

FAIRFAX COUNTY, VIRGINIA

MEMORANDUM

**TO:** BOARD OF SUPERVISORS **DATE:** March 15, 2004

**FROM:** Anthony H. Griffin  
County Executive

**SUBJECT:** FY 2004 Third Quarter Review

Attached for your review and consideration is the *FY 2004 Third Quarter Review*, including Supplemental Appropriation Resolution AS 04076 and Amendment to the Fiscal Planning Resolution AS 04902. 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/Transfers In with a net increase of \$17,557,465.
- 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 and the Federal/State Grant Fund total a net increase of \$84,313,251. Expenditures in Non-Appropriated Other Funds decrease a total of \$3,349,246.
- Attachment IV - Fund 102, Federal/State Grant Fund, detailing grant appropriation adjustments for a total net increase of \$1,744,521.
- Attachment V - Supplemental Appropriation Resolution (SAR) AS 04076, AS 03101 for FY 2003 adjustments to reflect the final audit, and Amendment to the Fiscal Planning Resolution (FPR) AS 04902.
- Attachment VI - FY 2003 Audit Package including final adjustments to FY 2003 and the FY 2004 Impact.
- Attachment VII - Fairfax County Public Schools' Staff Recommended *FY 2004 Third Quarter Review* and Appropriation Resolution.

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 \$500,000. In addition, any amendment of \$500,000 or more requires that the Board advertise a synopsis of the proposed changes. Since the *FY 2004 Third Quarter Review* recommends changes over the \$500,000 threshold, the public hearing has been scheduled for March 29, 30, and 31, 2004. On April 19, 2004, the Board will take action on this quarterly review prior to marking up the FY 2005 Advertised Budget Plan.

**SUMMARY OF GENERAL FUND STATEMENT  
(Dollars in Millions)**

The following is a summary of the current financial status as of the Third Quarter Review compared to the *FY 2004 Revised Budget Plan*.

	<b>FY 2004 Revised <u>Budget Plan</u></b>	<b>FY 2004 Third Quarter <u>Estimate</u></b>	<b><u>Variance</u></b>
Beginning Balance	\$118.89	\$118.89	\$0.00
Receipts and Transfers In <sup>1</sup>	<u>2,573.16</u>	<u>2,590.72</u>	<u>17.56</u>
Total Available	\$2,692.05	\$2,709.61	\$17.56
Direct Expenditures	\$979.67	\$987.82	\$8.15
Transfers Out	<u>1,637.67</u>	<u>1,659.76</u>	<u>22.09</u>
Subtotal Disbursements	\$2,617.34	\$2,647.58	\$30.24
Ending Balance	\$74.71	\$62.03	(\$12.68)
Managed Reserve	<u>52.35</u>	<u>52.95</u>	<u>0.60</u>
Available Balance	\$22.36	\$9.08	-
<b>PSOC/EOC Construction</b>	<b>\$18.65</b>		-
<b>Other Requirements<sup>2</sup></b>	<b>\$3.71</b>		-
<b>Revenue Stabilization Fund</b> <i>(includes Managed Reserve)</i>		<b>\$3.70</b>	-
<b>Other BOS Priorities</b>		<b>\$3.00</b>	-
<b>Balance Available</b>	<b>\$0</b>	<b>\$2.38</b>	-

<sup>1</sup> *FY 2004 Revised Budget Plan* includes additional revenue of \$12,457,681 identified as part of the Fall Revenue Review and noted as part of the FY 2005 Advertised Budget Plan. The FY 2004 Third Quarter estimate includes an additional \$17,557,465 due to higher than anticipated real estate tax collections, sales tax, and revenue from the federal and state governments identified during the *FY 2004 Third Quarter Review*.

<sup>2</sup> Includes adjustments anticipated for Hurricane Isabel, premium stabilization, etc.

It should be noted that the *FY 2004 Third Quarter Review* reflects all adjustments since the *FY 2003 Carryover Review* and includes revenue adjustments made as part of the FY 2005 Advertised Budget Plan. The Total FY 2004 Revenue increases by \$17.56 million or 0.7 percent. Total Disbursements are recommended to increase \$30.24 million including \$8.15 million in Direct Expenditures and \$22.09 million in Transfers Out. As shown on the table on the previous page, the available balance in the General Fund as a result of these adjustments is \$9.08 million in non-recurring funds. In accordance with Board policy, 40 percent of this available balance, or \$3.70 million, will be allocated to the Revenue Stabilization Fund, with the remaining balance of \$3.00 million proposed for Board priorities that are appropriate for one-time funding, with the balance of \$2.38 million available for the Board's consideration.

My proposed adjustments are described in greater detail below; however, before I discuss specific *FY 2004 Third Quarter Review* expenditure adjustments, I would like to briefly address factors affecting the County budget, particularly the economy and the status of the state budget.

### ***The Economy***

After almost three years of sluggish growth, the economic picture is brightening somewhat. Brisk business spending helped the U.S. economy expand at a healthy pace of 4.1 percent in the last quarter of 2003. Although slower than the 8.2 percent growth registered in the third quarter, the economy's performance in the second half of last year represented the fastest back-to-back quarterly increase since 1984. Economists are pleased to see the business sector doing more to revive the economy since consumers had been bearing a disproportionate share of the burden over the past few years.

