Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Mark-up of the FY 2012 budget occurred on April 12, 2011. As of July 1, 2011, "the combined revenue and disbursement balance, after funding obligations and Managed Reserve is $59.25 million." What portion of the increased revenues and/or decreased expenses that contributes to the $59.25 million was known to staff as of April 12, 2011?

Response: The $59.25 million surplus is the result of a combination of higher than budgeted revenues (an increase of $50 million or 1.5%) and a net savings in expenditures of approximately $10 million.

The *FY 2011 Third Quarter Review* that was presented to the Board of Supervisors in March represented staff's estimate of FY 2011 year-end receipts. At that time, revenue estimates were increased over $22 million. Estimates for Personal Property Taxes, Recordation Taxes, Sales Taxes, and building permits and inspection fees were increased. The better-than-projected year-end FY 2011 revenue reflects some modest improvements in the economy – especially in the areas of Sales Tax receipts, building and inspection fees and Business, Professional and Occupational Licenses (BPOL) tax receipts.

At the *FY 2011 Third Quarter Review*, Sales Tax receipts were increasing just 1.5 percent. After the Third Quarter Review, monthly Sales tax receipts rose at an average rate of 7.3 percent. For the fiscal year, Sales Tax receipts increased 3.5 percent over the FY 2010 level. The issuance of building permits was also stronger than expected after the Third Quarter Review and revenue at year-end was up over 18 percent. BPOL Tax receipts are not known until the last quarter of the fiscal year and staff relies on models to predict revenue. Businesses file and pay their BPOL Taxes simultaneously on March 1 based on the prior year's gross receipts. Filings are received via mail and must be reviewed before collections are recorded. FY 2011 BPOL Taxes were up 4.7 percent over the FY 2010 level, which had declined 1.0 percent. Bank Franchise Tax receipts also added to the surplus. Revenue from this tax is always received from late May through June. FY 2011 receipts were the result of excess reserves due to Troubled Asset Relief Funds (TARP) and reduced bank lending.

The savings in County expenditures are a result of close management of agency spending and were achieved as a result of operational efficiencies and closely managed staffing resources.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: What are the "current projections" of revenues and expenditures that cause staff to conclude that "there will be a shortfall of well over $100 million" in FY 2013?

Response: Based on a preliminary forecast as included in the FY 2012 Adopted Budget Plan, the projected shortfall for FY 2013 is attributable to anticipated increased disbursement requirements and the loss of one-time balances used in FY 2012, partially offset by projected revenue increases.

The forecast includes an approximate 5 percent increase in disbursements over FY 2012 levels. This includes a projected 5 percent increase to the County transfer to Fairfax County Public Schools. In addition, based on budget guidance from the Board approved as part of the FY 2012 Adopted Budget Plan, funding is included to implement the County's refined compensation program. Additional disbursement requirements include those related to benefits, contract inflationary adjustments, debt service, fuel, and utilities. The projected shortfall also includes the requirement to compensate for one-time balances used in FY 2012. Many of these balances were the result of year-end savings available at the *FY 2010 Carryover Review* and those resulting from reductions taken as part of the *FY 2011 Third Quarter Review*.

Although revenues are projected to increase in FY 2013, this increase is not anticipated to fully offset increased disbursement requirements. FY 2013 revenues are projected to increase 3 percent over FY 2012, based primarily on modest projected increases in both residential and nonresidential property values. With these revenue increases and the disbursement requirements summarized above, a shortfall of over $100 million is anticipated for FY 2013. It should be noted that an updated forecast will be presented to the Board of Supervisors in November.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: The Carryover package includes an increase of $6 million to Fund 501 "for accrued liability adjustments." When did staff become aware of these increased accrued liabilities? Explain why "case reserves for reported claims have increased by only 7.60 percent while accrued liability for IBNR claims has increased by 21.22 percent."

Response: The level of funding required in the County's Accrued Liability Reserve is determined annually through an actuarial valuation performed by an outside actuary. Staff first became aware of the potential need for an increase in the reserve when the actuary released a draft report on May 6, 2011. The actuary released the final report on July 19, 2011, which confirmed the preliminary findings of the draft report.

Case reserves are established for claims that have been reported to the County, and are set at a level that will fund anticipated expenses for each claim based on an evaluation by the Risk Management and Third Party Administrator (TPA) claims staff of the information available and in accordance with standard industry practices. It is the County's policy to fully reserve for claims at 100 percent of their anticipated value. As claims progress, new information may develop which require reserves to increase or decrease. The 7.60 percent increase in case reserves for reported claims represents the aggregate change in case reserves based on new claims being reported, existing claims being paid out, and reserves being adjusted based on new information about existing claims. This increase includes the impact of such factors as the rising cost of medical care, reopening of older closed cases, or changes in medical conditions requiring more aggressive treatment.

