County of Fairfax, Virginia

MEMORANDUM

DATE: March 9, 2009

TO: BOARD OF SUPERVISORS

FROM: Anthony H. Griffin
County Executive

SUBJECT: FY 2009 Third Quarter Review

Attached for your review and consideration is the *FY 2009 Third Quarter Review*, including Supplemental Appropriation Resolution AS 09107 and Amendment to the Fiscal Planning Resolution AS 09901. 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 a net reduction in FY 2009 revenue of $52.95 million from the *FY 2008 Carryover Review* estimate which includes revenue reductions of $58.22 million for FY 2009 identified as part of the Fall Revenue Review and a net increase of $5.27 million as part of the Third Quarter Review.

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 $92.02 million. Expenditures in Non-Appropriated Other Funds increase a total of $2.93 million.

Attachment IV - Fund 102, Federal/State Grant Fund, detailing grant appropriation adjustments for a total net increase of $7.04 million.

Attachment V - Supplemental Appropriation Resolution (SAR) AS 09107, AS 08149 for FY 2008 adjustments to reflect the final audit, and Amendment to the Fiscal Planning Resolution (FPR) AS 09901.

Attachment VI - FY 2008 Audit Package including final adjustments to FY 2008 and the FY 2009 impact.

Attachment VII - Fairfax County Public Schools 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 $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 2009 Third Quarter Review* recommends changes over the $500,000 threshold, the public hearing has been scheduled for March 30, March 31 and April 1, 2009. On April 20, 2009, the Board will take action on this quarterly review prior to marking up the FY 2010 Advertised Budget Plan.

The following is a summary of the current financial status as of the Third Quarter Review compared to the *FY 2009 Revised Budget Plan*.

SUMMARY OF GENERAL FUND STATEMENT
(Dollars in Millions)

	FY 2008 Actual	FY 2009 Revised (Carryover)	FY 2009 Revised (Fall Estimate)	FY 2009 Third Quarter Estimate	Variance from Carryover
Beginning Balance [1]	**$184.20**	**$158.22**	**$161.39**	**$161.39**	**$3.18**
Total Revenue [2]	$3,295.61	$3,340.39	$3,282.16	$3,287.43	($52.95)
Total Transfers In	2.53	11.09	11.09	44.98	33.89
Total Available	**$3,482.34**	**$3,509.70**	**$3,454.65**	**$3,493.81**	**($15.88)**
Direct Expenditures	$1,200.97	$1,305.06	$1,305.06	$1,278.69	($26.37)
Transfers Out	2,119.97	2,135.82	2,135.82	2,143.67	7.86
Total Disbursements	**$3,320.95**	**$3,440.88**	**$3,440.88**	**$3,422.36**	**($18.51)**
Ending Balance	**$161.39**	**$68.82**	**$13.77**	**$71.45**	**$2.63**
Managed Reserve	$67.67	$68.82	$68.82	$68.45	($0.37)
Reserve for Board consideration as part of the FY 2009 budget [3]	22.46				0.00
Audit Adjustments [1]			3.18		0.00
FY 2009 Revenue Shortfall [2]			(58.22)		0.00
Balances held in Reserve for FY 2010 [4]				3.00	3.00
Available Balance	**$71.26**	**$0.00**	**$0.00**	**$0.00**	**$0.00**

[1] The *FY 2009 Revised Budget Plan* (Fall Estimate) Beginning Balance reflects audit adjustments for revenue and expenditures as included in the FY 2008 Comprehensive Annual Financial Report (CAFR). As a result, the FY 2009 Revised Beginning Balance reflects a net increase of $3.18 million based on an increase of $1.25 million in FY 2008 revenues and a decrease of $1.93 million in FY 2008 expenditures. Details of the FY 2008 audit adjustments are included in the FY 2009 Third Quarter Package. It should be noted that the $3.18 million resulting from the audit adjustments is utilized to balance the FY 2009 budget as part of the *FY 2009 Third Quarter Review*.

[2] *FY 2009 Revised Budget Plan* (Fall Estimate) revenues reflect a net decrease of $58.22 million from the *FY 2009 Revised Budget Plan* (Carryover) based on revised revenue estimates as of fall 2008 and as outlined by the County

Executive in a memorandum to the Board of Supervisors on October 14, 2008. The FY 2009 Third Quarter Package contains a detailed explanation of these changes.

[3] As part of the *FY 2007 Carryover Review*, the Board of Supervisors set aside funding of $22.5 million to be held in reserve to address the development of the FY 2009 Budget. This reserve was utilized to balance the FY 2009 Adopted Budget Plan.

[4] As a result of actions taken as part of the *FY 2008 Carryover Review*, funding was set aside in reserve in Agency 87, Unclassified Administrative Expenses, for future budget development as a result $3.0 million has been identified to be carried forward and utilized to balance the FY 2010 budget.