Even though the economy has been recovering, job growth has been painfully slow. Economists anticipate that stepped up business activity will spur greater hiring in the coming months. This will be critical because with over two million jobs lost since January 2001, and the subsequent slow pace of job creation, consumers are feeling less optimistic lately. The Conference Board's Consumer Confidence Index, which had improved in January, weakened significantly in February, falling 9.1 points from 96.4 to 87.3. It remains to be seen whether this is a temporary aberration or if it signals growing disillusionment with the slow rate of recovery. Lack of consumer confidence generally results in reduced spending, which translates to lower sales tax receipts.

As the Board is aware, much of the County's recent revenue growth has been driven by Real Estate taxes as well as Recordation and Deed of Conveyance taxes, due to the high volume of new home purchases, which drives up assessed value, and mortgage refinancing of existing homes, which results in increased Recordation Taxes. In his monetary policy report to Congress on February 11, 2004, Chairman Alan Greenspan indicated the Federal Reserve's intent to hold off on interest rate increases until later in the year. This is expected to continue the trend of healthy revenue growth in some revenue categories, while keeping the interest earned on the County's investments at historically low levels.

### ***The Commonwealth Budget***

The situation at the state level is focused on the current budget impasse within the General Assembly. With both the Senate and the House of Delegates strongly wedded to their respective budget plans regarding the scope of tax increases and spending cuts, and little indication of an immediate compromise, local governments face the prospect of an extended period of uncertainty. Localities are particularly affected by the portion of the Personal Property Tax reimbursed by the Commonwealth, which totals almost \$206 million for Fairfax County in FY 2005. Put another way, this is equivalent to over 14 cents on the Real Estate Tax rate or 21 percent of General Fund Direct Expenditures in FY 2005. Staff will continue to monitor this situation and will apprise the Board of the potential impact of General Assembly actions on the County's budget.

### ***Budget Requirements***

As in past years, adjustments are necessary to reflect unanticipated revenues and expenditures, as well as extraordinary circumstances such as Hurricane Isabel this past fall. The September storm, the largest such event to strike the County in 30 years, presented significant challenges across a number of agencies. The total cost to the County was \$3.7 million, of which \$2.6 million was in the General Fund and \$1.1 million was in Other Funds. While the majority of costs are being absorbed by the affected agencies, an additional appropriation of \$1.0 million is required to cover expenses such as overtime, storm damage and an after-action report approved by the Board. The County claim for Federal Emergency Management Agency (FEMA) reimbursement of eligible expenses is \$2.3 million, with \$1.8 million anticipated to be received. Of this, \$0.8 million is associated with the General Fund, while \$1.0 million is for Other Funds.

As the Board is aware, we have pressing needs for a new Public Safety Operations Center (PSOC), which will house the Public Safety Communications Center (PSCC) and the Emergency Operations Center (EOC). This facility, planned for the Camp 30 site, will ensure adequate space, technology, security and communications to manage over one million 911 emergency calls handled annually by the PSCC. There has been an 80 percent increase in calls handled by the Center since it opened in 1985. As anticipated and communicated to the Board during presentation of the FY 2005 Advertised Budget Plan, the *FY 2004 Third Quarter Review* includes \$19.2 million to complete the financing required for construction of the PSOC as well as the Alternate Emergency Operations Center (AEOC) at the Government Center. Additional funding for over \$30 million for equipment will also be identified in the future. The demands of a growing population, in conjunction with large-scale events such as Hurricane Isabel, underscore the need for the County to invest in its emergency response capability.

We have also been notified of several selected policy changes in federal/state child care reimbursement that will result in revenue increases from the Commonwealth, a large portion of which is non-recurring. There are expenditure requirements associated with some but not all of this revenue. These adjustments are described in greater detail in the Administrative Adjustments section that follows. Of \$10.2 million in revenue for child care, foster care and adoption, education and training, brain injury services, and the Local Public Assistance Cost Allocation, \$3.4 million is recurring revenue, while \$6.8 million is non-recurring. While we have identified expenditures that meet the conditions set by the state, a balance of the funding, which represents reimbursement to the County for expenses incurred in both the current and previous years will be available after the required adjustments to the Revenue Stabilization Fund and Managed Reserve are made.

I propose that \$3.0 million of these one-time available balances be used to support much-needed capital paydown initiatives. This proposal is related to a suggested policy recommendation to redirect balances generated at quarterly budget reviews to unfunded capital paydown programs since adequate funds are not available as part of the annual budget process. Funds identified as part of the *FY 2004 Third Quarter Review* are specifically redirected to support critical needs associated with the following capital paydown programs:

