County of Fairfax, Virginia

MEMORANDUM

Attachment B

DATE: March 6, 2012

TO: BOARD OF SUPERVISORS

FROM: Anthony H. Griffin
County Executive

SUBJECT: FY 2012 Third Quarter Review

Attached for your review and consideration is the *FY 2012 Third Quarter Review*, including Supplemental Appropriation Resolution AS 12100 and Amendment to the Fiscal Planning Resolution AS 12901. The Third Quarter Review includes recommended funding adjustments and the following attachments for your information.

Attachment I - A General Fund Statement reflecting the status of the Third Quarter Review. Also attached is a statement of Expenditures by Fund, Summary of All Funds.

Attachment II - A Summary of General Fund Revenue reflecting an increase in FY 2012 revenue of $7.5 million over the Fall 2011 Revenue estimates.

Attachment III - A Detail of Major Expenditure Changes in Appropriated and Non-Appropriated Other Funds. Expenditure changes, excluding audit adjustments, in all Appropriated Other Funds and excluding Schools, the General Fund, and the Federal/State Grant Fund, total a net increase of $55.74 million. Expenditures in Non-Appropriated Other Funds increase a total of $0.20 million.

Attachment IV - Fund 102, Federal/State Grant Fund, detailing grant appropriation adjustments for a total net increase of $18.63 million.

Attachment V - Supplemental Appropriation Resolution (SAR) AS 12100, AS 11155 for FY 2011 adjustments to reflect the final audit, and Amendment to the Fiscal Planning Resolution (FPR) AS 12901.

Attachment VI - FY 2011 Audit Package including final adjustments to FY 2011 and the FY 2012 impact.

Attachment VII - Fairfax County Public Schools (FCPS) Third Quarter Review (The School Board is not scheduled to act on the FCPS Third Quarter Review until March 8, 2012 so any adjustments made by the School Board will be provided to the Board of Supervisors prior to their action on the *FY 2012 Third Quarter Review*.)

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As the Board is aware, the Code of Virginia requires that a public hearing be held prior to the adoption of amendments to the current year budget when the adjustments exceed one percent of total expenditures. In addition, any amendment of one percent of expenditures or more requires that the Board advertise a synopsis of the proposed changes. A public hearing on the proposed changes included in the *FY 2012 Third Quarter Review* has been scheduled for April 10, 11 and 12, 2012. On April 24, 2012, the Board will take action on this quarterly review prior to marking up the FY 2013 Advertised Budget Plan.

The following is a summary of the current financial status as of the Third Quarter Review compared to the *FY 2012 Revised Budget Plan*.

Third Quarter Summary General Fund Statement
(in millions of dollars)

	FY 2011 Actual	FY 2012 Adopted Budget Plan	FY 2012 Revised Budget Plan	Third Quarter Estimate	Variance
Beginning Balance	**$240.28**	**$131.18**	**$236.24**	**$236.24**	**$0.00**
Revenue [1, 2]	**$3,321.01**	**$3,306.95**	**$3,347.02**	**$3,354.52**	**$7.50**
Transfers In	**$8.06**	**$6.90**	**$6.90**	**$6.90**	**$0.00**
Total Available	**$3,569.35**	**$3,445.03**	**$3,590.16**	**$3,597.66**	**$7.50**
Direct Expenditures [1]	**$1,188.33**	**$1,236.42**	**$1,298.81**	**$1,295.93**	**($2.88)**
Transfers Out					
School Operating	$1,611.59	$1,610.83	$1,610.83	$1,610.83	$0.00
School Debt Service	160.21	163.47	163.47	159.74	(3.73)
Subtotal Schools	*$1,771.80*	*$1,774.31*	*$1,774.31*	*$1,770.57*	*($3.73)*
County Transit	$31.99	$34.46	$34.46	$34.46	$0.00
Information Technology	19.03	5.28	16.18	16.18	0.00
Community Services Board	93.13	95.73	96.90	100.50	3.60
Contributory Fund	12.04	12.16	12.41	14.61	2.20
County Debt Service	121.66	119.37	119.37	116.78	(2.59)
Metro	7.41	11.30	11.30	11.30	0.00
OPEB	13.90	20.00	20.00	27.74	7.74
Capital Paydown	15.91	15.78	19.03	19.63	0.60
Other Transfers	57.92	52.68	59.34	59.34	0.00
Subtotal County	*$372.99*	*$366.76*	*$388.98*	*$400.53*	*$11.54*
Total Transfers Out	**$2,144.78**	**$2,141.06**	**$2,163.29**	**$2,171.10**	**$7.81**
Total Disbursements	**$3,333.11**	**$3,377.48**	**$3,462.10**	**$3,467.03**	**$4.94**