As I noted in my presentation of the proposed 2010 budget to the Board, the County is not immune to the difficult financial times caused by the faltering economy. While unable to forecast the magnitude or prevent the economic crisis now facing the nation, Fairfax County is certainly affected with the byproducts of this downturn, as seen by declining real estate values, consumer reluctance to spend, and the need to address a substantial budget shortfall in the current (FY 2009) budget year.

Staff reviewed FY 2009 revenue projections as a result of the national economic crisis that has been evolving over the recent past. The impact of the stock market deterioration and banking crisis has crippled consumer confidence. As a result, consumers are not spending and the impact on County revenues has been substantial in FY 2009. In October 2008, FY 2009 revenue estimates projected a FY 2009 revenue shortfall of approximately $58.2 million from the FY 2008 Carryover Review estimate.

Of this total an amount of $13 million is due to lower than projected Recordation/Deed of Conveyances taxes, which is a direct result of the continued decline in the housing market, exacerbated by the current credit crunch. An additional $12 million is due to lower than projected Business, Professional, and Occupational License (BPOL) taxes, based on lower projected business and sales activity. Also, the County's forecast for Sales Tax receipts has been reduced by $11 million in part to lower than projected 2008 holiday sales.

In addition, Building and Inspection Fees have been reduced by $4 million due to lower activity. Delinquent collections, driven in part by high collection rates in previous years and current year refunds, are projected to be down $5.1 million. County Clerk Fees, partially generated on the sale of real property, are down $2 million. Bank Franchise Fee revenue, Transient Occupancy Tax receipts, Communication Sales and Use taxes, and revenue from the state are also projected to be lower than anticipated previously.

It should be noted that the $58.2 million revenue reduction is offset by administrative adjustment revenue in the amount of $5.3 million which is completely associated with increased expenditures. In total, FY 2009 revenues are projected to be down $52.95 million, a decrease of 1.6 percent from the *FY 2009 Revised Budget Plan* (as of Carryover) and in line with state and national trends.

In addition, I have had to address a minimal amount of administrative adjustments totaling $6.5 million necessary to address actions that were previously approved by the Board or represent extremely critical needs that cannot be postponed. The largest administrative adjustment, totaling $5.3 million, is related to the County's self insurance fund based on increased worker's compensation and accrued liability requirements. Of this total, funding of $1.7 million is required to address the FY 2009 shortfall in Workers' Compensation due primarily to increases in costs associated with medical care and indemnity for public safety employee cases. In addition, $1.0 million is needed in other self-insurance areas due to significant property losses, largely resulting from storms, which are pending for various liability incidents. It should be noted that these adjustments represent significant increases in both Workers'

Compensation and Self-Insurance and cannot be absorbed within the existing appropriation. The Workers' Compensation adjustment is a 20 percent increase and the Self-Insurance adjustment is a 42 percent increase over the *FY 2009 Revised Budget Plan* of $8.7 million and $2.3 million, respectively. Finally, an amount of $2.6 million is required to support costs associated with accrued liability adjustments based on an annual actuarial valuation of the outstanding liabilities of the fund based on prior claims and experience.

Therefore, as part of the *FY 2009 Third Quarter Review*, I am recommending actions to address this $58.2 million shortfall that was brought to the attention of the Board in a memo dated October 14, 2008 and to fund the $6.5 million net increased requirements. The actions recommended to address this deficit include:

First, agency salary budgets will be reduced by an additional three percent. This reduction, on top of the four percent reduction included in the <u>FY 2009 Adopted Budget Plan</u>, has effectively decreased agency personnel budgets by seven percent on top of their traditional vacancy rate. *The savings achieved by this action, when added to the $0.2 million in savings voluntarily taken by the Board out of their own office budgets, totals $17.8 million.*

Second, I ordered that all non-essential and non-certification travel and training be canceled and that all capital equipment spending, not already in the procurement process be eliminated. *The savings achieved by this action totals $1.4 million.*

Third, I asked that all General Fund paydown capital project spending be reviewed. This action results in the delay and termination of a substantial portion of capital projects in the pipeline in order to generate savings. *The savings achieved by this action totals $12.1 million.*

Fourth, the Board approved one furlough day for County employees, on January 2, 2009. Essential services in public safety and our other 24/7 operations were not impacted by this furlough. *The savings achieved by this action totals $1.8 million.*

Fifth, I suspended all vehicle replacements scheduled for the remainder of FY 2009. This action delayed the planned replacement of County vehicles, including those used in public safety agencies thus providing a one time savings by extending the life of these vehicles by one year. *The savings achieved by this action totals $3.0 million.*

Sixth, I recommended that the Board of Supervisors consider a partial withdrawal from the County's Revenue Stabilization Fund to close the gap between savings generated from the above actions and the actual revenue shortfall. As the Board is aware, the current Revenue Stabilization Policy permits a withdrawal when General Fund revenue is decreased 1.5 percent from the current estimate. *Our current forecast meets the established criteria, and as a result, I am now recommending a withdrawal of $18.7 million from the reserve.* As part of the *FY 2009 Carryover Review*, I will recommend actions necessary to replenish the fund to the 3.0 percent level in accordance with the existing policy.