- **Streetlight Projects** – Funding of \$1.0 million is recommended to support the continued installation of prioritized streetlights throughout the County. In FY 2000, the Board of Supervisors reactivated the Citizen Petition Streetlight Program and all citizens were afforded the opportunity to submit petition requests for new streetlights. However, due to fiscal constraints, funding has not been provided for this program since FY 2001. Criteria for determining the priority of requests included the incidence of night-time events reported by the Fairfax County Police Department. Staff will develop a spending plan for Board approval based on prioritized projects identified in the current backlog of Citizen Petition Streetlight requests.
- **Countywide Walkways** – Funding of \$1.0 million is recommended to support walkway improvements throughout the County. General Fund support is necessary to maintain the program for the long-term and to keep the initiative moving forward. Funding has not been provided for this program since FY 2001. Staff will develop a spending plan for Board approval based on prioritized walkway improvements.
- **Emergency Maintenance and Security Requirements** – Funding of \$1.0 million is recommended to support emergency maintenance and security requirements that occur throughout the fiscal year. Maintenance requirements include emergency HVAC repairs, roof repairs, structural corrections, and other critical adjustments required to support capital renewal efforts. Capital renewal funding has been severely limited in recent years. This funding will enable staff to assess maintenance and security requirements and determine priorities based on the magnitude and/or severity of the problems.

I also want to make the Board aware that County staff has been working to address the ability of the Fire and Rescue Department to adequately meet our Advanced Life Support (ALS) requirements. The increasing demands of providing ALS services 24 hours a day, seven days a week to a population of more than a million, as well as to all persons working, visiting or passing through the County are taxing our current capacity to provide ALS services. These demands have required mandatory holdover of ALS staff past the end of their shifts as well as the recall of staff on their days off. This practice is detrimental to both the quality of the service we provide and to ALS staff, and cannot be continued indefinitely. Alternatives to address the issue are being developed, with more specific recommendations to be forwarded to me by the Fire and Rescue Department in the next few weeks. A number of short-term solutions are being implemented immediately; however, I anticipate that some of the longer term solutions to this problem will require an additional allocation of staffing and funding, possibly in phases. This will be presented to the Board of Supervisors for your consideration as part of deliberations on the *FY 2004 Carryover Review*.

These are only a few of the factors that are affecting the FY 2004 budget. Others are detailed in the following sections of the *FY 2004 Third Quarter Review* package. This Third Quarter package includes a number of recommended adjustments that are necessary based on previous Board action or are associated with public safety requirements, rising Workers Compensation costs, and one-time revenue receipts. The following summarizes the adjustments recommended as part of the *FY 2004 Third Quarter Review*:

- An increase of \$17.56 million in General Fund Revenue/Transfers In for FY 2004 which are detailed in Attachment II;
- An increase in Total Disbursements of \$30.24 million, the details of which are found under the Administrative Adjustments section of this letter; and
- An Ending Balance of \$62.03 million, of which \$52.95 million is necessary for the Managed Reserve based on the above adjustments.

As a result of these adjustments, the FY 2004 available balance is \$9.08 million. Consistent with the Board's policy, the distribution of this balance is as follows:

- Funding in the amount of \$3,632,393 or 40 percent of the available balance is allocated to the Reserve Stabilization Fund, with a corresponding managed reserve adjustment of \$72,648. The fund has a targeted balance of 3.0 percent of General Fund disbursements or approximately \$79 million. In order to meet the target over a multi-year period, a minimum of 40 percent of non-recurring balances identified at quarterly reviews is transferred to the Revenue Stabilization Fund. The current balance in the fund prior to this adjustment is \$31,433,974. With this adjustment, the balance increases to \$35,066,367 or 1.3 percent of General Fund Disbursements.
- An amount of \$3,000,000 is identified to address critical unfunded needs described above and frequently cited by the Board including streetlights and sidewalks/trails, which are each proposed to receive \$2 million. The remaining \$1 million is proposed for unfunded maintenance needs and security enhancements.
- The remaining balance of \$2,375,941 is available for the Board's consideration.

### **Summary of General Fund Receipts/Transfers In**

A brief summary of the \$17.56 million increase in General Fund Receipts and Transfers In is provided below, while details concerning the increase are provided in Attachment II. It should be noted that these reductions are in addition to a net revenue increase in FY 2004 General Fund revenue of \$12.46 million made prior to the *FY 2004 Third Quarter Review*, which was discussed in the FY 2005 Advertised Budget Plan for a total increase of \$30.02 million. Information regarding those midyear adjustments is also provided in Attachment II.

- Real Estate Tax revenue is increased \$1.53 million as part of the *FY 2004 Third Quarter Review* due to refined estimates of exonerations and supplemental assessments.

- Other Local Taxes increase \$3.11 million due to increased Sales Tax revenue based on year-to-date and prior year trends.
- Revenue from the Commonwealth/Federal Government increases \$12.80 million primarily due to \$3.4 million for the Local Public Assistance Cost Allocation; \$5.8 million for Child Care programs where eligibility criteria have been expanded; \$1.0 million for foster care and adoption, education and training vouchers, and brain injury services; and \$0.90 million for additional voting machines and the cost of the Virginia Presidential primary. These increases are partially offset by expenditure increases. In addition, FEMA reimbursement in the amount of \$0.84 million is anticipated to offset some of the costs associated with Hurricane Isabel.
- Recovered Costs/Other Revenue increase \$0.12 million due to the implementation of a daily \$1 fee charged to inmates at the Adult Detention Center as of January 2004.