While case reserving is done by professional claims staff based upon known factors, Incurred but Not Reported (IBNR) funding is accomplished through the application of mathematical algorithms by professional actuaries. The intent of this process is to predict the cost of losses which are unknown. Some of these unknown losses are claims which have already happened but have not yet been reported, but they are primarily claims that are known to exist but will have unanticipated expenses. For example, a workers' compensation claim involving a hip injury which has had minimal treatment over ten or fifteen years may suddenly require hip replacement surgery, or there may be a hypertension claim which now requires heart surgery. Situations such as these where large, unanticipated expenses arise years after the claims were created are possible because workers' compensation awards include lifetime medical care, and these situations have a significant impact on IBNR. Similarly, several large, recent auto liability losses resulted in an increase in IBNR because they demonstrate increasing cost trends, even though actual case reserves for auto liability decreased because those known cases were paid out. Large losses such as these impact IBNR even after the cases are resolved because they establish trends in the County's claims experience, indicating the potential for other large, unanticipated expenses in the future. Professional actuaries include these trends in their highly specialized analysis of County liabilities, and have determined that the accrued liability for IBNR has increased by 21.22 percent.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Explain in detail the proposal to relocate the Human Services agencies. Was this presented to and/or approved by the Board? Who made the decision to make this relocation? What is the impact on residents who receive services at the existing location? Is $1 million the total extra cost associated with this relocation? Has the County executed the lease for the new facilities? Why was this expenditure not part of the FY 2012 budget deliberations?

Response: Since 1990 multiple Fairfax County Human Services departments and Fairfax County Public Schools have occupied the leased facility located at 6245 Leesburg Pike, Falls Church, Virginia. This location has served as one of several co-located Human Service delivery sites in Fairfax County. Over 300 County employees serve more than 4,000 clients per month at the current facility providing services and conducting programs including, Self-Sufficiency, SkillSource, Job Corner, Adult and Aging, Child Protective Services, Foster Care and Adoption services, Family Preservation Services, Healthy Families, and Child Care Assistance and Referral (CCAR) Program.

The current leased facility has several inefficiencies that include aged elevators and unreliable HVAC, electrical and plumbing systems that breakdown frequently and cause significant disruptions to County operations. Based on these building inefficiencies and the initial unwillingness of the current landlord to accommodate the County's lease term, the Facilities Management Department in collaboration with a Real Estate Advisor identified alternative leased space at Heritage II and III located at 7611 Little River Turnpike. The landlord of 7611 Little River Turnpike submitted a favorable lease term, rental rate, and tenant improvement allowance that, over the term of the lease, will achieve a lease cost savings to the county. Also, the term will enable staff to move directly to the new East County Center, which is anticipated to be operational by late 2016.

After negotiating favorable lease terms, staff recommended the relocation from 6245 Leesburg Pike to 7611 Little River Turnpike to the County Executive who approved a letter of intent to proceed with the Lease. Staff briefed the Chairman, the Chair of the Human Services Committee and Mason District Supervisor about the relocation to Heritage II and III from the Falls Church site. Lease renewal discussions with the current landlord were progressing positively when the FY 2012 budget was adopted. It was not until after the budget was adopted that staff hit an impasse with the current landlord and conducted a market search for alternative space.

Heritage II and III are located 5 miles from 6245 Leesburg Pike and are within the same Human Services catchment area. The facility is located along a well-traveled, accessible public transportation route, and many residential properties located within walking distance of the facility are occupied by individuals who utilize County Human Services. All Fairfax County Human Service agencies currently located at 6245 Leesburg Pike will be relocated to 7611 Little River Turnpike. The expected move date is anticipated to occur in May 2012.

All human services agencies recognize the importance of an effective communication plan that provides timely communication to clients and surrounding community stakeholders of the Falls Church Human Services site. Representatives from Human Services departments that will transition to the new leased facility are working on a communication and transition plan to ensure the least amount of disruption to clients and staff.

Although one-time net costs of $1,000,000 are required to accommodate the relocation of several Human Service agencies, this cost will be offset by realized savings in lease expenses over the life of the lease. It should be noted that additional FY 2012 funding is available for furniture and fixture costs that was originally intended for replacement at the Leesburg Pike site. The $1 million cost included in the Carryover package is required for costs associated with information technology costs such as the installation and equipment for telephones, I-Net connections and other cabling, architectural design costs associated with the new space and moving costs.

