County of Fairfax, Virginia

MEMORANDUM

DATE: August 26, 2013
TO: Board of Supervisors
FROM: Susan W. Datta, Chief Financial Officer
SUBJECT: Questions and Answers: *FY 2013 Carryover Review*

Attached for your information are responses to questions on the *FY 2013 Carryover Review*. If you have any questions or need additional information, please contact me.

Question Number	Question	Supervisor	Pages
C1	How did the recent increases in health benefits premiums impact employee take home pay?	Herrity	1
C2	What are the different impacts of bonuses and base salary adjustments on take home pay and retirement benefits?	McKay	2
C3	What is the current requirement for funds from Bridging Affordability to meet Housing Choice Voucher budget reductions associated with the final impact of sequestration? What changed from the estimates of May 2013?	Bulova	3
C4	On page 96, under Fund 40300 Cable Communications, there is reference to "unencumbered carryover of which $7,992,506 is unexpended funds related to the design and operation of the I-Net" and that actual FY2013." Explain in detail: What is the plan for those funds? What will be purchased and when will it be purchased? Why is some portion not available to transfer to the FY2015 starting balance? What amount was expended from Fund 40300 in FY2013 on design and operation of the I-Net?	Foust	4
C5	On page 101, under Fund 40360 Homeowner and Business Loan Programs, it states in part that "FY2014 expenditures are required to increase $9,453,726 due to carryover of unexpended FY2013 program balances" and that FY2013 "actual expenditures" were only $2,359,301. Explain in detail: Why did the FY2013 Revised Budget Plan for this item include $11,813,027? What is the plan for spending this money and when will it be spent? Why is some portion not available to transfer to the FY2015 starting balance?	Foust	5
C6	On page 110, under Fund 73000, 73010, 73020, Retirement Systems, it states "the projected rates of return for the three systems for the full year are estimated to be 7.9 percent for the Employees System, 10.9 percent for the Police Officers System, and 11.3 percent for the Uniformed System." What are the rates of return, separately by retirement System (Employees, Police, Uniformed), for each of the past ten fiscal years?	Foust	6
C7	On page 111, under Fund 73030 OPEB Trust Fund, it states "Portfolio I of the VACo/VML Pooled OPEB Trust Fund, in which the County invested, returned 12.3 percent during the first ten months of FY2013 (through April 30, 2013)." What are the rates of return for this Pooled OPEB Trust Fund for each of the past ten fiscal years?	Foust	7

Attachment

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Response to Questions on the *FY 2013 Carryover Review*

Request By: Supervisor Herrity

Question: How did the recent increases in health benefits premiums impact employee take home pay?

Response: January 2013 premium increases for the County's four health plans ranged from 6.8 percent to 13.6 percent. The impact of these premium increases on employee take home pay varies based on the employee's plan selection and whether the employee has opted for individual, two party, or family coverage. The increased cost on a monthly basis ranges from $5.49 for an individual in the Carefirst POS plan to $58.46 for a family in the Cigna OAP High plan. Based on current employee health benefit elections, the weighted average impact on take home pay for employees who have elected coverage under one of the County health plans is approximately $26.38 per month.

In addition to health insurance premium increases, the temporary reduction in the Social Security tax rate expired at the end of calendar year 2012. The Social Security tax rate paid by employees was 6.2 percent in calendar year 2010 and prior years. In 2011 and 2012, the rate was temporarily reduced to 4.2 percent. Beginning in 2013, the rate has returned to the previous level of 6.2 percent, resulting in a 2 percent reduction in take home pay that offset. As members of the Police Officers Retirement System do not participate in Social Security, their take home pay was not impacted by this change.

It should be noted that compensation adjustments in FY 2013 had a positive impact on employee take home pay. These compensation adjustments included a 2.18 percent market rate adjustment effective July 2012, a 2.50 percent performance-based scale and salary increase for non-uniformed employees effective January 2013, and merit and longevity increases for uniformed employees.

Response to Questions on the *FY 2013 Carryover Review*

Request By: Supervisor McKay

Question: What are the different impacts of bonus and base salary adjustments on take-home pay and retirement benefits?

Response: Under the County's three retirement ordinances, premium pay, such as a bonus, is not included as "creditable compensation" and therefore is not included in the calculation for determining retirement benefits. As such, neither the County, nor the employee, is required to pay retirement contributions on bonuses. As a result, bonuses are less expensive for the County to implement than base salary adjustments. Additionally, employees will see a greater impact to their take-home pay with a bonus rather than a salary adjustment as they do not have to pay the employee retirement contribution (which ranges from 4 to 10 percent depending on the retirement plan) on bonus pay. Additionally, the employee will see the entire benefit of a bonus at one time, while the impact of a salary adjustment is spread throughout the year. From a long-term perspective, however, bonuses are not as beneficial to employees because the increase is not added to base pay and does not impact retirement benefits.