	FY 2011 Actual	FY 2012 Adopted Budget Plan	FY 2012 Revised Budget Plan	Third Quarter Estimate	Variance
Total Ending Balance	**$236.24**	**$67.55**	**$128.06**	**$130.62**	**$2.56**
Less:					
Managed Reserve	$68.04	$67.55	$69.24	$69.34	$0.10
Reserve for FY 2011/FY 2012 [3]	23.95				
FY 2010 Audit Adjustments [4]	2.54				
Additional FY 2011 Revenue [5]	7.34				
FY 2011 Third Quarter Reductions [6]	9.58				
Reserve for Board Consideration [7]	4.72				
Retirement Reserve [8]	15.00				
Reserve to address FY 2013 Budget Shortfall [9]			28.69	28.69	0.00
FY 2011 Audit Adjustments [1]			0.62	0.62	0.00
Additional FY 2012 Revenue [2]			29.51	29.51	0.00
Total Available	**$105.06**	**$0.00**	**$0.00**	**$2.46**	**$2.46**

[1] In order to appropriately reflect actual revenues and expenditures in the proper fiscal year, FY 2011 revenues are increased $1.14 million and FY 2011 expenditures are increased $0.52 million to reflect audit adjustments as included in the FY 2011 Comprehensive Annual Financial Report (CAFR). As a result, the *FY 2012 Revised Budget Plan* Beginning Balance reflects a net increase of $0.62 million. Details of the FY 2011 audit adjustments are included in the FY 2012 Third Quarter package. It should be noted that this amount has been set aside in reserve and utilized to balance the FY 2013 budget.

[2] *FY 2012 Revised Budget Plan* revenues reflect a net increase of $29.51 million based on revised revenue estimates as of fall 2011. The *FY 2012 Third Quarter Review* contains 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 2013 budget.

[3] As part of the *FY 2010 Carryover Review*, $23.95 million was identified to be held in reserve for critical requirements in FY 2011 or to address the projected budget shortfall in FY 2012. This reserve was utilized to balance the FY 2012 budget.

[4] As a result of FY 2010 audit adjustments, an amount of $2.54 million was available to be held in reserve in FY 2011 and was utilized to balance the FY 2012 budget.

[5] Based on revised revenue estimates as of fall 2010, an amount of $7.34 million was available to be held in reserve in FY 2011 and was utilized to balance the FY 2012 budget.

[6] As part of the *FY 2011 Third Quarter Review*, $9.58 million in reductions were taken and set aside in reserve. This amount was utilized to balance the FY 2012 budget.

[7] As part of the *FY 2011 Third Quarter Review*, a balance of $4.72 million was held in reserve for Board of Supervisors' consideration for the *FY 2011 Third Quarter Review*, the development of the FY 2012 budget, or future year requirements. As part of their budget deliberations, the Board utilized this amount in order to balance the FY 2012 budget.

[8] As part of the *FY 2010 Carryover Review*, an amount of $15.00 million was set aside in reserve in Agency 89, Employee Benefits, for anticipated increases in the FY 2012 employer contribution rates for Retirement. This reserve was utilized to balance the FY 2012 budget.

[9] As part of the *FY 2011 Carryover Review*, a balance of $28.69 million was held in reserve to address the projected budget shortfall in FY 2013 and has been utilized to balance the FY 2013 budget.