When combined with reserves available from the FY 2009 Adopted budget and *FY 2008 Carryover Review*, savings that can be applied as a result of the CONNECTOR fare increase, FY 2008 audit adjustments, and savings from accelerating selected FY 2010 reductions in FY 2009, the entire $64.7 million requirement is covered.

Budget Requirements

The following section summarizes the adjustments recommended as part of the *FY 2009 Third Quarter Review*. FY 2009 transfers in are recommended to increase by $33.89 million reflecting the actions required to balance the budget including a transfer in from the Revenue Stabilization Fund of $18.74 million, delays and terminations of capital projects resulting in savings of $12.15 million and suspension of vehicle replacement for FY 2009 resulting in savings to the General Fund of $3.00 million. Total FY 2009 disbursements are recommended to decrease $18.51 million. The most notable adjustments are the three percent across-the-board reduction in agency Personnel Services budgets resulting in a savings of $17.6 million. This reduction, on top of the four percent reduction included in the FY 2009 Adopted Budget Plan, has effectively decreased agency personnel budgets by seven percent on top of their traditional vacancy rate. In addition, the *FY 2009 Third Quarter Review* includes increased expenditures of $5.3 million associated with increased revenues. All adjustments are described in greater detail in the Administrative Adjustments section beginning on page 6 of this memorandum.

Summary of General Fund Revenue

A brief summary of the $5.27 million increase in General Fund Revenues over the FY 2009 Revised (Fall Estimate) is provided below, while details concerning the increase are provided in Attachment II. It should be noted that in addition to this adjustment, a net decrease of $58.22 million in revenue adjustments for FY 2009 were identified as part of the Fall Revenue Review. Information regarding those midyear adjustments is also provided in Attachment II.

- Charges for Service reflect an increase of $0.27 million associated with reimbursement from the District of Columbia for inauguration-related public safety assistance.

- Revenue from the Commonwealth/Federal Government increases $5.00 million as a result of additional state and federal funding for the Comprehensive Services Act Program, Foster Care and Adoption services, the Child Care and Assistance Program, and the Refugee Assistance Program. This revenue is entirely offset by increased expenditures.

Audit Adjustments

As a result of the FY 2008 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 $3.18 million to the FY 2009 beginning General Fund balance. This balance was used to offset FY 2009 Third Quarter 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. Details of these audit adjustments are included in Attachment VI. It should be noted that two County funds, Fund 501, County Insurance and Fund 603, OPEB Trust fund, and one School Fund, Fund 692, Public School OPEB Trust Fund, require a supplemental appropriation resolution based on audit adjustments to reflect the proper accounting treatment for the accrued liability for the County's self-insurance fund and for reporting of benefits paid for other post employment benefits for the County and the School's OPEB trust funds. The appropriation resolution is required to account for adjustments 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 2009 Third Quarter Review*. It should be noted that the revenue adjustments included in the *FY 2009 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
	Revenue	$0
Agency 01, Board of Supervisors	Expenditure	($211,159)
Voluntary Personnel Services Reduction for Board Offices	**Net Cost**	**($211,159)**

At the Board of Supervisors meeting on October 20, 2008, the Board unanimously voted to decrease each Board member's office budget for FY 2009 by 7 percent for the remaining eight months of FY 2009 encompassing the period from November 2008 through June 2009. As a result, a decrease of $23,257 for the Chairman's office and $20,878 for each of the nine District offices is included as part of the *FY 2009 Third Quarter Review*, resulting in a total reduction of $211,159. This action was taken to be consistent with Personnel Services-related budget adjustments being absorbed by County agencies at the direction of the County Executive and acknowledges the fiscal situation facing the County in the current fiscal year.

		RECURRING
Agency 02, Office of the County Executive	Expenditure	($604,915)
Agency 67, Department of Family Services	Expenditure	$604,915
Transfer of Medical Care for Children Partnership and Adult Health Program to the Department of Family Services	**Net Cost**	**$0**

The Medical Care for Children Partnership (MCCP) program and the Adult Health program are being transferred to the Department of Family Services (DFS) from the Office of Public Private Partnerships (OPPP) in the Office of the County Executive. During FY 2009, OPPP changed its business model from one that operates partnership programs to one that catalyzes new partnerships to support strategic initiatives and community needs. In order to accomplish this goal, strategies had to be developed that would ensure the continued success of the MCCP; and after numerous discussions the Health Access Assistance Team within the DFS was identified as the best match of similar program activities.

As a result, the programs are being combined under the direction of DFS effective February 2009, and a funding adjustment is required at this time. FY 2009 funding of $604,915, including $78,282 in Personnel Services reflecting 3/3.0 SYE positions and $526,633 in Operating Expenses is being reallocated from OPPP to DFS. There is no net cost to the County associated with this realignment. FY 2010 funding adjustments have been included as part of the FY 2010 Advertised Budget Plan.