There is no significant differential between bonuses and salary adjustments from a tax perspective. Bonuses are considered supplemental wages, and taxes are withheld at flat rates of 25 percent (federal) and 5.75 percent (state), plus applicable Social Security and Medicare taxes. However, bonuses are treated no differently than regular wages when determining an individual's total tax liability at year-end. If an employee's wages are subject to a tax withholding rate in excess of the employee's tax liability, the employee may claim a refund on his or her individual income tax return for the year he or she received the wages. Because each employee's tax situation is unique, it is not feasible from an administrative standpoint to provide a bonus which would result in each employee receiving the same net dollar amount.

The cost to the General Fund of a $500 bonus for merit employees would be approximately $6 million. Employees would experience a net increase in take-home pay of between $308-$339 (take-home pay for Police Officers would be higher as they do not pay the 6.2 percent Social Security tax). Because of the one-time nature of bonuses, there would be no impact to the FY 2015 budget.

Response to Questions on the *FY 2013 Carryover Review*

Request By: Chairman Bulova

Question: What is the current requirement for funds from Bridging Affordability to meet Housing Choice Voucher (HCV) budget reductions associated with the final impact of sequestration? What changed from the estimates of May 2013?

Response: The worst-case scenario for the HCV program that was presented to the Board of Supervisors at the May 7, 2013 Housing Committee meeting was based on projected Calendar Year 2013 (CY 2013) Department of Housing and Urban Development (HUD) sequestration funding of $41,387,566. As a result of anticipated federal reductions, staff estimated using $2.8 million in Bridging Affordability funding to fund current vouchers and maintain a $1 million HAP reserve. However, based on the latest HUD guidance, the worst-case scenario will likely not take place as the final amount anticipated for the HCV program for CY 2013 is $42,925,845, an increase of $1,538,279 over the projected amount. Using this final anticipated amount as the base and projected out for the County's FY 2014, approximately $1.0 million in Bridging Affordability funding is required to fund current vouchers and maintain a $1 million HAP reserve.

It should be noted that all projections are based on an assumed attrition rate of 10 vouchers per month, and the Department of Housing and Community Development (HCD) is on-target with that rate at this point in time. The final funding needs for the HCV program will not be fully known until the end of FY 2014. If attrition is less than projected or if the average Housing Assistance Payment goes up (household incomes decline), the amount needed from Bridging Affordability may change. At the current time, however, it is recommended that approximately $1 million be used to replenish the HAP reserve, which is equivalent to one week of HAP expenses. Replenishing the reserve is based on HUD's best practice as a minimum threshold for HAP reserves and is necessary to protect current voucher holders in the event attrition is less than expected or average subsidies needed are more. Without a reserve, the only choice would be to terminate individuals and families if these changes were to occur. It is recommended that a minimum reserve is available for such unforeseen circumstances, to avoid significant hardship/homelessness for a family or individual in the future, and to practice good financial management. It should be noted that the reserve will be held by the County and not HUD and thus cannot be recaptured by HUD like the current reserve has been.

Response to Questions on the *FY 2013 Carryover Review*

Request By: Supervisor Foust

Question: On page 96, under Fund 40300 Cable Communications, there is reference to "unencumbered carryover of which $7,992,506 is unexpended funds related to the design and operation of the I-Net" and that actual FY 2013." Explain in detail: What is the plan for those funds? What will be purchased and when will it be purchased? Why is some portion not available to transfer to the FY 2015 starting balance? What amount was expended from Fund 40300 in FY 2013 on design and operation of the I-Net?

Response: The $7,992,506 cited above reflects the appropriation of unspent public, educational, and governmental (PEG) revenues and is therefore not available to be considered for transfer to balance for alternate uses. Under federal law, the use of PEG funds is limited to certain costs associated with PEG access. For purposes of federal law, PEG funds can be used in support of the County's fiber Institutional Network (I-Net). The I-Net, managed by the Department of Information Technology (DIT), is one of the County's major technology assets, providing a private secure network infrastructure connecting over 400 County and Fairfax County Public Schools (FCPS) buildings serving data, voice, and video transport. The I-Net serves as a primary communications transport for all voice, video, and data services. The 420 locations include 51 public safety facilities and 211 FCPS educational facilities. In addition, the I-Net interconnects the County with localities with similar I-Nets participating in the Council of Government's National Capital Region (NCR) interoperability program.

The I-Net is supported from revenues in Fund 400-C40030, Cable Communications, with an annual transfer to DIT for I-Net expenses. In FY 2013, $3.4 million was expended on the I-Net, and an additional $3.3 million was transferred to DIT, including $0.5 million supporting equipment replacement and an additional $2.8 million supporting the first year of a six year process to fund refresh costs related to the I-Net, in alignment with the County's approved IT principles for sustaining a secure and supportable technology infrastructure. The I-Net has been operational since 2005 and continues to grow in use as County government and FCPS facilities are added. The electronic equipment currently in operation is approaching the end of its useful life and needs to be replaced. Based on the I-Net's last three years of growth, DIT projects adding fiber to County government and FCPS locations that are part of the Capital Improvement Program and the renovation of fiber for 38 other locations in the upcoming three fiscal years. The carryover request provides funding in FY 2014 to continue supporting the I-Net, including these multi-year I-Net requirements.