Total FY 2012 revenue is projected to be $3,354,520,264, a net increase of $7.5 million, or 0.2 percent, over the FY 2012 fall revenue estimates. As noted in the FY 2013 Advertised Budget Plan, a net $29.5 million in revenue adjustments were identified in fall 2011 as part of the development of the FY 2013 budget. These adjustments were based on actual FY 2011 receipts and collections through the first several months of FY 2012. As a result of further refinement of revenue estimates, a net increase of $7.5 million over the FY 2012 fall revenue estimates is now included as part of the Third Quarter Review. This increase is primarily the result of a $4.6 million increase in Real Estate Taxes due to an increase in the projected collection rate and lower than expected exonerations; an increase of $0.7 million in Personal Property Delinquent tax collections; an increase of $1.5 million in Other Local Taxes due to higher Recordation Tax receipts; and a $0.8 million increase in Land Development Services' Building and Inspection fees. A detailed description of both the fall and current revenue adjustments are noted in Attachment II.

A net General Fund Disbursement increase of $4.9 million is also included in the *FY 2012 Third Quarter Review* and is the result of savings of $8.2 million and additional requirements of $13.1 million described below. As the Board will recall, early in FY 2012 I directed County agencies to generate savings to meet a portion of the projected deficit in FY 2013 or requirements that might arise in FY 2012 and, as a result, $1.9 million in savings was generated. Due to the cumulative effect of the last several years of budget reductions, the amount of savings that can be generated from agencies is significantly reduced from prior years. In addition, however, more than $6.3 million is available in the County Debt Fund as a result of an extremely successful bond refunding in January 2012 and the payment by the Federal government of the subsidy for the Build America Bonds (BABs) sold by the County in 2009. The County assumed the full payment of BABs pending receipt of this subsidy each year. As a result, funding of $8.2 million is available to meet requirements identified by the County Executive as part of the *FY 2012 Third Quarter Review* or to provide the Board of Supervisors with flexibility as they consider the FY 2013 budget. I would continue to caution that multi-year reductions taken by agencies have been extensive and there is very little if any flexibility remaining in agencies to deal with unforeseen requirements, including weather incidents, spikes in clients seeking services, or increased costs of commodities. Total General Fund Disbursement increases included in the *FY 2012 Third Quarter Review*, excluding reductions, total $13.1 million, reflecting actions that are essential "costs of doing business" such as responding to storm related costs, meeting audit requirements and our other post-employment benefit (OPEB) obligations as well as for programs which are fully supported by additional revenues. In addition, there are a number of agencies, including some of our largest such as the Police Department and the Fairfax-Falls Church Community Services Board (CSB), which require additional funding to meet FY 2012 anticipated expenses. As the Board is aware, in a number of cases the cumulative reductions that have been taken over the last several years have been dramatic. Staff has worked very hard to manage programs within these reduced funding levels but in these limited cases additional resources are required. I would note that in most cases, the FY 2013 impact of these requirements have already been included in the FY 2013 Advertised Budget Plan with the notable exception of the CSB. As the transformation of the CSB service delivery models continues and as changes continue to unfold concerning revenue options available for treatment, we are working to identify what longer term adjustments are required to both services and funding and we will be returning to the Board with recommended options. I am also recommending that we include additional FY 2012 funding for the Lorton Arts Foundation as we have discussed previously. Details of all of my recommended General Fund and General Fund supported adjustments are included below.

The balance available as a result of the *FY 2012 Third Quarter Review* is $2,462,157. This balance can be used by the Board as necessary in making decisions on the FY 2013 budget or holding in reserve for future years.

Summary of General Fund Revenue

A brief summary of the $7.5 million increase in General Fund Revenues over the FY 2012 fall estimate is provided below, while details concerning the increase are provided in Attachment II. Information regarding those midyear adjustments is also provided in Attachment II.

- Current Real Estate Taxes reflect an increase of $4.6 million over the FY 2012 fall estimate, resulting from a higher estimated collection rate and a lower level of projected exonerations, partially offset with a decrease in supplemental assessments.
- Delinquent Personal Property Taxes reflect an increase of $0.7 million over the FY 2012 fall estimate.
- Deed of Conveyance and Recordation Taxes reflect an increase of $1.5 million over the FY 2012 fall estimate due to higher collections resulting from increased mortgage refinancing activity
- Permits, Fees and Regulatory License fees reflect an increase of $0.8 million due to stronger permitting activity.

Audit Adjustments

As a result of the FY 2011 Comprehensive Annual Audit, a number of adjustments to revenues and expenditures are necessary to reflect Generally Accepted Accounting Principles (GAAP) requirements. Revenue and expenditure adjustments result in a net increase of $0.62 million to the FY 2012 beginning General Fund balance. This balance was used to offset FY 2013 budget requirements.