It should be noted that there is an associated MCCP Gift Fund that has been under the control of the Office of Partnerships, reflecting funds that were collected through fundraising efforts of OPPP and the newly created non-profit 501(c)(3) Medical Care for Children Partnership Foundation. Since overall program responsibility is being transferred to DFS, the control of this gift fund is also being transferred to DFS. These funds will continue to be used to support the contractual requirement of the Kaiser Permanente contract.

		NON-RECURRING
	Revenue	$0
Agency 15, Office of Elections	Expenditure	$283,291
Additional Funding for Special Elections	**Net Cost**	**$283,291**

Funding of $283,291 is required for costs associated with special elections in Fairfax County during the last half of FY 2009. Special elections were held on January 13, 2009 for the House of Delegates in the 46th district and on February 3, 2009 for the Chairman of the Board of Supervisors. A special election is scheduled for March 10, 2009 to elect a new Braddock District Supervisor. Depending on the outcome of that election, a special countywide election may be required to fill a seat for a School Board member-at-large. This additional funding is required to support election-related operational costs including delivery of the voting equipment to the polling locations, costs associated with custodial service at the schools, rental fees for special polling locations, ballot preparation and other miscellaneous costs.

		NON-RECURRING
	Revenue	$2,489,458
Agency 67, Department of Family Services	Expenditure	$4,520,534
	Cost	$2,031,076
Agency 87, Unclassified Administrative Expenses	Reserve	($2,031,076)
Comprehensive Services Act	**Net Cost**	**$0**

Funding of $4,520,534 is included to address an increase in the Comprehensive Services Act (CSA) requirements, primarily attributed to the reinterpretation by the state of the foster care prevention population, an increase in the number of youth served, and an overall increase in the cost per youth associated with contract rate increases. The expenditure increase is offset by an increase in state funding of $2,489,458 for a net cost to the County of $2,031,076. Funding of $3.5 million has been held in reserve to address the anticipated shortfall in the CSA program. Based on the reinterpretation of state policy regarding foster care prevention, the state has placed children in need of mental health services in the mandated services category. This reinterpretation was intended to prevent the relinquishment of custody by parents whose children are in need of mental health services, but for who there is now only limited non-mandated funding available to purchase services. By broadening the foster care prevention population, for which services are mandated, more youth must now receive services. Funds held in reserve in Agency 87, Unclassified Administrative Expenses, to address the CSA shortfall, are available for reallocation to Agency 67, Department of Family Services. This funding will be used to offset the net cost of $2,031,076 resulting in no net impact to the County. This leaves a balance in the reserve of $1.5 million which will be maintained to address the possible transfer of CSA expenditures to Fairfax County Public Schools. Please note $0.4 million of the remaining reserve is one-time funding.

		NON-RECURRING
	Revenue	$1,850,000
Agency 67, Department of Family Services	Expenditure	$1,100,000
Agency 87, Unclassified Administrative Expenses	Expenditure	$750,000
Child Care Assistance and Referral Program	**Net Cost**	**$0**

Funding of $1,850,000 is required to appropriate additional federal and state revenue for the Child Care Assistance and Referral (CCAR) program. Funding of $1,100,000 will 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.

As part of the Lines of Business (LOBs) reductions proposed in the FY 2010 budget, CCAR services for the non-mandated population (i.e. children from low-income working families) were reduced by $3.5 million. However, it appears that sufficient funding may be available to offset this reduction without having to reduce the number of children receiving services. As part of the *FY 2008 Carryover Review*, as a result of the additional funding received from the state for the CCAR program in FY 2008 but due to the timing could not be expended in FY 2008, a reserve of $2.0 million was established to address CCAR funding in FY 2010. In January 2009, the state notified the County that another $750,000 was available for the non-mandated population. This funding will also be held in reserve in Agency 87, Unclassified Administrative Expenses to address FY 2010. Therefore, the reserve funding, along with anticipated state funding from the 2008-2010 Biennium Budget bill will address the proposed FY 2010 reduction.

		NON-RECURRING
	Revenue	$478,823
Agency 67, Department of Family Services	Expenditure	$478,823
Foster Care and Adoption	**Net Cost**	**$0**

Funding of $478,823 is required to appropriate additional federal and state revenue in the Foster Care and Adoption program. The expenditure increase is fully offset by state and federal revenues for no net impact to the County. Foster Care and Adoption services are mandated by Federal and Virginia codes. Foster care is the provision of substitute care and rehabilitative services for children temporarily separated from their parents. An example of adoption services includes counseling to birth parents and preparing and placing a child into an adoptive home when efforts to reunite the child with her/her birth family are unsuccessful. Since 2001, as a result of increasing caseloads and contract rate increases, the Foster Care and Adoption program has experienced a nearly 56 percent increase in County expenditures. These expenditures have been fully offset by additional revenue; however, no corresponding adjustments to expenditures and revenue had been requested. This funding has been previously accommodated within the department's budget but due to diminished savings in other program areas, DFS is no longer able to absorb this funding. This adjustment brings expenditures and revenue more in-line with actual experience.