### **Audit Adjustments**

As a result of the FY 2003 Comprehensive Annual Audit, a number of adjustments to revenues and expenditures are necessary to reflect Generally Accepted Accounting Principles (GAAP) requirements. Net revenue and expenditure adjustments result in a net reduction of \$0.09 million to the FY 2003 ending General Fund balance which was reflected in the FY 2005 Advertised Budget Plan.

In addition, several other adjustments to various funds are required, including several Fairfax County Public Schools' funds and the Fairfax County Redevelopment Housing Authority Funds. Details of these audit adjustments are included in Attachment VI. It should be noted that the Department of Community and Recreation Services in the General Fund requires a supplemental appropriation resolution based on audit adjustments to reflect the June contractual payment made in FY 2003 for FASTRAN services. This one-time fix required 13 months of payments for FY 2003 to reconcile the payment schedule to the correct fiscal period. The appropriation resolution is required to account for the accrual of payments to vendors in the correct fiscal period, consistent with GAAP requirements.

### **Summary of General Fund/General Fund-Supported Adjustments**

The following adjustments are made as part of the *FY 2004 Third Quarter Review*. As a result of these adjustments, the net impact to the General Fund is an increase of \$30,242,955. This consists of direct expenditure increases of \$8,149,482 and transfer increases from the General Fund in the amount of \$22,093,473. 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. It should be noted that all of the revenue adjustments included in the *FY 2004 Third Quarter Review* are described in detail in the Summary of General Fund Receipts/Transfer In, Attachment II. Adjustments to Other Funds are reflected in the Other Funds Detail section, Attachment III.

## ADMINISTRATIVE ADJUSTMENTS – GENERAL FUND IMPACT

	<b>RECURRING</b>	
<b>Agency 06, Department of Finance</b>	Revenue	\$0
<b>Audit Costs</b>	Expenditure	<u>\$100,000</u>
	<b>Net Cost</b>	<b>\$100,000</b>

Funding of \$100,000 is required due to the increased cost of the annual independent countywide audit. The County is required by law to use an independent auditor to ensure adherence to generally accepted accounting standards. Changes in the requirements imposed by federal and state regulatory bodies, as well as the agency's voluntary compliance with standards promulgated by organizations such as the Governmental Accounting Standards Board have led to increased costs of the audit contract. As a result, the negotiated price increase built into the contract is set at 6 percent for FY 2004 and FY 2005. In previous years, the agency has been able to absorb cost increases within its annual appropriation. However, given current budget constraints, this is no longer possible. Total expenditures required for the annual independent countywide audit have increased \$141,279 or 31.3 percent, from \$451,721 in FY 2001 to \$593,000 in FY 2004.

	<b>NON-RECURRING</b>	
<b>Agency 08, Facilities Management Division</b>	Expenditure	\$118,136
<b>Agency 29, Stormwater Management Division</b>	Expenditure	\$202,000
<b>Agency 90, Police Department</b>	Expenditure	\$458,433
<b>Agency 92, Fire and Rescue Department</b>	Expenditure	<u>\$205,059</u>
<b>Hurricane Isabel</b>	<b>Net Cost</b>	<b>\$983,628</b>

Funding of \$983,628 is required for those agencies unable to absorb the costs associated with Hurricane Isabel which struck the County on September 18, 2003. As the first large natural hazard event to affect the County in 30 years, response to Isabel involved many County agencies, and required significant response and recovery action. In October 2003, County General Fund agencies identified preliminary costs associated with Hurricane Isabel of \$2.7 million. Actual costs have now been identified at \$3.7 million, of which \$2.6 million is in the General Fund and \$1.1 million is in Other Funds. It should be noted that not all County costs were eligible for reimbursement through the Federal Emergency Management Agency (FEMA). The County FEMA claim totaled \$2.3 million and reimbursement of \$1.8 million is anticipated, of which \$0.8 million is for the General Fund and \$1.0 million is for Other Funds, primarily the Solid Waste funds of Refuse Collection and Refuse Disposal.

Four General Fund agencies are unable to absorb all of their costs associated with Hurricane Isabel based on their current budget appropriation as well as other requirements. The Facilities Management Division requires \$118,136 in additional funding primarily associated with overtime and contract expenses for the repair of damaged buildings, tree and debris removal, and security services required for buildings where power was out and no other alarms existed. Funding of \$202,000 is required for Stormwater Management for equipment and materials and contracted services as emergency staff were required to provide on-site monitoring of state and federal regulated, County-maintained flood control impounding facilities (PL-566 dams). The Police Department requires \$458,433 in operating expenses associated with the aftermath and



recovery from Hurricane Isabel. Of this amount, \$133,947 is included for costs and services associated with the countywide after-action report approved by the Board of Supervisors on November 17, 2003. The Fire and Rescue Department (FRD) requires \$205,059 primarily for supplies and materials related to securing FRD facilities as well as set-up of the department's Emergency Operation Center.