In addition, several other adjustments to various funds are required, including Fairfax County Public Schools' funds and the Fairfax County Redevelopment Housing Authority Funds. All of these audit adjustments were reflected in the FY 2011 Comprehensive Annual Financial Report (CAFR). Details of these audit adjustments are included in Attachment VI.

It should be noted that one County agency, the Economic Development Authority (EDA), and one County fund, Fund 501, County Insurance, require a supplemental appropriation based on audit adjustments to reflect proper accounting treatments. Expenditures in both the EDA and County Insurance were increased in order to accurately record expenditure accruals in the appropriate fiscal period. An appropriation resolution is required to account for adjustments in the correct fiscal period, consistent with GAAP requirements. Supplemental Appropriation Resolution AS 11155 is included in Attachment V of the *FY 2012 Third Quarter Review*.

Summary of Adjustments

The following adjustments are made as part of the *FY 2012 Third Quarter Review*. It should be noted that the revenue adjustments included in the *FY 2012 Third Quarter Review* are described in detail in the Summary of General Fund Revenue, Attachment II.

In addition, there are various General Fund Supported and Other Fund expenditure adjustments, supported by both non-General Fund revenue and the use of fund balance. Adjustments to Other Funds are reflected in the Other Funds Detail section, Attachment III.

ADMINISTRATIVE ADJUSTMENTS – GENERAL FUND IMPACT

		NON-RECURRING
	General Fund Expenditures	($1,925,000)
General Fund and Other Funds	General Fund Transfers	($6,324,603)
Reductions used for FY 2012 Requirements	**Net Cost**	**($8,249,603)**

A number of reductions totaling $8,249,603 are included reflecting the direction to County agencies early in FY 2012 to generate savings in FY 2012 to meet a portion of the projected deficit in FY 2013, or requirements that might arise in FY 2012, and due to flexibility in the debt service fund. Approximately $1.9 million is available as a result of the agency reductions listed below. More than $6.3 million is available in the County Debt Fund as a result of an extremely successful bond refunding in January 2012 and the payment by the Federal government of the subsidy for the Build America Bonds (BABs) sold by the County in 2009. The County assumed the full payment of BABs pending receipt of this subsidy each year. As a result, funding of $8.2 million is available to meet requirements identified by the County Executive as part of the *FY 2012 Third Quarter Review* or to provide the Board of Supervisors with flexibility as they consider the FY 2013 budget.

The agencies/funds with reductions in FY 2012 are:

Agency/Fund	Reduction Description	Net Reduction
DPWES - Land Development Services	Personnel Services based on current workload	$400,000
Library	Personnel Services based on vacancies projected for the remainder of the year	$500,000
Family Services	Unneeded balances in the Home Based Care Program	$250,000
Juvenile and Domestic Relations District Court	Personnel Services as a result of staffing requirements largely associated with the Juvenile Detention Center	$150,000
Sheriff	Personnel Services based on current projected requirements	$625,000
Debt Service	Debt Service savings as a result of 2012B Refunding Bond Sale and payment of the Federal subsidy for 2009 Build America Bonds	$6,324,603
	TOTAL	**$8,249,603**

			RECURRING
Agency 11, Department of Human Resources		Expenditure	$300,000
Agency 13, Office of Public Affairs		Expenditure	$50,000
Agency 15, Office of Elections		Expenditure	$300,000
Agency 26, Office of Capital Facilities		Expenditure	$150,000
Agency 90, Police Department		Expenditure	$1,200,000
Personnel Services Funding		**Net Cost**	**$2,000,000**

Funding of $2,000,000 is required for Personnel Services Funding for the Department of Human Resources, Offices of Public Affairs, Elections and Capital Facilities and the Police Department as detailed below.

Funding of $300,000 is required for the Department of Human Resources as the Human Capital Management (HCM) component of the FOCUS project is being developed. The agency has needed to keep most available positions filled to perform key functions of payroll, employment, benefits administration etc., while also addressing HCM development. In order for a successful HCM implementation adequate resources are essential for the development, testing, data conversion and go-live. A number of key staff is deployed to the HCM work and as a result the agency has shifted positions and filled vacancies to ensure current operations are not impacted.