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Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: When and how did the Board of Supervisors direct that "funding of $2 million, as supported by a transfer from Fund 105, Cable Communications, [be] included for deployment of up-to-date technology to support secure access of new web-based social media functionalities?" Exactly what is the purpose and value of this investment? What will the county be able to do after this investment is made that it cannot currently do? Why is that worth $2 million?

Response: In the FY 2012 Budget Markup Process package dated April 12, 2011, it was noted in the Chairman's remarks that the $2.0 million proposed for the Information Technology Communication Enhancement project was being "deferred." *The FY 2011 Carryover Review* reflects the first opportunity available to bring it back before the Board for reconsideration, and thus it was included in the July 26, 2011 carryover package.

As part of the *FY 2011 Carryover Review*, funding of $2.0 million is recommended for the Information Technology Communication Enhancement project. These funds will allow for the deployment of up-to-date technology to support secure access of new web-based social media functionalities. This project will implement protected web security gateway infrastructure that will provide comprehensive secure access to County agencies for agency business needs, smart media/video streaming, and data leakage protection. Some County agencies must now use social media sites for conducting County business with constituents and community partners. As recently seen during the earthquake on August 23, 2011, social media capabilities greatly expand the County's ability to communicate vital information. During this event, social media tools were working and added to the ability to get the word out about status.

As users increasingly embrace social media and mobile computing, the County must proactively plan and implement robust IT security infrastructure for safeguarding the County's critical systems from increasingly sophisticated threats arising from new tools. This project will improve compliance with regulatory standards, proactively mitigate against cyber security threats to the County's networks, enable real time security monitoring and capture web traffic intelligence efficiently.

Recognizing the value of technology to County government, ensuring the security of the County's IT investments and information assets is of primary importance. If this project is not funded in FY 2012, the County will not be able to provide comprehensive secure social media access to County agencies. It should be noted that the proposed solution is not scalable. The $2.0 million supports a complete solution intended to effectively mitigate the risks associated with employees using social media from inside the County. Without the whole solution, the Department of Information Technology cannot provide the access without introducing an unacceptable level of risk to the County. Further, it should be noted that no other IT function is impacted by dedicating resources to this function as funds available in Fund 105, Cable Communications, are being used to secure and deploy this technology.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Regarding the use of $5 million from Fund 319, The Penny for Affordable Housing Fund, "to support several affordable housing initiatives," when was it determined to use these funds for this purpose? Were these funds available as of April 12, 2011? If so, during budget deliberations, was the Board presented with the option of using these funds to fund housing programs in the FY 2012 budget before the budget was approved? What will the balance of Fund 319 be if $5 million is used as proposed in the Carryover package?

Response: The Housing Blueprint was adopted by the Board of Supervisors on January 26, 2010 and included four principal goals: 1) to end homelessness in 10 years; 2) to provide affordable housing options to those with special needs; 3) to reduce the waiting lists for affordable housing by half in 10 years; and 4) to produce workforce housing sufficient to accommodate projected job growth. Beginning in FY 2011, a variety of federal and local resources, including $4.1 million in project revenue from the County-owned Wedgewood Apartments complex, was identified to support the Housing Blueprint. This recurring funding was also included in the FY 2012 Advertised Budget Plan.

Discussion surrounding an additional $2 million unfunded portion of the Housing Blueprint occurred at the Board's Housing Committee meeting on March 1, 2011. As a result, Department of Housing and Community Development (HCD) staff explored potential revenue sources, including available funding outside of existing Fund 319 allocations, to fund the identified gap. As part of the Board's markup of the FY 2012 budget, budget guidance for FY 2012 and FY 2013 directed staff to:

> "review funding requirements for the Housing Blueprint for FY 2012 and identify flexibility in Fund 319 generated from program income, savings from the Crescent refinancing and grant opportunities, and report to the Housing Committee at an upcoming meeting so that necessary funding adjustments may be made at Carryover." and
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> "work with our community stakeholders to review the Ending Homelessness Strategic Plan and develop a framework for providing a full continuum of supports that address the root causes of homelessness. The Housing Blueprint and the Preventing and Ending Homelessness Strategic plan are excellent foundations for addressing homelessness and the availability of adequate affordable housing resources, but to ensure positive and sustainable outcomes, we must work to enhance the capacity of our system to provide support services for those most in need. Our strategy must include new housing resources but also the full continuum of housing supports including customized employment services, affordable health care and childcare in an effort to prevent homelessness and end the cycle of chronic homelessness."

At the Board's Housing Committee meeting on May 3, 2011, HCD staff shared they had identified some flexibility and would report back to the Board and make recommendations as part of Carryover.

