ATTACHMENT B:

MEMO AND ATTACHMENTS I – VI TRANSMITTING THE COUNTY'S FY 2010 CARRYOVER REVIEW WITH APPROPRIATE RESOLUTIONS

Attachment B

County of Fairfax, Virginia

MEMORANDUM

DATE: July 27, 2010

TO: BOARD OF SUPERVISORS

FROM: Anthony H. Griffin
County Executive

SUBJECT: FY 2010 Actual Revenues, Expenditures and Carryover Supplemental Appropriation

Attached for your review and consideration is the FY 2010 Carryover Package, including Supplemental Appropriation Resolution AS 10192, AS 11025 and Amendment to the Fiscal Planning Resolution AS 11900. The document includes the following attachments for your information:

Attachment I	A General Fund Statement including revenue and expenditures, as well as a summary reflecting expenditures by fund
Attachment II	A summary of General Fund receipt variances by category
Attachment III	A summary of significant General Fund expenditure variances, encumbrances and unencumbered carryover by agency
Attachment IV	A detailed description of new and unexpended federal/state grants, as well as anticipated revenues associated with those grants that are recommended for appropriation in FY 2011
Attachment V	A detailed description of significant changes in Other Funds
Attachment VI	Supplemental Appropriation Resolution AS 10192, AS 11025 and Fiscal Planning Resolution AS 11900 for FY 2011 providing for the appropriation of outstanding encumbrances and unspent balances for federal/state grants, as well as prior commitments of the Board of Supervisors, such as unspent capital project balances

As the Board is aware, the Code of Virginia requires that the Board of Supervisors hold a public hearing prior to the adoption of amendments to the current year budget when potential appropriation increases are greater than 1.0 percent of expenditures. In addition, the Code requires that the Board advertise a synopsis of the proposed changes. Since the *FY 2010 Carryover Review* recommends changes to the FY 2011 Adopted Budget Plan over this limit, Board action on the Carryover Review has been scheduled at the same time as the public hearing on September 14, 2010.

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FY 2010 End of Year Summary
A brief summary of the General Fund follows, comparing unaudited actual receipts and disbursements as of June 30, 2010 to the final estimates of the *FY 2010 Revised Budget Plan*.

GENERAL FUND STATEMENT AND BALANCE AVAILABLE
(in millions of dollars)

	FY 2010 Revised Budget Plan	FY 2010 Actual	Variance
Beginning Balance, July 1	$185.39	$185.39	$0.00
Receipts and Transfers In	$3,332.01	$3,360.84	$28.83
Total Available	**$3,517.39**	**$3,546.23**	**$28.83**
Expenditures	$1,253.94	$1,162.08	($91.86)
Transfers Out	$2,146.40	$2,146.40	$0.00
Total Disbursements	**$3,400.34**	**$3,308.49**	**($91.86)**
Ending Balance, June 30	**$117.05**	**$237.74**	**$120.69**
Managed Reserve	$68.01	$68.01	$0.00
Balance used in FY 2011 Adopted	$49.04	$69.04	$20.00
Balance	**$0.00**	**$100.69**	**$100.69**

FY 2010 Commitments ($41.50)	
Outstanding Encumbered Obligations	($37.67)
Outstanding Unencumbered Commitments	($3.02)
Managed Reserve Adjustment	($0.81)
Balance after FY 2010 Commitments	**$59.19**
FY 2011 Adjustments ($42.25)	
Proposed Board Adjustments	
Priority Schools Initiative (funded through use of Reserve)	($1.26)
Retirement Study Funding	($0.12)
Two Health Insurance Premium Holidays for Employees (Recommended)	($2.20)
Administrative Adjustments	
Reserve for FY 2012 Retirement Contributions	($15.00)
Other Administrative Adjustments	($22.77)
Managed Reserve Adjustment	($0.90)
Balance after FY 2011 Adjustments	**$18.20**
Remaining Balance from Reserve for State Cuts (After Funding $1.3 million for Priority Schools Initiative)	$5.75
Net Balance	**$23.95**

NOTE: Carryover is defined as the re-appropriation in FY 2011 of previously approved items such as outstanding encumbered obligations, unencumbered commitments and unexpended FY 2010 capital project and grant balances.

Executive Summary

FY 2010 General Fund Revenues and Transfers In were $3.36 billion, an increase of $28.83 million or 0.9 percent over the *FY 2010 Revised Budget Plan* estimate. In addition, expenditures were below *FY 2010 Revised Budget Plan* projections by $91.86 million. Netting out outstanding encumbrances and unencumbered commitments, as well as the required Managed Reserve adjustment totaling $41.50 million, the FY 2010 available disbursement balance is $50.36 million. It should be noted that $20.0 million of this variance is due to the reserve for FY 2011 retirement requirements which had been anticipated in beginning balance as part of the adoption of the FY 2011 budget. As a result, the combined revenue and disbursement balance, after funding obligations and managed reserve is $59.19 million. The available balance is partially offset by $42.25 million in necessary adjustments described below and the associated Managed Reserve adjustment. As a result of these actions and the addition of the remaining balance of $5.75 million from the Reserve for State Cuts, the total available is $23.95 million. It is my recommendation that this funding be held in reserve to offset the projected FY 2012 deficit or to address FY 2011 revenue loss from the state or any emergencies which occur during the course of the fiscal year. As the Board may recall, the $5.0 million reserve set aside as part of the *FY 2009 Carryover Review* was utilized to cover unexpected expenses associated with the massive storms experienced during 2010.

