the FY 2012 Advertised Budget Plan to the Board of Supervisors and our community for its consideration.

Anthony H. Griffin



County Executive

TAX AND FEE FACTS

Type	Unit	FY 2010 Actual Rate	FY 2011 Actual Rate	FY 2012 Recommended Rate
Real Estate	$100/Assessed Value	$1.04	$1.09	$1.09
Personal Property	$100/Assessed Value	$4.57	$4.57	$4.57
Integrated Pest Management Program	$100/Assessed Value	$0.001	$0.001	$0.001
Refuse Collection	Household	$345	$345	$345
Refuse Disposal	Ton	$60	$60	$60
Solid Waste Landfill Ash Disposal	Ton	$13.50	$13.50	$15.50
Leaf Collection	$100/Assessed Value	$0.015	$0.015	$0.015
Sewer Availability Charge	Residential	$7,310	$7,750	$7,750
Sewer Service Charge	Per 1,000 Gallons	$4.50	$5.27	$6.01
McLean Community Center	$100/Assessed Value	$0.024	$0.024	$0.023
Reston Community Center	$100/Assessed Value	$0.047	$0.047	$0.047
Commercial Real Estate Tax For Transportation	$100/Assessed Value	$0.11	$0.11	$0.11
Stormwater Services District Levy	$100/Assessed Value	NA	$0.015	$0.015

Summary General Fund Statement

(in millions of dollars)

	FY 2010 Actuals	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	Inc/(Dec) Over Adopted	% Inc/(Dec) Over Adopted
Beginning Balance [1]	**$185.39**	**$137.05**	**$240.28**	**$126.30**	**($10.75)**	**(7.84%)**
Revenue [2,3]	$3,350.61	$3,237.50	$3,247.64	$3,340.35	$102.85	3.18%
Transfers In	$12.12	$6.73	$8.06	$7.48	$0.75	11.13%
Total Available	**$3,548.12**	**$3,381.28**	**$3,495.98**	**$3,474.13**	**$92.85**	**2.75%**
Direct Expenditures [2]	$1,161.44	$1,193.61	$1,259.27	$1,236.75	$43.15	3.61%
Transfers Out						
School Operating [4]	$1,626.60	$1,610.33	$1,611.59	$1,610.33	$0.00	0.00%
School Debt Service	163.77	160.71	160.71	163.47	2.76	1.72%
Subtotal Schools	*$1,790.37*	*$1,771.04*	*$1,772.30*	*$1,773.81*	*$2.77*	*0.16%*
Revenue Stabilization	$16.21	$0.00	$0.00	$0.00	$0.00	-
Metro	7.41	7.41	7.41	11.30	3.89	52.48%
Community Services Board	93.62	93.34	93.34	94.45	1.11	1.19%
County Transit Systems	21.56	31.99	31.99	34.46	2.46	7.70%
Capital Paydown	20.89	15.58	15.91	16.08	0.51	3.25%
Information Technology	13.43	3.23	13.23	5.28	2.06	63.75%
County Debt Service	110.93	121.87	121.87	119.37	(2.50)	(2.05%)
OPEB	9.90	9.90	9.90	20.00	10.10	102.02%
Other Transfers	62.08	60.15	69.05	64.85	4.70	7.81%
Subtotal County	*$356.03*	*$343.47*	*$362.69*	*$365.79*	*$22.33*	*6.50%*
Total Transfers Out	$2,146.40	$2,114.51	$2,134.99	$2,139.60	$25.09	1.19%
Total Disbursements	**$3,307.84**	**$3,308.12**	**$3,394.26**	**$3,376.35**	**$68.23**	**2.06%**
Ending Balance	**$240.28**	**$73.16**	**$101.72**	**$97.78**	**$24.61**	**33.64%**
Less:						
Managed Reserve	$68.01	$66.16	$67.89	$67.53	$1.36	2.06%
FY 2009 Audit Adjustments [5]	0.73				0.00	-
Balances held in reserve for FY 2011 [6]	12.97				0.00	-
Third Quarter Reductions [7]	35.34				0.00	-
Retirement Reserve [8]	20.00				0.00	-
Reserve for State Cuts [9]		7.00			(7.00)	(100.00%)
Reserve for FY 2011/FY 2012 [10]			23.95		0.00	-
FY 2010 Audit Adjustments [2]			2.54		0.00	-
Additional FY 2011 Revenue [3]			7.34		0.00	-
Reserve for Board Consideration [11]				30.25	30.25	-
Total Available	**$103.23**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**0.00%**