	<b>NON-RECURRING</b>
	Revenue \$0
<b>Agency 08, Facilities Management Division</b>	Expenditure <u>\$403,206</u>
<b>Funding for Emergency Repairs and Utilities</b>	<b>Net Cost \$403,206</b>

Funding of \$403,206 is required for emergency repairs in County facilities experienced to date in the amount of \$213,236 and higher than anticipated utility billings in the amount of \$189,970. It should be noted that these costs are in addition to service work funded in Fund 303, County Construction, for various maintenance requirements. The agency leverages funding in both Fund 303 and in its operating budget to resolve emergency maintenance and repair requirements that surface during the fiscal year. Past and current budget constraints limited the agency's ability to fund required work within its appropriation level. As such, projects are prioritized based on severity and the impact on program operations. Deferrals in the County's maintenance program have also pushed equipment and required some building infrastructure beyond its useful life.

	<b>NON-RECURRING</b>
	Revenue \$890,000
<b>Agency 15, Electoral Board and General Registrar</b>	Expenditure <u>\$890,000</u>
<b>Additional Voting Machines and Presidential Primary Election</b>	<b>Net Cost \$0</b>

Funding of \$690,000 is required to purchase 230 additional voting machines at a cost of \$3,000 each. This will accommodate an additional machine in each of the 224 existing precincts, as well as in each absentee voting location. During last November's election, many of the polling places experienced longer lines than normal, due in part to the length of the ballot and voters learning to use the new machines. Election officers reported that polling places with a larger number of disabled voters, senior citizens and/or language minority voters need additional machines. The Electoral Board is recommending a minimum of 3 to 4 machines per precinct, rather than the current allocation of 2. Funds for the additional voting machines will be made available from increased federal revenue from the Help America Vote Act (HAVA) of 2002, which is anticipated to be received in FY 2004. Under the state plan, federal funds will be used to reimburse localities for one machine per polling place to provide access for the blind and visually impaired.

Funding of \$200,000, which includes \$150,000 in Personnel Services and \$50,000 in Operating Expenses, is required to cover the higher costs associated with the February 10, 2004 Presidential Primary Election. Currently, a state appropriation bill is being considered by the 2004 General Assembly to provide reimbursement to localities for the costs associated with conducting the February 10 Presidential Primary Election. Similar to past Presidential primaries, reimbursement from the state is anticipated and has been included to offset the increased costs. The 2000 General Assembly approved reimbursement to localities with state funds for the February 29, 2000 Virginia Presidential Primary.

	<b>NON-RECURRING</b>
	Revenue                    \$0
<b>Agency 50, Community and Recreation Services</b>	Expenditure <u>\$225,867</u>
<b>FASTRAN Service</b>	<b>Net Cost                \$225,867</b>

Funding of \$225,867 is required to align actual costs of the FASTRAN system with funding available within user agencies' budgets and to fund higher than anticipated fuel costs associated with the FASTRAN Program. It should be noted that several cost-saving initiatives have been implemented recently for the FASTRAN Program that have partially offset the need for additional funding. These initiatives include the phased implementation of a zoned transportation model whereby applicants are transported to necessary facilities within designated geographic zones. Other initiatives include extending the service life of buses through implementation of a re-powering program, extending the bus replacement cycle from 8 to 10 years based on maintenance requirements, and improving screening practices for applicants to maximize revenue recovery. General Fund support of \$225,867 is required to sustain the FASTRAN Program at its current level of transportation service for eligible applicants.

	Revenue                    \$5,759,334
	Expenditure              \$3,879,767
<b>Agency 67, Department of Family Services</b>	Transfer Out to Fund 104 <u>\$1,879,567</u>
<b>Child Care Programs</b>	<b>Net Cost                    \$0</b>

Due to the Department's revenue maximization efforts, the state adopted a policy change which expanded eligibility for Child Care Assistance and Referral (CCAR) Program funding from 185 percent of the federal poverty line to 250 percent of the federal poverty line. As a result, additional child care revenue of \$5,759,334 will be realized in FY 2004. Please note that since the state is allowing the County to apply this new criterion retroactively, one year in most cases, the additional FY 2005 revenue associated with this adjustment is \$2.5 million. Furthermore, the County is prohibited from supplanting existing local funding and must direct the funding toward new child care initiatives. Due to these revenue changes, child care expenditures have been increased \$3,879,767 and \$1,879,567 has been transferred to Fund 104, Information Technology, for child care technology projects and an imaging and workflow system.

Of the expenditure increase of \$3,879,767, there is \$1,925,686 in recurring expenses. Of the recurring expenses, \$682,204 is being held for the FY 2005 CCAR market rate increase included in the FY 2005 Advertised Budget Plan. Increased funding of \$500,000 has also been provided in CCAR to accommodate a client co-payment reduction from 16 percent to 10 percent, thereby increasing the County's subsidy and costs. This reduction is necessary to comply with state regulations governing the co-payments of CCAR participants that have become eligible for federal/state funding due to the change in criteria. It should be noted that the full year cost totals \$1,200,000, so an expenditure adjustment will be made for FY 2005 during the Add-On process. Funding of \$443,482 has been included for contractual costs associated with the SACC Program's accounts receivable system that are necessary to address customer service and billing issues. An adjustment of \$540,000 will be made to the FY 2005 funding level during the Add-On process to accommodate full-year funding for this service. In addition, \$300,000 has been included in the Head Start Program to expand bus capacity which was reduced when seatbelts were installed as mandated by the federal government, as well as to allow for the repair and

replacement of older buses. A funding adjustment of \$36,000 will be made for FY 2005 during the Add-On process to support the ongoing maintenance and operation of these three new buses. All of the aforementioned FY 2005 adjustments will be offset by increases in federal and state revenues.