As part of the *FY 2011 Carryover Review*, HCD staff identified $5 million that had been escrowed for debt reduction at Wedgewood that could be used as one time funding to support: 1) the $2 million gap in funding for the FY 2012 Housing Blueprint activities; 2) non-profit organizations to leverage additional funding for supportive services for those on the County's affordable housing waiting lists, as well as to expand services and the affordable housing stock for the benefit of those with very low incomes, including the potential relocation of the Lamb Center; and 3) rehabilitation and renovation work at the Wedgewood Apartments community center and related facilities. It should be noted that the $5 million is a result of accrued program income and savings from Wedgewood Apartments operations accumulated since the purchase of the complex in November 2007. It is anticipated that there will be sufficient flexibility to accommodate the FY 2013 requirement of the recurring portions of Housing Blueprint activities, as a result of program revenue and savings in debt service and operating costs from Wedgewood Apartments, Crescent Apartments, and Olley Glen.

The ending balance of Fund 319 as a result of *FY 2011 Carryover Review* adjustments remains at $0, the same level as the FY 2012 Adopted Budget Plan.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Has the final dismissal order been entered in the Public Service Corporation Litigation?

Response: On August 3, 2011, Verizon Virginia, Inc. and Verizon South, Inc. filed motions and notices to withdraw from further prosecution their 2009 and 2010 Applications for Correction of Erroneous Tax Assessment currently pending before the Virginia State Corporation Commission. The Board was notified of this information on August 4, 2011.

On August 23, 2011, the Virginia State Corporation Commission entered the final Orders of Dismissal with Prejudice for the 2009 and 2010 Verizon tax appeals. From a legal standpoint, now that the Commission has granted Verizon's motions and entered the final Orders of Dismissal, these cases are now deemed concluded. Copies of these final orders will be sent to the Department of Tax Administration for its records.

As part of the *FY 2011 Carryover Review*, a Public Service Corporation (PSC) Litigation Reserve was included in the County Executive's proposal to cover for the potential lost revenue and ancillary costs in the Office of the County Attorney. Had Verizon prevailed on all its claims against Fairfax County in these appeals, the revenue loss to the County would have been approximately $7.8 million dollars, and when combined with an estimated $225,000 in other related costs such as accrued interest, expert fees, and ancillary litigation costs, the total impact was estimated at $8,025,000. The PSC reserve was funded by an increase of $8,025,000 in Business Professional and Occupational Licenses (BPOL) revenue above the amount originally estimated in the FY 2012 Adopted Budget Plan.

As a result of this final action, an amount of $8.0 million is available and is recommended to be allocated to the reserve for FY 2013 which currently totals $24.44 million.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: The Carryover package includes a $5 million increase in expenditures for the Comprehensive Services Act funding "based on anticipated expenditures in FY 2012." When was the need for the increased expenditures identified? On what will the increased expenditures be spent?

Response: The Comprehensive Services Act (CSA) provides both community-and facility-based services to at-risk children and their families. Services offered through CSA are driven by federal and state mandates in foster care and special education. County agencies and Fairfax County Public Schools (FCPS) work collaboratively to design service plans meeting the unique needs of families with children and youth who have, or are at-risk of having, serious emotional or behavioral difficulties.

In FY 2008, the state instituted changes to its classification of service requirements related to mandated services. Based on reinterpretation of state policy regarding foster care prevention, the State has placed children in need of mental health services in the mandated services category. This reinterpretation was intended to prevent the relinquishment of custody by parents whose children are in need of mental health services, but for who there is now only limited non-mandated funding available to purchase services. By broadening the foster care prevention population, for which services are mandated, more youth must now receive services.

As a result of this state action, a permanent CSA reserve was established in Agency 87, Unclassified Administrative Expenses as part of the FY 2009 Adopted Budget Plan. This reserve addresses the funding shortfall due to the state change, as well as any significant fluctuations in the number of youth served or complexity of services provided. This reserve has been utilized each year. The FY 2012 funding requirement is based on the adjustment made as part of the *FY 2011 Third Quarter Review* and is consistent with current policy.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Regarding Fund 319, The Penny for Affordable Housing Fund, provide a detailed explanation of the encumbered carryover including what it represents and why it was not expended in FY 2011?

Response: The $9,041,690 in unexpended project balances is comprised of the following:

- $3,943,400 from the Bridging Affordability Program: This program was authorized as part of the FY 2011 Adopted Budget Plan and included in the Housing Blueprint. The program provides funding to non-profits via a competitive process, for use as rental subsidies and as capital for the acquisition of additional affordable units to address the homelessness and waiting list goals of the Blueprint. The Request for Proposals was released in November 2010 and responses were due February 2011. The $3.8 million award was made to a consortium of nine non-profits in May 2011 and the first payment is projected to be made September 2011.