Response to Questions on the *FY 2013 Carryover Review*

Request By: Supervisor Foust

Question: On page 110, under Fund 73000, 73010, 73020, Retirement Systems, it states "the projected rates of return for the three systems for the full year are estimated to be 7.9 percent for the Employees System, 10.9 percent for the Police Officers System, and 11.3 percent for the Uniformed System." What are the rates of return, separately by retirement System (Employees, Police, Uniformed), for each of the past ten fiscal years?

Response: The rates of return, net of fees, over the past ten years for each of the three retirement systems are provided in the table below. It should be noted that the FY 2013 rates of return that were included in the *FY 2013 Carryover Review* were estimates based on actual experience through May and general market trends in June. As unaudited actual experience is now available through the end of FY 2013, the rates of return shown below have been updated to include investment activity through June 30, 2013. These FY 2013 rates of return continue to be considered estimates, as final audited results are not yet available.

	Employees'	Police Officers	Uniformed
FY 2004	18.2%	15.5%	14.5%
FY 2005	13.2%	9.1%	10.5%
FY 2006	9.0%	9.6%	10.7%
FY 2007	14.8%	17.5%	17.8%
FY 2008	0.9%	(6.0%)	(2.5%)
FY 2009	(23.7%)	(17.4%)	(20.0%)
FY 2010	25.2%	20.8%	15.5%
FY 2011	23.6%	25.2%	24.2%
FY 2012	8.5%	(0.6%)	(0.3%)
FY 2013	7.6%	9.5%	10.0%

Response to Questions on the *FY 2013 Carryover Review*

Request By: Supervisor Foust

Question: On page 111, under Fund 73030 OPEB Trust Fund, it states "Portfolio I of the VACo/VML Pooled OPEB Trust Fund, in which the County invested, returned 12.3 percent during the first ten months of FY 2013 (through April 30, 2013)." What are the rates of return for this Pooled OPEB Trust Fund for each of the past ten fiscal years?

Response: The VACo/VML Pooled OPEB Trust Fund was established on April 11, 2008. The Pooled OPEB Trust Fund includes two portfolios, of which the County participates in Portfolio I. Rates of return for Portfolio I since FY 2009 are presented below. It should be noted that the rate of return for FY 2013 that was included in the FY 2013 Carryover Review reflected ten months of investment activity, through April 30, 2013. As data is now available through the end of FY 2013, the rate of return shown below has been updated to include investment activity through June 30, 2013.

	VACo/VML Pooled OPEB Trust Fund Portfolio I
FY 2009	(14.7%)
FY 2010	12.0%
FY 2011	20.7%
FY 2012	(1.0%)
FY 2013	10.6%

Response to Questions on the *FY 2013 Carryover Review*

Request By: Supervisor Foust

Question: On page 101, under Fund 40360 Homeowner and Business Loan Programs, it states in part that "FY2014 expenditures are required to increase $9,453,726 due to carryover of unexpended FY2013 program balances" and that FY2013 "actual expenditures" were only $2,359,301. Explain in detail: Why did the FY2013 Revised Budget Plan for this item include $11,813,027? What is the plan for spending this money and when will it be spent? Why is some portion not available to transfer to the FY2015 starting balance?

Response: The unexpended balance reflected in the revised budget plan for Fund 40360 (formerly Fund 143), Homeowner and Business Loan Programs, exists because it is a revolving fund. The fund provides rehabilitation loans, grants and materials to low and moderate income homeowners, funds the purchase and resale of first-time homebuyer units by the Fairfax County Redevelopment and Housing Authority (FCRHA), and provides small business loans. Projects are budgeted based on the projected program costs and most programs span multiple years. Therefore, funding is carried forward each fiscal year and ending balances fluctuate, reflecting the carryover of these funds.

As noted in the carryover item, the relatively low actual expenditures are due to decreased activity in the respective program area. However, with respect to current and future plans for increasing program activity; as reported during the FY 2014 Budget process, the FCRHA has expressed interest in utilizing Fund 40360 to purchase new Affordable Dwelling Units (ADUs) that are becoming available as new development is occurring. In accordance with the ADU program, the FCRHA must purchase and, subsequently, resell ADUs and the revolving fund is essential to carrying out this obligation. Additionally, the FCRHA is positioning to propose the strategic purchase of existing ADUs with expiring 15-year covenants, which will otherwise be lost as affordable housing. In September, the FCRHA will continue deliberations and the FCRHA will be asked to adopt and develop criteria for the proposed purchase of existing ADUs with expiring covenants. As part of the action, the FCRHA will consider whether to formally request board authorization to utilize a portion of the funding for capital acquisition.

For these reasons, and considering the continued uncertain nature of federal funding throughout housing programs and that there have been no General Fund contributions to this fund for 18 years, maintaining the balance as proposed in the *FY 2013 Carryover Review* is recommended.