		NON-RECURRING
	Revenue	$0
Agency 67, Department of Family Services	Expenditure	$400,000
Vacant Case Worker Positions in the Self Sufficiency Division	**Net Cost**	**$400,000**

Funding of $400,000 is associated with restoring partial year funding for case worker positions in the Self Sufficiency Division. These positions are being held vacant to meet budget requirements but need to be filled to help address the escalating numbers of people requiring assistance with basic needs such as food stamps, TANF, Medicaid and employment. The deteriorating economy has resulted in significant increases in the number of people needing assistance as well as the complexity of the cases that are being presented. Two examples include, from the fall 2007 to the fall 2008 Fairfax County residents receiving food stamps has increased 16 percent and Medicaid applications has increased 8 percent. It should also be noted that full year funding of $2.0 million is included in the FY 2010 Advertised Budget Plan.

		NON-RECURRING
	Revenue	$186,178
Agency 67, Department of Family Services	Expenditure	$186,178
Refugee Assistance Program	**Net Cost**	**$0**

Funding of $186,178 is required to appropriate additional federal revenue for the Refugee Assistance Program. The Refugee Assistance Program provides cash, medical assistance, employment services and English language training to refugees. This expenditure increase is fully offset by an increase in federal funding with no net impact to the General Fund.

		NON-RECURRING
	Revenue	$0
Agency 85, General District Court	Expenditure	$100,000
Increased Operating Expenses for Court Appointed Attorneys	**Net Cost**	**$100,000**

Funding of $100,000 is required for higher than anticipated costs for court appointed attorneys. In previous years, the Public Defender's Office (state employees) was usually appointed to represent indigent defendants; however, they rarely submitted bills for this work, reducing General District Court expenditures. In recent years, more private court appointed attorneys, who submit bills regularly, have been appointed, increasing expenditures in legal services. It is also projected that the worsening economic climate will increase the number of overall requests for and appointments of court appointed attorneys as the indigent defendant population increases.

		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	Expenditure	($3,500,000)
Fund 104, Information Technology	General Fund Transfer Out	$3,500,000
Legacy Systems Replacement Project	**Net Cost**	**$0**

Funding of $3,500,000 is required to be reallocated from the reserve established in Agency 87, Unclassified Administrative Expenses, as part of the *FY 2008 Carryover Review* to Fund 104, Information Technology, to meet contractual payments anticipated at the end of FY 2009 for implementation and configuration services associated with the County and Schools Enterprise Resource Planning (ERP) project. This funding will support the Fairfax County government and school system multi-year, joint initiative that will modernize the portfolio of enterprise systems that support finance, human resources, budget, procurement and related administrative applications with an integrated approach that has the flexibility to meet current and future requirements. The project seeks to mitigate the risk that antiquated and disjointed systems pose for system failure and flawed data, and to shift the orientation of the systems from that of data repositories to information system solutions. The partnership and business investment will facilitate operational efficiencies through enabling robust self-service processes, reducing various "side" systems currently used to provide functionality that is lacking in the core systems, and identifying independent business processes that achieve a greater value when done jointly between the two organizations. As partners in this endeavor, County government and FCPS expect to avoid the future cost of escalating expenses required to manage and maintain old technology while leveraging future technology costs by working together and clearly defining collective requirements.

		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	Expenditure	($3,883,190)
Reserve Utilization	**Net Cost**	**($3,883,190)**

A decrease of $3,883,190 is included reflecting the use of balances to offset the FY 2009 shortfall. This is consistent with the County Executive's October 2008 memo to meet anticipated revenue shortfalls in FY 2009. These savings were identified as part of the *FY 2008 Carryover Review* and held in reserve in Agency 87, Unclassified Administrative Expenses for this purpose.

		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	Expenditure	($3,000,000)
FY 2010 Use of Balances	**Net Cost**	**($3,000,000)**

A decrease of $3,000,000 is required to reflect one-time balances from FY 2009 that are utilized to balance the FY 2010 budget. The FY 2010 Advertised Budget Plan assumed available balance of $3.0

million would be carried forward from FY 2009. These available balances are the result of $2.0 million in McConnell Public Safety and Transportation Operations Center (MPSTOC) project balances that were available to reimburse the General Fund and $1.0 million in agency balances identified by the County Executive as part of the *FY 2008 Carryover Review*.

		NON-RECURRING
	Revenue	$268,850
Agency 90, Police Department	Expenditure	$418,850
Presidential Inauguration Costs	**Net Cost**	**$150,000**

Funding of $418,850 is required to cover costs incurred by the Police Department associated with increased staffing associated with the 2009 Presidential Inauguration. Of this amount, $268,850 is provided for overtime expenses that have been reimbursed by the Metropolitan Police Department of the District of Columbia. Additionally, $150,000 is included for non-reimbursable inaugural expenses associated with increased overtime requirements within Fairfax County related to the County's staffing for inauguration-related activities.