- $3,867,738 from Wedgewood Apartments: This is funding that is designated for debt service payments at Wedgewood.

- $683,073 from Affordable/Workforce Housing: This funding is undesignated and is available for reallocation to specific projects that are authorized by the Board of Supervisors.

- $405,577 from Crescent Apartments: This funding is the balance after debt service payments and $250,000 will be utilized for predevelopment expenses related to the Crescent redevelopment as part of the revitalization of Lake Anne.

- $141,902 from the Silver Lining Initiative: The program is a homeownership program focused on foreclosure and the program is coming to a close. The FCRHA has approved utilizing these remaining funds for a new closing cost program, and an agenda item will be presented to the Board of Supervisors at the September 13, 2011 Board meeting requesting the reallocation of the funds to a new Closing Costs Grant program.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: The Carryover package indicates that the FY 2012 ending balance for Fund 112, Energy/Resource Recovery Facility (E/RRF,) will be $35.6 million. Are any General Funds being expended in FY 2012 for costs that could be paid from this reserve? Can any portion of this reserve be transferred to the General Fund? What is the proposed use of this reserve?

Response: Fund 112, Energy/Resource Recovery Facility (E/RRF), is a special revenue fund established for the specific purpose of solid waste management. User fees collected for solid waste disposal fund the County's waste-to-energy facility which annually processes over 1 million tons of waste. The County charges a tip fee to all users of the E/RRF and subsequently pays the contractual disposal fee to Covanta Fairfax, Incorporated (CFI) from these revenues. The $29 per ton fee is set at the level necessary to accommodate plant operations and maintenance costs, other pass through costs, and provide sufficient reserve funding as noted below. As a result, there are no available funds in these reserves that could be used to cover General Fund expenditure requirements.

In previous years, a General Fund transfer in the $1.5 million range was approved to subsidize the real estate tax liability for the E/RRF; however, at the recommendation of the Auditor to the Board, this practice is not being continued in FY 2012 and was reflected as such in the FY 2012 Adopted Budget Plan.

The majority of the available reserves in this fund are held in the Rate Stabilization Reserve ($24.1 million), which is used to buffer against a long term adjustment to tip fees. As of this writing, the long-term arrangement for solid waste disposal is still being determined. The current disposal arrangement with Covanta extends until 2016. Long term options include the extension of the current agreement for use of the ERRF or pursuit of alternate disposal options. The FY 2012 budget was prepared assuming the current contract arrangement which provides for a below market disposal rate through February 2016. Extending the current agreement or use of alternate disposal arrangements will most likely result in a significant increase in disposal fees (up to 175 percent), once the current agreement expires. As a result – and in order to mitigate the impact to customers if a transition to market rates occurs in 2016, the disposal fee is being kept at its current rate with savings generated being transferred to the Rate Stabilization Reserve for future use.

Other reserved funds include the Tipping Fee Reserve ($1.5 million) which is used to buffer against sharp annual changes in tip fees that could result from issues such as tax changes regarding energy sales, power deregulation, state or EPA environmental fees, and/or contract changes. Additional funds are held in the Operations and Maintenance Reserve ($10.0 million) which is necessary to support ongoing improvements and enhancements to the E/RRF including emissions control efforts. Future projects may include additional retrofits to the air pollution control systems for reductions in nitrogen oxides. The reserve will fund the County's share of the initial capital expenditures on the improvements.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: The Carryover package indicates that the FY 2012 ending balance in Fund 114, I-95 Refuse Disposal, will be $35.2 million. Are any General funds being expended in FY 2012 for costs that could be paid from this reserve? Can any portion of this reserve be transferred to the General Fund? What is the proposed use of this reserve?

Response: Fund 114, I-95 Refuse Disposal, funds the County's I-95 Sanitary Ashfill which has served the solid waste disposal needs of the residents of the participating jurisdictions utilizing the facility. In accordance with a memorandum of understanding with the other participating jurisdictions, this special revenue fund was established to maintain the revenues and expenses of the landfill separate from other County funds. Since December 1995, the facility has accepted only ash material for land burial. The I-95 Sanitary Ashfill continues to operate as a model facility - meeting permit requirements, inspection criteria, and availability requirements for the participating jurisdictions and customers of the facility. The $15.50 per ton fee is set at the level necessary to accommodate operational requirements and provide sufficient reserve funding for capital projects and post closure care. As a result, there are no available funds in these reserves that could be used to cover General Fund expenditure requirements.