One-time funding of \$750,000 is added to provide a reserve for a local cash match for a Department of Education Early Reading First grant. This grant provides resources for assessment of school readiness and to better prepare preschool children who are at risk of low achievement upon entry into school. Prior to application, more detailed information on this grant will be provided to the Board of Supervisors in April. In addition, funding of \$600,000 is directed to support County school readiness initiatives, including \$350,000 for a school readiness and professional development needs assessment and \$250,000 in matching funds for the Governor's new childhood education initiatives grant. One-time funding of \$604,081 has been included to replace furniture and equipment for the 233 SACC rooms operated by the County. Due to budget constraints and inflationary pressures, the SACC Program has not been able to replace old or broken furniture and equipment for the past few years. As a result, many centers have very old furniture and safety is a growing concern for the more than 9,000 children in the program.

In addition, \$1,879,567 is transferred to Fund 104, Information Technology, for several critical projects to improve services. This funding will be used to offset FY 2005 requirements of \$1,179,567 for an imaging and workflow project which will provide a reliable system from which sensitive Human Services documents can be retrieved to fulfill case management needs of County residents, improve response times for client inquiries of case records, preserve and manage DFS records in accordance with state and federal mandates, and avoid non-compliance issues associated with the degradation, damage or loss of paper files. In addition, \$700,000 will be used for various child care initiatives including an online School Age Child Care (SACC) registration system and a wireless system for field staff to perform permitting and inspection activities.

	<b>RECURRING</b>
	Revenue      \$971,202
<b>Agency 67, Department of Family Services</b>	Expenditure <u>\$971,202</u>
<b>Foster Care and Adoption</b>	<b>Net Cost            \$0</b>

An amount of \$932,290 for Foster Care and Adoption is required to appropriate additional state funding due to increased costs and federal Title IV-E maintenance funding for foster care adoption subsidies. Since the state issued a new interpretation of federal policy, the County has been utilizing Title IV-E funding more aggressively to address foster care and adoption requirements. This has reduced the County's reliance on Comprehensive Services Act (CSA) funding which has a match requirement.

In addition, an amount of \$38,912 for the Education and Training Voucher Program is required to appropriate additional state funding to assist foster youth with expenses associated with vocational training programs and college.

	<b>RECURRING</b>
	Revenue           \$3,750
<b>Agency 67, Department of Family Services</b>	Expenditure <u>\$3,750</u>
<b>Brain Injury Services</b>	<b>Net Cost           \$0</b>

Funding of \$3,750 is required to appropriate additional state funding for Brain Injury Services based on the final FY 2004 state allocation. It should be noted that a revenue and expenditure reduction of \$145,000 for this program was taken in FY 2003 in response to state budget reductions. As a result, three contract positions that provided direct services were cut, supported living services for six clients were terminated, and the waiting list, which now averages more than two years per individual, was increased.

	<b>NON-RECURRING</b>
	Revenue           \$0
<b>Agency 85, General District Court</b>	Expenditure <u>\$65,000</u>
<b>Court-Appointed Attorneys</b>	<b>Net Cost           \$65,000</b>

Funding of \$65,000 is required for higher than anticipated costs for fees for court-appointed attorneys. The number of defendants qualifying for legal representation in court has increased over the last six months and this trend is expected to continue. Providing an attorney to those who qualify is mandated by the state and the County is required to fund court-appointed attorney fees for those defendants charged under County statutes. Based on expenditures for the past six months, increased expenditures are anticipated for the remainder of the year.

	<b>NON-RECURRING</b>
	Revenue           \$0
<b>Agency 87, Unclassified Administrative Expenses</b>	Expenditure       \$155,000
<b>Agency 89, Employee Benefits</b>	Expenditure <u>\$472,062</u>
<b>Workers' Compensation and Self Insurance Requirements</b>	<b>Net Cost           \$627,062</b>

Funding of \$627,062 is required to meet anticipated increases in Workers' Compensation and Self Insurance losses. Workers' Compensation costs are projected to increase \$1,467,917, primarily due to prior year claims involving injuries sustained by employees while on duty. Several hepatitis C claims, some of which were received in prior years, are incurring higher than anticipated medical costs as well. The increased Workers' Compensation costs are partially offset by savings of \$995,855 resulting from the successful litigation and resolution of two potentially costly automobile liability claims. Therefore, the net increase is \$472,062. Self Insurance Losses are also increased by \$155,000 due to costs associated with two lawsuit settlements. The increases in Agency 87, Unclassified Administrative Expenses, and Agency 89, Employee Benefits, will fund the required increased contribution to Fund 501, County Insurance.