Funding of $50,000 is required for the Office of Public Affairs to meet requirements associated with a number of labor intensive activities during FY 2012 including elections, school bond referendum, and weather events.

Funding of $300,000 is required for the Office of Elections primarily as a result of increased seasonal staff, overtime, and additional mailing costs associated with redistricting; the implementation of electronic poll books which required extensive reimaging and testing of 600 laptop computers; language coverage compliance under Section 203 of the Voting Rights Act which required additional seasonal staff, overtime, and printing-related costs due to the timing of the decision four weeks before the November, 2011 elections; and ADA compliance-related costs associated with the County's settlement with the Department of Justice that required surveying all of the County's approximately 240 polling places and absentee satellite voting locations. On all these issues, regular staff worked more overtime hours than anticipated, and, in most cases, the agency had to bring in extra seasonal staff to meet statutory deadlines.

Funding of $150,000 is required for the Office of Capital Facilities to meet staffing requirements which cannot be recovered from capital projects. The agency provides critical planning, design, land acquisition and construction services for governmental facility projects. In recent years funding reductions have eliminated all flexibility beyond that which is appropriately billed to capital projects. Personnel Services expenditures in recent years have been absorbed within streetlight utility savings but as a result of increased streetlight requirements, this flexibility no longer exists. As the County returns to a more normal capital program and undertakes large and complex projects, as well as the array of smaller labor intensive projects like bus shelters and trails, it is anticipated that this requirement may need to be addressed permanently.

Funding of $1,200,000 is required for the Police Department based on review of current staffing, overtime and programmatic requirements consistent with Board of Supervisors' direction that staff monitor the impact of reductions to public safety. Since FY 2008, significant reductions in Personnel Services were made to meet projected budget shortfalls. These reductions include the targeted reduction of 52 positions, civilianization of appropriate uniformed positions, reduction of approximately 30 percent in overtime, and management of vacancies. Recognizing the County's significant investment in training Police officers and to minimize the direct impact on critical public safety services, elimination of uniformed positions has been achieved entirely through employee attrition, with no Reductions in Force. As a result some of the anticipated savings from these position eliminations were not achieved. Across-the-board cuts in Personnel Services to meet projected budget shortfalls in FY 2010 through FY 2012 were also based on significant reductions in overtime and managing vacancies. The cumulative effect of these reductions was the elimination of necessary flexibility for the Department to meet its requirements for 24/7 coverage of minimum staffing. The agency has made efforts to save as much as possible in Operating Expenses to mitigate this situation; however, in order to ensure that staffing can be maintained for the remainder of FY 2012, this funding adjustment is necessary. A baseline increase has also been included as part of the FY 2013 budget to permanently adjust the personnel services funding level for the agency.

		RECURRING
	Revenue	$0
Agency 06, Finance	Expenditure	$588,000
Finance Audit and Implementation Requirements	**Net Cost**	**$588,000**

Funding of $588,000 is required for additional audit and implementation requirements related to the new financial system. More robust audit requirements have been defined by the County's external auditor to meet mandated reporting requirements for County-wide financial statements. In addition, funding is provided to support staff costs associated with ensuring the accuracy of the new financial system and transitioning to centralized Accounts Payable processing which has been developed as part of the best practice implementation of the system.

		RECURRING
	Revenue	$60,000
Agency 08, Facilities Management Department	Expenditure	$60,000
Government Center Landscaping	**Net Cost**	**$0**

Funding of $60,000 is included for costs associated with landscaping at the Government Center facility, including: weeding, mulching, mowing and maintenance of shrubbery. This funding will enable the Facilities Management Department to increase basic landscaping activities which had been reduced due to budget constraints the past several years. This adjustment is completely offset by General Fund revenues received from Wegmans for the use of certain Government Center parking spaces during weekends and holidays.

		NON-RECURRING
	Revenue	$400,000
Agency 67, Department of Family Services	Expenditure	$400,000
Child Care Assistance and Referral Program	**Net Cost**	**$0**

Funding of $400,000 is required to appropriate additional federal and state revenue for the Child Care Assistance and Referral (CCAR) program to provide child care services to the mandated population (i.e., those receiving services through TANF/VIEW/Head Start). The expenditure increase is fully offset by an increase in federal and state revenues for no net impact to the County.