There are five major reserves in this fund – the largest of which is the Post-Closure Reserve. This reserve is required for a 30-year period after the ashfill closes and is mandated by federal and state regulations. The FY 2012 projected reserve of $26.0 million represents approximately 56 percent of the estimated requirement of $46,320,930 and is thus not sufficient to cover all identified costs. It will be necessary to identify and set aside additional funds in future years for this purpose.

Other reserves in this fund include the Active Cell Closure Liability Reserve ($2.7 million) which is necessary for the closure of active disposal cells of the Ashfill and is necessary for ashfilling activities to progress in accord with state requirements. The Environmental Reserve ($5.0 million) is a contingency fund, assuring that the County has funds to implement, or at least start to implement, unplanned actions to protect the environment or meet regulatory requirements. Specific examples of future environmental projects are likely to include: Landfill Gas Control Projects, Stormwater Management, Wastewater (Leachate) Management, and Groundwater protective measures.

In addition, the Capital Equipment Reserve ($1.1 million) is designed to provide funds for the timely replacement of equipment required to operate the I-95 Ashfill once they meet established replacement criteria. Finally, the Construction Reserve ($0.4 million) provides funds for drainage and road projects related to the operation of the I-95 Ashfill.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Sewer Revenue (Fund 400) in FY 2011 was $7.9 million (5.4 percent) higher than the FY2011 estimate. When was staff aware of the increase? Is this higher revenue projected going forward to determine future sewer rates? Why the Board was not informed of these revenue increases before increasing sewer rates for FY 2012? What is the impact on the projected future sewer rate increases as a result of the current and projected revenue increases?

Response: Actual revenues in FY 2011 totaled $154,881,205, an increase of $7,866,205 or 5.4 percent over the FY 2011 estimate of $147,015,000. This increase is primarily due to higher than anticipated Sewer Service Charges based on actual water consumption and wastewater treatment requirements in the County and in other jurisdictions for which the County provides sewer services. The increase was partially offset by lower than projected Availability Fee revenue due to reduced development activity in the County and lower interest earnings. The Wastewater Management staff became aware of the additional sewer revenue at the end of FY 2011. The FY 2011 actual revenue included several year-end accruals which were higher than anticipated. Revenue accruals are estimated each year based on water usage and prior year experience. In April and June 2011, water consumption was unusually high which could be due to weather or other factors. These entries were booked the last week of June. Wastewater Management staff makes budget revenue projections 9 to 21 months in advance, with the best information available; however, the economy, weather and other factors impact actual results.

The FY 2011 increase in revenue is already being used in the preparation of Wastewater Management Rate Analysis which includes the review of actual revenues, availability fees, Operations & Maintenance (O&M) requirements and CIP expenditures as well as debt service. Billed consumption data from billing agents and wastewater flows are also analyzed. Future projections are based on all this data and certain assumptions are made regarding future interest rates, expenses, inflation factors, and trends. Once all these reviews are complete, staff will know the impact of this increased revenue on future rate increases.

One of the issues identified to the Board of Supervisors several years ago was that the agency heavily relies on borrowing money, and relying on previous new development surpluses that had accumulated during the years when development was booming. This allowed the County to keep rates artificially low for a while. Recent rate increases are the result of a reduction in new development surpluses and the tightening of environmental laws. Positive outcomes of the recent economy have included favorable bids on capital projects, and the fact that operating supply costs did not increase as was predicted before the economy deteriorated. All of the favorable conditions will be factored into the FY 2013 rate analysis and budget development, and any surplus funds at year end will stay in the fund to help offset future costs.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Sewer Operation and Maintenance costs (Fund 401) in FY 2011 were $4.4 million (excluding encumbered carryover) less than the FY2011 Revised Budget Plan. When was staff aware of this decrease? Why was the Board was not informed of these expenditure decreases before setting sewer rates for FY 2012? Are these lower expenses projected going forward to determine future sewer rates? What is the impact on the projected future sewer rate increases as a result of the current and projected expenditure decreases?

Response: FY 2011 actual expenditures in Fund 401, Sewer Operation and Maintenance were $84,646,658, a decrease of $5,181,914 or 5.8 percent from the *FY 2011 Revised Budget Plan* amount of $89,828,572. Of this amount, $760,701 was due to encumbered carryover, leaving $4,421,213 or 4.9 percent from the FY 2011 estimate. These reduced operating costs were based on actual usage and invoices, primarily associated with a reduction in the unit price for chemicals used in the treatment of wastewater which include sodium hydroxide, sodium bisulfate and lime, utility savings and other operational savings such as fuel, vehicle maintenance costs and other repair and maintenance requirements. Projecting plant operational requirements is dependent on many outside influences; therefore, balances can fluctuate.