		RECURRING
Fund 100, County Transit Systems	General Fund Transfer Out	($840,000)
New Fare Revenue	**Net Cost**	**($840,000)**

The General Fund Transfer to Fund 100, County Transit Systems, is decreased by $840,000 due to the availability of new fare revenue to support operations. This additional revenue results from the December 2008 Board of Supervisors approval of an increase in CONNECTOR bus fares effective January 4, 2009, as part of the implementation of a policy to have fare values and fare structure replicate those of WMATA. In addition to fare increases, revenue was positively impacted by WMATA's January 2009 elimination of the paper transfer and institution of a separate full fare charge for bus-to-bus, or rail-to-bus transfers when cash is used as fare payment. This decrease is one of the adjustments noted in the October 31, 2008 memorandum from the County Executive to the Board of Supervisors to address the projected FY 2009 revenue shortfall.

		NON-RECURRING
Fund 106, Fairfax-Falls Church Community Services Board (CSB)	General Fund Transfer Out	$269,799
Mount Vernon Mental Health Center Renovation Project	**Net Cost**	**$269,799**

Funding of $269,799 is required for one-time start-up costs associated with Phase I of the Mount Vernon Mental Health Center Renovation Project. The Mount Vernon Center for Community Mental Health project includes a new 15,000 square-foot addition and renovation of the current 23,000 square-foot existing facility. The expanded and renovated facility, funded by the 2004 Human Service Bond Referendum and $0.9 million in General Fund support, will offer clinical mental health services including Emergency Services, Outpatient Services, Day Treatment Services, PACT (Program of Assertive Community Treatment) and Mental Retardation Case Management Services.

Construction will be completed in two phases: Phase I will be completed late spring/early summer 2009 (FY 2009) and Phase II will be completed in late summer/early fall 2010 (FY 2011), with start up funding being needed two to three months prior to the completion of each phase. Funding of $169,654 has been included in Fund 106 in the FY 2010 Advertised Budget Plan for the Phase II start up costs.

		NON-RECURRING
Fund 302, Library Construction	General Fund Transfer In	($1,912,794)
Fund 303, County Construction	General Fund Transfer In	(7,567,924)
Fund 307, Pedestrian Walkway Improvements	General Fund Transfer In	(12,626)
Fund 311, County Bond Construction	General Fund Transfer In	(2,500,000)
Fund 312, Public Safety Construction	General Fund Transfer In	(154,059)
Capital Project Reductions	**Net Cost**	**($12,147,403)**

A total of $12,147,403 is transferred to the General Fund from a variety of capital projects funds, based on the County Executive's October 2008 memo, to meet anticipated revenue shortfalls in FY 2009. A thorough review of the County's General Fund supported Capital Construction Program (Paydown Program) has been conducted and any available balances to date have been added to those detailed in the October 14 memo. Many of the projects reduced are complete and balances that might have been used to offset potential shortfalls in other projects are recommended to be returned to the General Fund. There are other more significant reductions which include: $2.5 million associated with a favorable construction contract award for the Mount Vernon Mental Health Center, a reduction of $1.6 million from the land acquisition reserve, a $1.4 million reduction associated with a deferral in the expansion of the Mott Community Center, a reduction of $1.0 million in General Fund support for the construction of six Transitional Housing units at the Hanley Family Shelter and a reduction of $1.2 million associated with not relocating the Dranesville District Supervisors Office to the Dolley Madison Library.

		NON-RECURRING
Fund 501, County Insurance	General Fund Transfer Out	$2,575,804
Accrued Liability	**Net Cost**	**$2,575,804**

The General Fund transfer to Fund 501, County Insurance, is increased by $2,575,804 in support of costs associated with accrued liability adjustments. This adjustment is based on an annual actuarial valuation of the outstanding liabilities of the fund based on prior claims and experience, and it is reflected in the adjustments to the FY 2008 actuals.

		NON-RECURRING
Fund 501, County Insurance	General Fund Transfer Out	$2,700,000
Workers' Compensation and Self Insurance Increases	**Net Cost**	**$2,700,000**

The General Fund transfer to Fund 501, County Insurance, is increased by $2,700,000 in support of $2,700,000 in increased costs. Funding of $1.7 million is required to address the FY 2009 shortfall in Workers' Compensation due primarily to increases in costs associated with medical care and indemnity. In addition, $1,000,000 is needed in other self-insurance areas due to significant losses, which are pending for various liability incidents. It should be noted that these adjustments represent significant increases in both Workers' Compensation and Self-Insurance and cannot be absorbed within the existing appropriation.