		NON-RECURRING
	Revenue	($1,000,000)
Agency 67, Department of Family Services	Expenditure	($1,000,000)
Adoption Subsidy Program	**Net Cost**	**$0**

A decrease of $1,000,000 to both revenues and expenditures for the Adoption Subsidy Program is included to more accurately align the program's budget with actual spending. Program spending has declined significantly due to the maximization of Medicaid as an alternative funding source for these subsidies. The expenditure decrease is fully offset by a decrease in federal and state revenues for no net impact to the County.

		NON-RECURRING
	Revenue	$0
Fund 104, Information Technology	Expenditure	$0
Redirection of IT Project Funds	**Net Cost**	**$0**

As part of the *FY 2012 Third Quarter Review*, several project reallocations within Fund 104, Information Technology are recommended, resulting in $2.2 million being redirected and reprioritized for critical hardware and system infrastructure requirements as well as specialized technical staff augmentation for major County computer systems, including the FOCUS project to keep pace with the project schedule. The Department of Information Technology (DIT) and the IT Steering Committee evaluated all available balances in Fund 104, and have identified areas where funds can be reallocated from projects recently completed, identified any projects where flexibility existed, and reprioritized other projects where work can be deferred until later. Included in this total is $1.7 million of the $2.0 million previously approved to support secure access of new web-based social media functionalities. This project was intended to implement a protected web security gateway infrastructure to expand web and social media access to County agencies for business needs. The project has only incurred minimal expenses to date, and staff has determined that, given current priorities, reallocating these funds is necessary at this time. Current access to social media has been limited to a few designated County staff based on responsibility or purpose. Full rollout of the social media functionalities requires the implementation of more significant security requirements which were funded as part of the *FY 2011 Carryover Review*. However, given the evolving technology in this field, adjusting deployment of these capabilities is prudent. It will be necessary to fund the revised implementation schedule in future years. Specific details on the reallocations recommended at this time can be found in Attachment III, Other Funds Detail in the FY 2012 Third Quarter package.

The specialized staff resources are required to provide technical system work that is not typically performed as a part of ERP functional implementation consultant contracts. The contracted consultants have specific expert skill in the underlying SAP solution and its architecture, and perform tasks that span business day work with SAP and work that can only be performed evenings and weekends to meet the project schedule. The project has reached the peak period with significant overlapping work for Phases 1B (finance and procurement development and testing), Phase 2 (County human resources and payroll development and testing), and Phase 3 (schools core human resources and payroll design, and County and schools non-core human resources and budget modules). It should be noted that these staff resources are also supporting Phase1A system production and on-going stabilization.

The consultants currently working with the County came from SAP's network of recognized trained professionals through a variety of small, specialized firms with deep experience in SAP implementation, system design, architecture, security, programming, and reporting---mostly on large, established commercial systems. This strategy to ensure SAP skilled staff augmentation resources provisioned through DIT's normal staff augmentation is considered a common industry practice and ensures that the County meets its contractual obligations, keeps up with the aggressive FOCUS implementation schedule, and delivers return-on-investment in transitioning to new technology. The consultants also provide valuable knowledge transfer for County staff, many of which are also receiving training on the many facets of SAP systems. By industry standards it takes at least three years to gain SAP proficiency at a journeyman level, and substantially longer to have expert certifications. It is estimated that about $12 million is saved through this strategy over similar services if included in the functional implementer's contract. The Information Technology Advisory Committee (ITPAC,) has received incremental briefings during the project and has expressed its on-going support for the project and concurred with DIT's staffing plan for FOCUS in their FY 2012 Budget Letter, and subsequent correspondence with the County Executive and Board of Supervisors.

		NON-RECURRING
Fund 106, Fairfax-Falls Church Community Services Board	General Fund Transfer	$3,601,076
Support for FY 2012 Requirements	**Net Cost**	**$3,601,076**

The General Fund transfer to Fund 106, Fairfax-Falls Church Community Services Board (CSB), is increased by $3,601,076 to support anticipated increases in FY 2012 expenditures based on a review of current staffing, overtime and programmatic requirements. In addition, $398,924 in Fund 106 fund balance, comprised of $372,096 in remaining balance from the Josiah H. Beeman Commission Reserve and $26,828 in unreserved available balance, is also being utilized to offset the projected shortfall.