Wastewater Management staff reviews expenditure estimates for this fund on a regular basis and in fact reduced FY 2011 estimates by $10,552,430 as part of the *FY 2011 Third Quarter Review*. Of this amount, $4,218,039 in Personnel Services was associated with savings based on managed position vacancies and fringe benefits. In addition, a decrease of $6,334,391 in Operating Expenses was based on overall operating efficiencies. This included the unit price for petroleum based chemicals and a switch to less expensive chemicals in the treatment of wastewater. Electricity requirements were also lower than anticipated based on actual fuel factor rates and a reduction in kilowatt usage. Reduced operational costs at the County plant are reflective of operational costs at other plants, therefore reducing interjurisdictional payments as well. These savings were anticipated during FY 2011 and were considered in the FY 2012 rate analysis and the recommendations associated with the sewer rates for the next five years. The favorable conditions in all of the sewer system funds will be factored into the FY 2013 budget development and rate proposals.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: Sewer Bond Construction (Fund 408) in Fiscal 2011 had additional funding "available due to favorable bids on capital projects and is being held in reserve until project schedules require additional funding." What is the impact on the projected future sewer rate increases as a result of this additional available funding?

Response: As part of the *FY 2011 Carryover Review*, Fund 408, Sewer Bond Construction fund balance of $11,517,084 was available to appropriate to the capital project reserve to provide funding for future treatment plant and capital project requirements. The fund balance is made up of accumulated project surplus funding and represents 6.72 percent of the *FY 2011 Revised Budget Plan*. Funds were available due to favorable construction bids for various capital projects. Based on the economic conditions in the construction market, project bids have been below anticipated levels. Any bond project surpluses are held in reserve to help offset future project costs. Significant future capital improvements at the Noman M. Cole, Jr. Pollution Control Plant (NMCPCP) will be required to meet new water quality standards associated with the Chesapeake Bay and nutrient reduction requirements.

The availability of fund balances in Fund 408 has also allowed the Wastewater Management Program to delay the issuance of bonds, which were originally scheduled for FY 2011. An amount of $150 million in revenue bonds was anticipated to be issued in FY 2011 to support enhanced nitrogen removal projects within the Capital Improvement Program (CIP). The bond sale is currently planned for FY 2012. It should also be noted that the bond sale requirements for Fund 408 have been reduced by $39,807,586 due to revenue received from the sale of capacity to Prince William County which was approved by the Board of Supervisors on January 25, 2011. Original bond sale projections of $150 million have been reduced to approximately $110 million.

In addition to the reduction in bond requirements, one of the financial goals of the agency is to reduce reliance on debt/borrowing for the annual Replacement and Reinvestment program. This should result in long-term interest expense savings which may result in adjustments to future sewer rate increases.

The availability of the Fund 408 fund balance will not directly impact the future sewer rates, as it is one-time capital project money which will be redirected to future capital requirements. However, staff will examine favorable financial conditions within all of the sewer system funds when conducting the annual rate analysis and preparing the FY 2013 budget.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: For the Retirement Systems (Funds 600, 601 and 602), in FY 2011 actual revenues (through May 2011) increased $773.7 million (140%) over the FY 2011 estimate. FY 2011 actual expenditures were $24.8 million (7.1%) less than the *FY 2011 Revised Budget Plan*. What was the total employer contribution to the systems in FY 2010 and FY 2011 and budgeted for FY 2012?

Response: FY 2011 actual expenditures in Fund 600 (Uniformed Retirement), Fund 601 (Fairfax County Employees' Retirement), and Fund 602 (Police Officers Retirement) decreased $24.8 million from the *FY 2011 Revised Budget Plan*, primarily due to lower than projected benefit payments to retirees. FY 2011 actual revenues through May 2011 increased $773.7 million over the estimate made in FY 2009 for the FY 2011 budget, primarily due to higher than anticipated returns on investments. Markets rebounded significantly in FY 2010 and FY 2011, and the County's Retirement Systems generated strong returns while remaining highly focused on risk management.

Actual employer contributions to the Retirement Systems totaled $128.7 million in FY 2010, which included a County contribution of $110.7 million and a Schools contribution of $18.0 million. Actual employer contributions totaled $171.7 million in FY 2011, which included a County contribution of $144.7 million and a Schools contribution of $27.0 million. The FY 2012 Adopted Budget Plan includes a County contribution of $165.4 million and a Schools contribution of $27.7 million, for a total employer contribution of $193.1 million. It should be noted that the School employer contributions cited are those made for School employees who are covered under the Fairfax County Employees' Retirement System.