**Fund 120, E-911  
Public Safety Communication Center**

<b>NON-RECURRING</b>	
General Fund Transfer	<u>\$902,769</u>
<b>Net Cost</b>	<b>\$902,769</b>

The General Fund transfer to Fund 120, E-911, is increased by \$902,769 due to a decrease in projected revenue of \$2,009,027, partially offset by a decrease in expenditure requirements of \$1,106,258. Operating Expenses are decreased based on savings associated with position vacancies, telecommunications expenses, software maintenance and translation services. The decrease in revenue is primarily due to revised projections in the E-911 fee revenue based on FY 2002 and FY 2003 actual collections and FY 2004 year-to-date receipts. Between FY 2002 and FY 2003, E-911 fee revenues decreased 3.8 percent. Revised projections for FY 2004 indicate that revenues will be lower than projected despite a Board of Supervisors' decision to increase the E-911 tax from \$1.75 to \$2.50 per line per month as of September 1, 2003. Possible factors for this revenue decrease include increasing exclusive use of wireless telephones and continued vacancies in the commercial real estate market that result in a lower number of telephone lines being required by businesses.

**Fund 303, County Construction  
Government Center Security Enhancements**

<b>NON-RECURRING</b>	
General Fund Transfer	<u>\$150,000</u>
<b>Net Cost</b>	<b>\$150,000</b>

The General Fund transfer to Fund 303, County Construction, is increased by \$150,000 for costs associated with the construction of pull-up doors at either end of the loading dock at the Government Center to secure this site. Currently, the loading dock is accessible by vehicle or pedestrian, as there are no controlled access mechanisms in place. During Code Orange or other periods of heightened alert, vehicles and security guards are stationed at both entrances of the loading dock to monitor and control access beneath the building. However, these security features are expensive to maintain, particularly when periods of heightened alert are prolonged. Construction of pull-up doors would enable the area to be secured at all times without incurring further additional costs.

**Fund 312, Public Safety Construction  
PSOC/AEOC**

<b>NON-RECURRING</b>	
General Fund Transfer	<u>\$19,161,137</u>
<b>Net Cost</b>	<b>\$19,161,137</b>

The General Fund transfer to Fund 312, Public Safety Construction is increased by \$19,161,137 to complete the financing required for construction of the Public Safety Operation Center (PSOC) and the Alternate Emergency Operations Center (AEOC). An increase of \$18,537,222 is required for the PSOC and includes \$18,037,222 to provide sufficient funding to proceed to construction and \$500,000 for a critical system integrator. The PSOC is estimated to cost \$97 million, including approximately \$57 million for construction and \$40 million for IT-related equipment. Financing for this project includes \$29,000,000 in bonds approved by the voters on November 5, 2002 as part of the fall 2002 Public Safety Bond Referendum; \$9,984,908 in General Fund monies approved by the Board of Supervisors as part of the *FY 2003 Carryover Review*; \$18,537,222 included in the *FY 2004 Third Quarter Review*; and additional funding of \$39,500,000 which will be required from the General Fund, alternative financing sources or equipment leases.

Funding of \$623,915 is necessary to complete the construction and installation of an AEOC to be located in unfinished space at the Government Center. The County’s current EOC is inadequate in terms of space, equipment and technology to support representatives from more than 30 County and state/regional agencies during an emergency event. This funding will provide for installation of a raised computer floor, ceiling, lighting, mechanical systems, and the installation of a variety of telecommunications, computerized information management systems necessary to support operations. This project is funded primarily with grant funds associated with federal and state homeland security funds; however, additional General Fund money is necessary for costs that are not covered by grant funds.

**ADMINISTRATIVE ADJUSTMENTS – NON- GENERAL FUND IMPACT**

	<b>NON-RECURRING</b>
	Revenue     \$2,570,663
<b>Fund 106, Fairfax-Falls Church Community Services Board</b>	Expenditure <u>\$2,570,663</u>
<b>New Grant Awards, Grant Continuation Funding</b>	<b>Net Cost                     \$0</b>
<b>And Other Adjustments</b>	

An increase of \$2,570,663 in both revenues and expenditures is required for new federal grant awards, new program years of funding associated with existing federal grant awards and adjustments to current year federal grant awards. This includes the following: a net increase of \$997,642 for adjustments to current year federal grant awards which include \$992,695 for the MH Facility Reinvestment grant, \$46,927 for the ADS Ryan White CARE Act Title I grant, \$30,795 in the Projects for Assistance in Transition from Homelessness (PATH) grant and a decrease of \$72,775 for the ADS State Incentive grant; an increase of \$788,500 for a new federal Ryan White “HIV Services” grant award from the Northern Virginia Regional Commission; and an increase of \$784,521 for new program years of continuing federal grant awards which includes \$341,317 for renewal of the High Intensity Drug Trafficking Area (HIDTA) grant, \$263,873 for renewal of the MH Ryan White CARE Act Title I grant, \$156,503 for renewal of the ADS State Incentive grant and \$22,828 for renewal of the V-Stop grant.

	<b>NON-RECURRING</b>
	Use of Fund Balance     \$424,000
<b>Fund 106, Fairfax-Falls Church Community Services Board</b>	Expenditure <u>\$424,000</u>
<b>Fund Balance</b>	<b>Net Cost                     \$0</b>

Funding of \$424,000 from the CSB available fund balance, as approved by the Board of Supervisors in September and October 2003, is required to increase expenditures as follows:

- \$104,000 in one-time funding will allow Mental Health to provide services while the Entry Program is redesigned. The loss of entry worker positions during the FY 2003 budget cycle increased the waiting list for intake services and significantly decreased accessibility for consumers and referral agencies, including DFS and the Courts.