In previous fiscal years, the CSB was able to control expenditures and maximize revenue to successfully accommodate increases and changes in service demands, as well as manage the department's funding reductions that were utilized to balance the County's budget. In FY 2012, although the CSB has implemented strategies to control expenditures where possible, funding is required to primarily support projected Personnel Services requirements as the department has been unable to manage position vacancies as closely as needed in order remain within budget. Actual experience with fringe benefits requirements, primarily attributable to continuing increases in retirement and health insurance costs that in recent years had been absorbed through cost savings in other areas, also contributed to the projected shortfall.

The projected increases in Personnel Services requirements, as well as Operating Expenses, have resulted in much greater funding needs than budgeted and are driven primarily by programmatic demands in several areas including Infant and Toddler Connection (ITC) clinical and therapeutic services, Mental Health emergency and residential services, and Intellectual Disabilities residential and day support services. In ITC, the statewide program that provides federally-mandated early intervention services to infants and toddlers as outlined in Part C of the Individuals with Disabilities Education Act (IDEA), there has been major growth in the demand for services over the last several years, which has been unable to be absorbed in FY 2012. The monthly average number of children served is projected to be 1,100 in FY 2012. This compares to the monthly averages of 1,002 in FY 2011, and 789 in FY 2010. These higher numbers are due to children entering the system earlier and staying longer, as well as the strengthened collaborations between ITC staff and the Fairfax County Health Department, INOVA Fairfax Hospital, Fairfax County Public Schools, and Virginia Autism Research Center that ensures infants and toddlers receive appropriate services as soon as delays are detected. In Mental Health Services, the recent closure of 13 additional beds in December 2011 at the Northern Virginia Mental Health Institute, coupled with the significantly increasing number of consumers presenting with co-occurring mental health and substance use disorders have resulted in the rise in the number of consumers requiring County mental health services and the provision of services that are often more intensive and costly. In Intellectual Disabilities residential services, consumers are aging and therefore require more support services to be able to have opportunities for full inclusion in community life. In the Intellectual Disabilities day support program, although the CSB received an increase of $637,500 to serve the June 2011 special education graduates, the average cost per consumer is higher than anticipated primarily due to the rising cost of program enhancements, lack of weather-related closures, and higher contracted provider rates in FY 2012.

The CSB, along with assistance from the Department of Management and Budget and the Department of Administration for Human Services, will closely monitor and make adjustments to contain department expenditures for the remainder of FY 2012. In addition, although no adjustments are made to Fund 106 revenue estimates as part of the *FY 2012 Third Quarter Review* given the uncertainty of how much actual revenue will be realized, the CSB will continue to maximize all non-County revenue sources. Any available ending balance in Fund 106 during the *FY 2012 Carryover Review* may be used to partially offset additional potential FY 2013 requirements.

		RECURRING
Fund 119, Contributory Fund	General Fund Transfer	$2,200,000
Lorton Arts Foundation Debt Service Requirements	**Net Cost**	**$2,200,000**

The General Fund Transfer to Fund 119, Contributory Fund, is increased by $2,200,000 to address debt service requirements associated with the Lorton Arts Foundation (LAF). In early FY 2012, an external review of the Foundation's operations was completed. As a result, the County Executive is recommending a restructuring of the relationship with the LAF that is currently being negotiated. For the purposes of the *FY 2012 Third Quarter Review*, support for debt service is assumed to be funded by the County.

		NON-RECURRING
	Fund 303, Contingency	($50,000)
Fund 303, County Construction	Water Service Rate Reviews	$50,000
Water Service Rate Reviews	**Net Cost**	**$0**

Funding in the amount of $50,000 is required for consultant costs associated with Water Service rate reviews. Currently, the cities of Falls Church and Fairfax, and the towns of Vienna and Herndon provide water outside of their own locality and geographical boundaries to County residents. On December 6, 2011, the Board of Supervisors adopted an amendment to Chapter 65 of the Fairfax County Code to regulate water service in Fairfax County. The amendment established permissible rates that could be charged to County customers by providers of water service other than Fairfax Water. The goal is to ensure that Fairfax County customers are protected against the imposition of rates and charges set by a governing body of a locality that does not represent them. These water service providers may not charge rates above those charged by Fairfax Water unless they can demonstrate to the County that the higher rates are justified. Funding will provide for a consultant to review and analyze any rate proposals that are above those of Fairfax Water. Funding is available in Fund 303, County Construction contingency project to be reallocated to the Water Service Rate Review project, therefore the impact to the General Fund is $0.