Establishment of Fuel Price Stabilization Reserve		**NON-RECURRING**
Agency 08, Facilities Management Division	Expenditure	($50,000)
Agency 29, Stormwater Management	Expenditure	($50,000)
Agency 31, Land Development Services	Expenditure	($50,000)
Agency 50, Department of Community and Recreation Services	Expenditure	($300,000)
Agency 51, Park Authority	Expenditure	($200,000)
Agency 67, Department of Family Services	Expenditure	($50,000)
Agency 90, Police Department	Expenditure	($1,000,000)
Agency 91, Office of the Sheriff	Expenditure	($100,000)
Agency 92, Fire and Rescue Department	Expenditure	($500,000)
Fund 100, County Transit Systems	General Fund Transfer Out	($1,650,000)
Fund 106, Fairfax-Falls Church Community Services Board	General Fund Transfer Out	($50,000)
Fund 503, Department of Vehicle Services	General Fund Transfer Out	$4,000,000
	Net Cost	**$0**

A decrease of $4,000,000 for the above noted General Fund and General Fund supported agencies is included due to savings associated with lower than anticipated fuel prices in FY 2009. These savings will be used to establish a Fuel Price Stabilization Reserve in the Department of Vehicle Services to address future fluctuations in fuel prices. The FY 2009 Adopted Budget Plan assumed an average agency per gallon price of $4.10; however given year-to-date experience, the FY 2009 end-of-year per gallon price is estimated to be $2.48, a decrease of $1.62 (or nearly 40 percent) from the FY 2009 Adopted Budget Plan level. The $4,000,000 in savings from agency budgets will be transferred to the Department of Vehicle Services, thus the resulting net cost of $0 is associated with this action. Fuel prices continue to vary widely and this reserve will be used in the event of an unanticipated future increase in fuel prices. Volatility in prices works both ways as evidenced by the General Fund costs of fuel increasing just over $4 million between FY 2007 and FY 2008.

		NON-RECURRING
Fund 503, Department of Vehicle Services	General Fund Transfer In	($3,000,000)
Savings Associated with Deferral of County Vehicle Replacement	**Net Cost**	**($3,000,000)**

In order to help address a projected $58 million FY 2009 shortfall, the County Executive halted the majority of vehicle replacements effective October 14, 2008 for the remainder of FY 2009. This directive impacted all vehicles whose replacement had not been initiated by this date, with the exception of those noted below. This directive effectively extends the replacement of current vehicles in the fleet by 1 year with a total savings of $5.0 million. Since this directive came in the middle of the fiscal year, an amount of $3.0 million in savings will be achieved in FY 2009 and is being transferred to the General Fund as part of the *FY 2009 Third Quarter Review.*

It should be noted that non-general fund agencies are not impacted by this directive, meaning that vehicles budgeted for purchase out of their own funds are allowed. In addition, certain classes of large vehicles such as the Police Department Helicopter and Fire and Rescue Department Large Apparatus were exempted from this policy due to their uniqueness and long lead time necessary to purchase.

NON-RECURRING

General Fund Expenditure ($1,565,000)

FY 2010 Lines of Business Reductions Accelerated into FY 2009 **Net Cost** **($1,565,000)**

A number of reductions totaling $1,565,000 are included reflecting an acceleration of reductions that are recommended to be taken in FY 2010 and which could also generate full or partial year savings in FY 2009. The accelerated reductions were presented in draft to the Board of Supervisors at the December 15, 2008 Lines of Business review meeting; the following table outlines the specific actions being taken:

Agency	Reduction Description	Net Reduction
County Executive	Reduction based on historical spending patterns and elimination of cash awards for Outstanding Performance Awards for the remainder of FY 2009	$110,000
Community Revitalization and Reinvestment	Alignment of budget based on anticipated requirements	$51,000
Cable Communications and Consumer Protection	Reductions based on funding a Consumer Specialist from Cable Funds and savings in Mail Services based on not filling vacant ELT positions	$62,000
Finance	Negotiated Audit Contract savings	$180,000
Facilities Management	Adjust temperature settings by 3 degrees in all County Facilities	$100,000
Human Resources	Eliminate one of two vacant Assistant Director positions and discontinue cash awards as of January 1	$136,000
Public Affairs	Savings based on reduction in print copies	$10,000
Economic Development Authority	Reduction based on historical spending patterns	$30,000
Management and Budget	Savings based on anticipated reduction in printing of budgets	$20,000
PWES - Business Planning & Support	Readjustment of Recovered Costs of DPWES Enterprise and Special Revenue Funds	$26,000
PWES - Land Development Services	Reduction based on position vacancies	$50,000
Planning and Zoning	Reduction based on historical spending patterns	$25,000
Planning Commission	Savings from retirements and re-filling with lower than budgeted employees	$16,000
Housing and Community Development	Eliminate vacant Division Director position	$96,000
Civil Service Commission	Reduce the line items for Legal Services (payment to outside Hearing Officers) and stipends for the Commissioners	$29,000
Parks	Reduce agency-wide operating expenditures	$98,000
Tax Administration	Reduction based on efficiency and cost savings measures	$100,000
Family Services	Alignment of Budget	$107,000
Administration for Human Services	Human Services Workforce Development funding	$50,000
Systems Management for Human Services	Alignment of Budget	$130,000
Police	Reduce Uniform Account	$30,000
Sheriff	Reduction of staffing at the Satellite Intake Facilities at Mason and Mount Vernon Stations and Elimination of Court House Facility Security during hours that Court is not in session. (Note: This proposed LOBS reduction is being accelerated by the Sheriff to	$0

	offset overtime costs)	
Fire and Rescue	Reduction based on anticipated efficiency cost savings	$70,000
Emergency Management	Fund Grant Assistant from grant funds and reduce operating expense budget.	$39,000
	TOTAL	**$1,565,000**