- \$100,000 in one-time funding to provide adult and youth contract residential services to serve the most at-risk clients in Alcohol and Drug Services contracted residential treatment programs while service alternatives are identified. Over the past two years, funds were cut from both adult and youth services and these cuts affected individuals and families severely impacted by substance abuse and in critical need of services.
- \$75,000 in one-time funding for Mental Retardation Services residential drop-in support services would enable individuals on the waiting list to receive interim support services. Mental Retardation reduced residential drop-in support services to individuals with mental retardation living semi-independently due to budgetary constraints with the result that some individuals are now on waiting lists to receive services.
- \$58,000 to temporarily restore crisis intervention, case management, substance abuse education, screening, assessment and intake services to 200 homeless families and individuals in Alcohol and Drug Services High Risk Homeless Services.
- \$50,000 to temporarily expand Mental Retardation Respite Services for 50 families to stabilize and support these clients while other service alternatives are identified.
- \$37,000 in one-time funding to transition into the federal grant reductions in the *Girl Power!* program while CSB explores other sources of non-County funding. In FY 2004, the CSB lost federal grant funding from the Governor's Office of Substance Abuse Prevention (GOSAP) which translates to a loss of services to 300 youth.

	<b>NON-RECURRING</b>	
	Revenue	\$157,313
<b>Fund 106, Fairfax-Falls Church Community Services Board</b>	Expenditure	<u>\$157,313</u>
<b>Additional Grant Funding</b>	<b>Net Cost</b>	<b>\$0</b>

An increase of \$157,313 in expenditures and revenues to appropriate additional state and federal funding including:

- An increase of \$133,713 in revenues from DMHMRSAS for Mental Health Services (\$99,269) and Alcohol and Drug Services (\$34,444) for seven months in FY 2004 will fund a merit psychiatrist position for both programs and additional administrative support and intensive case management in Mental Health Services;
- An increase of \$12,600 in Federal Child Care and Development Block Grant (CCDBG) revenues will fund additional day care services to children with mental retardation; and
- An increase of \$11,000 in Federal Block Grant funding will be used to offset a commensurate increase in expenditures to assist the CSB with the new Community Mental Health System Block Grant Uniform Reporting System data requirements as well as the state's transition to a new Community Consumer Submission reporting system.

	<b>NON-RECURRING</b>
	Revenue (\$977,203)
<b>Fund 106, Fairfax-Falls Church Community Services Board</b>	Expenditure <u>(\$977,203)</u>
<b>Mental Health and Mental Retardation Services</b>	<b>Net Cost \$0</b>

A net decrease in expenditures of \$977,203 is comprised of an increase of \$101,294 to appropriate additional fee revenues in Mental Health Services for PACT and the Stevenson Place/Adult Living Facility contract, offset by decreases of \$600,000 due to savings resulting from day support slots held vacant pending resolution of recurring funding for recent graduates in the program, a decrease of \$329,722 in Mental Health Services due to funding availability within the group home allocation based on utilization, and a reduction of \$148,775 in Mental Retardation Services due to a reduced level of contracted vocational services purchased by the Northern Virginia Training Center (NVTC) as a result of state budget cuts. These expenditure reductions have commensurate revenue adjustments including an increase of \$101,294 in fee revenues for PACT and the Stevenson Place/Adult Living Facility contract, offset by reductions of \$600,000 to reflect revised transportation fee estimates, \$329,722 in fee estimates from Mental Health Services and \$148,775 in fees from the NVTC.

	<b>NON-RECURRING</b>
	Revenue \$4,203,500
<b>Fund 601, Employees' Retirement System</b>	Expenditure <u>\$4,203,500</u>
<b>Benefit Payments and Investment Management Fees</b>	<b>Net Cost \$0</b>

Funding of \$4,203,500 is required due to higher than projected benefit payments and investment management fees. Operating expenses are increased \$1,721,842 in order to cover required benefit payments to retirees and refunds to terminated employees. In addition, investment management fees have increased by \$2,481,658 due to excellent returns through the first half of the year and anticipated high returns for the remainder of the fiscal year. Because fee schedules are based on asset values, strong returns in capital markets through the first six months of the fiscal year have pushed the fees upward. If returns in the markets are positive over the remainder of the fiscal year, asset values and investment management fees will be even greater. This adjustment will be completely offset by projected increases in revenue from return on investment and will not result in an impact on the fund balance for the system.



*In summary, I am recommending 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 \$9.08 million, an increase of \$84.31 million in Appropriated Other Funds expenditures excluding Federal and State Grants, audit adjustments and Schools' funds and adjustments for School funds as requested by the School Board. Details are provided in the Schools' Recommended *FY 2004 Third Quarter Review* package (Attachment VII).
  - Supplemental Appropriation Resolution AS 04076
  - Supplemental Appropriation Resolution AS 03101
  - Amendment to Fiscal Planning Resolution AS 04902
- Board appropriation of Federal/State grant adjustments in Fund 102, Federal/State Grant Fund totaling an increase of \$1.74 million.
- Board approval of adjustment to the Managed Reserve to reflect the adjustments included in the *FY 2004 Third Quarter Review*.