		NON-RECURRING
Fund 303, County Construction	General Fund Transfer	$600,000
Storm-Related Costs	**Net Cost**	**$600,000**

Funding of $1,100,000 is required for storm-related costs caused by Tropical Storm Lee in September 2011. A portion of this requirement will be supported by existing fund contingency of $500,000 within Fund 303, County Construction. The remaining $600,000 will be supported by an increased General Fund transfer to Fund 303. Damage to County infrastructure from the storm has been estimated to be over $3.3 million, with the majority of damage impacting wastewater management infrastructure and the park system. Damage to wastewater management infrastructure primarily consists of collapsed sewer lines, while park system damage includes but is not limited to eroded bridge supports, damage to dams and pumping equipment, and flooding that washed away parking lots, trails, and other park features. The County expects to recover much of these costs from its insurance carrier. However, the County's insurance policy includes a deductible of $100,000 for property not located in a FEMA flood plain and a separate deductible of $1,000,000 for property located in a FEMA flood plain.

The Wastewater Management Program has been able to absorb the costs of repairs to the sewer system within its existing appropriation. However, damage to the park system requires repairs which are greater than the Park Authority is able to absorb. Total funding of $1,100,000 is required for the Park Authority to address high priority repairs, an amount which will satisfy the County's deductible under its insurance policy.

The County will continue to pursue insurance recoveries and, where possible and appropriate, will seek federal reimbursement for storm-related costs. However, it is anticipated that if any recovery is accomplished, funds will not be received until FY 2013 or later and therefore are not reflected at this time.

		NON-RECURRING
Agency 89, Fringe Benefits	Expenditure	($3,000,000)
Fund 603, OPEB Trust Fund	General Fund Transfer	$7,737,000
Annual Required Contribution	**Net Cost**	**$4,737,000**

The General Fund transfer to Fund 603, OPEB Trust Fund, is increased by $7,737,000 in order to meet the County's other post-employment benefit (OPEB) obligations, partially offset by a reduction of $3,000,000 in Agency 89, Fringe Benefits, based on anticipated savings in employer retirement and social security contributions based on year-to-date FY 2012 experience.

The latest actuarial valuation of the OPEB Trust Fund as of July 1, 2011 calculated the County's actuarial accrued liability at $474.2 million, with a $37.64 million annual required contribution (ARC) for FY 2012. The ARC is funded each year through the combination of a General Fund transfer, contributions from other funds, and a contribution credited for the implicit subsidy. In prior years, the County benefitted from having a net OPEB asset at year-end to apply to ARC requirements. In FY 2012, however, no asset was carried forward to help offset ARC requirements. With no change to the General Fund transfer, it is projected that the County will have an approximate $7.74 million net OPEB obligation at the end of FY 2012. As 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 annual required contribution for each year, an increase in the General Fund transfer is required.

Summary

In summary, I am recommending that the following actions be taken:

- Board approval of the funding and audit adjustments contained in this package which result in a General Fund Available Balance of $2.46 million, an increase of $55.74 million in Appropriated Other Funds expenditures excluding Federal and State Grants, audit adjustments and Schools' funds. Details regarding adjustments for School funds as requested by the School Board in Draft are provided in the Schools' Recommended *FY 2012 Third Quarter Review* package (Attachment VII).

    - Supplemental Appropriation Resolution AS 12100

    - Supplemental Appropriation Resolution AS 11155

    - Amendment to Fiscal Planning Resolution AS 12901

- Board appropriation of Federal/State grant adjustments in Fund 102, Federal/State Grant Fund totaling an increase of $18.63 million.

- Board approval of adjustment to the Managed Reserve to reflect the adjustments included in the *FY 2012 Third Quarter Review.*