[1] The FY 2012 Advertised Budget Plan Beginning Balance reflects the FY 2011 Revised Managed Reserve of $67,885,230 and, as noted below, balances held in reserve for FY 2012 requirements totaling $23,953,143, the net impact of FY 2010 audit adjustments of $2,539,239, and additional FY 2011 revenue of $7,339,516. In addition, the beginning balance includes $15,000,000 set aside in reserve in Agency 89, Employee Benefits, at the *FY 2010 Carryover Review* for anticipated increases in the FY 2012 employer contribution rates for Retirement and $9,580,000 in reductions anticipated to be taken at the *FY 2011 Third Quarter Review* and held in reserve to balance the FY 2012 budget.

[2] In order to appropriately reflect actual revenues and expenditures in the proper fiscal year, FY 2010 revenues are increased $1,890,845 and FY 2010 expenditures are decreased $648,394 to reflect audit adjustments as included in the FY 2010 Comprehensive Annual Financial Report (CAFR). As a result, the *FY 2011 Revised Budget Plan* Beginning Balance reflects a net increase of $2,539,239. Details of the FY 2010 audit adjustments will be included in the FY 2011 Third Quarter package. It should be noted that this amount has been set aside in reserve and utilized to balance the FY 2012 budget.

[3] *FY 2011 Revised Budget Plan* revenues reflect a net increase of $7,339,516 million based on revised revenue estimates as of fall 2010. The *FY 2011 Third Quarter Review* will contain a detailed explanation of these changes. It should be noted that this amount has been set aside in reserve and utilized to balance the FY 2012 budget.

[4] The proposed County General Fund transfer for school operations in FY 2012 totals $1,610.3 million, which reflects no change from the FY 2011 Adopted Budget Plan level. It should be noted that the Fairfax County Public Schools Superintendent's Proposed budget reflects a General Fund transfer of $1,659.1 million, an increase of $48.8 million or 3.0 percent over the FY 2011 Adopted Budget Plan. In their action on the Superintendent's Proposed budget on February 3, 2011, the School Board maintained the Superintendent's transfer request.

[5] As a result of FY 2009 audit adjustments, an amount of $728,086 was available to be held in reserve in FY 2010 and was utilized to balance the FY 2011 budget.

[6] As part of the *FY 2009 Carryover Review*, $12,429,680 was identified to be held in reserve for FY 2011 requirements. As part of the *FY 2010 Third Quarter Review*, an additional amount of $542,445 was set aside and held in reserve for FY 2011 requirements. This balance was the result of decreased Managed Reserve requirements attributable to reductions taken as part of the *FY 2010 Third Quarter Review*. This reserve was utilized to balance the FY 2011 budget.

[7] As part of the *FY 2010 Third Quarter Review*, $35,340,186 in reductions were taken and set aside in reserve for FY 2011 requirements. This amount was assumed in the beginning balance for the FY 2011 Adopted Budget Plan and was utilized to balance the FY 2011 budget.

[8] As part of the *FY 2009 Carryover Review*, $20,000,000 was set aside in reserve in Agency 89, Employee Benefits, for anticipated increases in the FY 2011 employer contribution rates for Retirement. This amount was assumed in the beginning balance for the FY 2011 Adopted Budget Plan and was utilized to balance the FY 2011 budget.

[9] An amount of $7,000,000 was set aside in reserve as part of the FY 2011 Adopted Budget Plan to offset potential reductions in state revenue beyond those accommodated within FY 2011 revenue estimates. As part of the *FY 2010 Carryover Review*, $1,255,755 of this reserve was utilized to fund the Priority Schools Initiative for the Fairfax County Public Schools. The remaining balance was reallocated to a reserve for FY 2011 critical requirements or to address the projected FY 2012 shortfall.

[10] As part of the *FY 2010 Carryover Review*, $23,953,143 was identified to be held in reserve for critical requirements in FY 2011 or to address the projected budget shortfall in FY 2012. It should be noted that this reserve has been utilized to balance the FY 2012 budget.

[11] As part of the FY 2012 Advertised Budget Plan, a balance of $30,249,733 is held in reserve for Board of Supervisors' consideration in the development of the FY 2012 budget.