NON-RECURRING

Expenditure ($1,683,714)
General Fund Transfer Out ($151,874)
Net Cost ($1,835,588)

General Fund and Other Funds
January 2, 2009 Furlough Day

An across-the-board reduction in agency Personnel Services budgets of $1,835,588 is included, of which $1,683,714 is from General Fund agencies and $151,874 is from General Fund-supported funds. This reflects the actual furlough savings achieved by agencies and funds as a result of the mandatory furlough day recommended by the County Executive and approved by the Board on October 20, 2008. The savings generated by the furlough were estimated at that time to be between $1,750,000 and $2,000,000. In addition, furlough adjustments generated by all Other Funds are reflected as part of the Third Quarter Review and the savings reflected in the respective fund balance of the fund.

NON-RECURRING

Expenditure ($15,077,182)
General Fund Transfer Out ($2,498,088)
Net Cost ($17,575,270)

General Fund and Other Funds
Additional Across-the-Board Personnel Services Reduction

An across-the-board reduction in agency Personnel Services budgets of $17,575,270 is included, of which $15,077,182 is from General Fund agencies and $2,498,088 is from General Fund-supported funds. This constitutes an additional 3 percent Personnel Services reduction for many agencies and funds, reducing agency Personnel Services budget by an average of 7 percent in FY 2009. This is consistent with the County Executive's October 2008 memo to meet anticipated revenue shortfalls in FY 2009.

As has been the case for the last several years, agencies have been directed to manage resources in a way to minimize direct service impact on consumers and maintain the integrity of programs. Many agencies are managing the reduction by holding vacant positions that would otherwise be filled. Several agencies have indicated unavoidable service impacts resulting from the additional personnel services reduction.

Depending on the agency, this may result in increased wait and response times, lengthened waiting lists, limited ability to perform additional proactive enforcement, reduced quantity or variety of programming, and reduced or deferred routine maintenance.

NON-RECURRING

Expenditure ($1,356,032)
Net Cost ($1,356,032)

General Fund
Focused Savings in Operating Expenses and Capital Equipment

A number of reductions totaling $1,356,032 are included in Operating Expenses and Capital Equipment. As directed by the County Executive in October 2008, agencies have managed expenditures in non-essential training, Capital Equipment and other operating Expenses to assist in meeting the projected shortfall in FY 2009 revenues.

The following agencies identified savings: Cable Communications and Consumer Protection, Public Works and Environmental Services/Land Development Services, Police, Fire and Rescue, Facilities Management, Public Works and Environmental Services/Stormwater Management, Family Services, Health, Parks and Planning and Zoning.

		NON-RECURRING
Fund 002, Revenue Stabilization	General Fund Transfer In	($18,742,740)
Partial Withdrawal	**Net Cost**	**($18,742,740)**

The Board of Supervisors approved the establishment of Fund 002, Revenue Stabilization Fund (RSF) in 1999 to provide a mechanism, in the event of changing economic conditions, for maintaining a balanced budget within a current budget year without resorting to sudden or drastic reductions to County and School programs. The current Revenue Stabilization fund policy permits a withdrawal when General Fund revenue is decreased 1.5 percent from estimated current year revenues. In addition, the policy limits the withdrawal to one half of the reserve and requires accompanying spending reductions. Based on Third Quarter revenue estimates which reflect a reduction of $53.0 million or 1.6 percent from the FY 2009 approved budget level, FY 2009 marks the first year the policy conditions for withdrawal have been met since the creation of the fund in 1999. The current Revenue Stabilization fund balance is $102.98 million. The proposed withdrawal of $18.74 million will leave a balance of $84.24 million which is equivalent to approximately 2.46 percent of total FY 2009 Third Quarter disbursements.

In addition, I will recommend as part of the *FY 2009 Carryover Review* a plan to restore the fund to the targeted 3 percent of total general fund disbursements.

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 $0, an increase of $92.02 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 are provided in the Schools' Recommended *FY 2009 Third Quarter Review* package (Attachment VII).

  - Supplemental Appropriation Resolution AS 09107

  - Supplemental Appropriation Resolution AS 08149

  - Amendment to Fiscal Planning Resolution AS 09901

- Board appropriation of Federal/State grant adjustments in Fund 102, Federal/State Grant Fund totaling an increase of $7.04 million.

- Board approval of adjustment to the Managed Reserve to reflect the adjustments included in the *FY 2009 Third Quarter Review*.