Employer contributions are calculated using actuarially-determined rates. In order to assure the continued soundness of each fund, an actuarial valuation is performed each year and, if appropriate, an adjustment is made to the employer contribution rates. The County is required to fund the costs associated with adjustments to the employer contribution rates in order to meet its fiduciary obligation to continue to provide appropriate contribution levels. Increases in contribution rates over the past two years have primarily been the result of the global financial crisis in FY 2009, which resulted in significant losses in the value of the invested assets of all three Retirement Systems. As investment results are smoothed into the actuarial valuations over a three-year period to promote stability in the employer contribution rates, the FY 2009 investment results impacted the FY 2011 and FY 2012 rates and will continue to place negative pressure on the rates at the next valuation. In contrast, during both FY 2010 and FY 2011, the systems' investment performance was exceptional. As with the negative returns in FY 2009, these strong investment returns will be smoothed into valuation results over three years; therefore, the full impact of these positive results will not be fully realized for several years.

Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: For the OPEB Trust Fund (Fund 603), in FY 2011 actual revenues (through May 2011) were $3.1 million (20.4%) over the FY 2011 estimate. FY 2011 actual expenditures were $10.9 million (61.8%) less than the *FY 2011 Revised Budget Plan*. What explains the differences between the actual and budgeted figures? What was the total employer contribution to the trust fund in FY 2010 and FY 2011 and budgeted for FY 2012?

Response: Differences between actual and budgeted figures in Fund 603, OPEB (Other Post-Employment Benefits) Trust Fund, for both FY 2011 revenues and expenditures are primarily due to the timing of the calculation of the County's implicit subsidy. As premiums for the County's self-insured health plans are set using the blended experience of active employees and retirees, retiree premiums are lower than if they were set solely using the experience of the retiree group. Governmental Accounting Standards Board (GASB) Statement No. 45 requires that the County treat the difference between the retiree premium and the blended premium as an implicit subsidy. The implicit subsidy is calculated after the close of each fiscal year as part of the actuarial valuation of the fund and will be shown as offsetting revenue and expenditure audit adjustments for FY 2011 in the FY 2013 Advertised Budget Plan and in the *FY 2012 Third Quarter Review*.

FY 2011 actual expenditures in Fund 603, OPEB Trust Fund, decreased $10.9 million from the *FY 2011 Revised Budget Plan*. However, once the implicit subsidy expense is calculated and included in the fund statement, actual expenditures will align more closely with budgeted expenditures. Excluding the budgeted $10,858,000 for the implicit subsidy, actual expenditures decreased $75,338, or 1.1 percent, from the *FY 2011 Revised Budget Plan* due to savings in benefits paid and administrative expenses.

FY 2011 actual revenues increased $3.1 million over the *FY 2011 Revised Budget Plan*. Excluding the budgeted $10,858,000 for the implicit subsidy, FY 2011 actual revenues were $13.9 million higher than the estimate, primarily due to higher than anticipated returns in the County's portfolio in the Virginia Pooled OPEB Trust.

Actual employer contributions to the OPEB Trust Fund in FY 2010 totaled $9,900,000, which was provided through a transfer from the General Fund. For FY 2011, actual employer contributions included a General Fund transfer of $13,900,000 as well as $2,882,138 in contributions from other funds, for a total contribution of $16,782,138. The FY 2012 Adopted Budget Plan includes a General Fund transfer of $20,000,000 as well as $3,959,562 in contributions from other funds, for a total contribution of $23,959,562.

Employer contributions for OPEB are based on the County's Annual Required Contribution (ARC) as calculated as part of an annual actuarial valuation. The ARC can be satisfied each year through a combination of the contribution credited for the implicit subsidy, employer contributions from the General Fund and other funds, and the carryover of any net OPEB asset from the prior year. A net OPEB asset exists when the County funds OPEB contributions beyond ARC requirements; conversely, if the ARC is

not adequately funded, a net OPEB obligation may be shown on the County's financial statements. It is the County's policy to maintain a net OPEB asset, which demonstrates that the County has met its obligations to adequately fund the ARC each year. To prepare for the implementation of GASB 45 in FY 2008, a reserve was created as part of the *FY 2005 Carryover Review* and increased over the next several years to establish an initial net OPEB asset. This initial asset allowed the County to meet required funding obligations to the trust fund while gradually building recurring employer contributions into the baseline. In FY 2011, it is anticipated that a substantial portion of the remaining net OPEB asset will be utilized to meet ARC requirements. (The final FY 2011 net OPEB asset cannot be determined until the implicit subsidy calculation is completed in fall 2011.) In recognition of the impending depletion of the County's net OPEB asset, the General Fund transfer to Fund 603 was increased in both FY 2011 and FY 2012, and other funds contributions were required beginning in FY 2011, in order to meet ARC funding obligations.