I believe it is imperative that balances be reserved as much as possible to address FY 2012 requirements. The County is fortunate that FY 2010 revenue came in higher than anticipated, albeit at a slight 0.9 percent above our estimates. Projecting revenue during this time of economic uncertainty is very difficult. Previously reliable models and methodologies for estimating revenue cannot adjust quickly to changing economic factors and forecasting revenue both in the current year and in the future budget year is very difficult. As the Board is aware, we are anticipating that FY 2012 revenue growth will be negative. Even with no increase in County or School spending, our current forecast projects an FY 2012 budget shortfall. In addition, I believe we are equally fortunate due to the innovation and hard work of our agency directors and staff. Despite several years of budget reductions, including mid year decreases, agency FY 2010 spending remained at and in most cases below budget. Many of the balances resulted from the acceleration of budget reductions included in the FY 2011 budget, and are therefore non-recurring, or were generated by agencies as a result of operational efficiencies and closely managed staffing resources. The unexpended balances will be important as we review strategies to close FY 2012 budget gaps.

A summary of some of the major adjustments included in the FY 2010 Carryover is noted below:

<u>Board Adjustments (Proposed/Recommended)</u>

The *FY 2010 Carryover Review* also includes $1.38 million to fund two Board directed adjustments and one additional adjustment I am recommending for the Board's consideration totaling $2.20 million. At the Board's Personnel and Reorganization Committee meeting on June 29, 2010, the Board directed staff to include funding of $120,000 in the *FY 2010 Carryover Review* to finance a comprehensive study of the County's retirement plans. In addition, I have included the appropriation of $1,255,755, from the $7 million State Reserve consistent with Board guidance from the Joint County Board – School Board meeting on the Priority Schools Initiative. A Consideration Item to approve this item for inclusion in the *FY 2010 Carryover Review* is included in the July 27th Board package. Should this funding for the Schools program not be approved, this funding would be available to supplement the recommended reserve for FY 2012. Finally, I am recommending the implementation of two premium holidays for active employee health insurance contributions before the end of the calendar year. In light of the County's inability to fund compensation increases, employees enrolled in the County insurance plans have had to bear the full cost of premium increases over the past two fiscal years. I recognize that this adjustment is a small recognition but we want employees to realize that we are proud of their efforts during these difficult fiscal times.

Anticipated Retirement Cost Increase in FY 2012

In terms of dollars, the largest recommended adjustment included in this package is the $15.0 million I recommend be set aside in reserve in anticipation of increased employer contribution requirements for the County's retirement systems in FY 2012. The investment losses in our system experienced in FY 2009 will continue to impact employer contribution rates. Our actuarial methodology smooths investment returns over a number of years to mitigate volatility in funding requirements. As a result, the FY 2009 investment loss has impacted our FY 2011 contributions and will also require increases in our FY 2012 employer contribution rates. Currently, it is projected that employer contribution rates for all systems will increase significantly in FY 2012. In order to prepare for the projected fiscal impact of these rate changes, I recommend that we set aside $15.0 million, to be held in Agency 89, Employee Benefits, for use in FY 2012. This strategy was very effective for FY 2011. The retirement funding increase was partially supported by the $20.0 million reserve established by the Board at the *FY 2009 Carryover Review*. I recommend a similar strategy to finance the majority of the FY 2012 cost increase.

Legacy Systems Replacement Project

On June 22, 2010, the Board of Supervisors approved a multi-year contract for an implementer to guide and assist County staff with the Legacy Systems replacement. Funding to support the purchase of the software for the systems was funded as part of the *FY 2009 Carryover Review*. As part of the *FY 2010 Carryover Review,* I have included $10.0 million for the Legacy Systems Replacement Project. This funding is necessary to support the Fairfax County government and school system multi-year, joint initiative that will modernize the portfolio of enterprise systems that support finance (FAMIS), human resources (government: PRISM/schools: Lawson), budget (BPREP), procurement (CASPS) and related administrative applications with an integrated approach that has the flexibility to meet current and future requirements.

County Insurance Requirements

The General Fund transfer to Fund 501, County Insurance Fund, is increased by $7,151,066 for costs associated with anticipated increases in Workers' Compensation based on recent experience, self-insurance losses pending from various liability incidents, fully funding the Accrued Liability Reserve based on the May 2010 actuarial evaluation of the outstanding liabilities of the fund, and funding to replace revenue losses realized in FY 2010 and anticipated in FY 2011. The largest portion of this increase, $3.37 million, is necessary based on actual workers' compensation claims for which the County is self-insured. In addition, funding of $2.07 million is required to ensure that the Reserve for Catastrophic Occurrences be maintained at the FY 2011 Adopted level as a result of revenue decreases experienced in FY 2010 and anticipated in FY 2011.

Child Care Assistance and Referral Program

Additional funding of $4,200,000 was received from the state in FY 2010 for the Child Care Assistance and Referral (CCAR) program. This funding was not appropriated in FY 2010 and is part of the $59.19 million revenues and disbursement balance noted above. As the Board may recall, $3.4 million was eliminated from the CCAR program in FY 2010 and it was indicated that the reduction would be funded with balances available as a result of additional funding received from the state for CCAR. This $4.2 million, along with $150,000 in unencumbered carryover, will be held in reserve in Agency 87, Unclassified Administrative Expenses. This brings total funding for the FY 2012 CCAR reserve to $4.35 million. The recommended reserve will be held for FY 2012 to continue to fully address the $3.4 million reduction and to support mandated information technology changes anticipated from the state as a result of the state's new automated child care information system. Funding will be reallocated to Agency 67, Department of Family Services at a quarterly review during FY 2012.

Additional Positions Included in FY 2010 Carryover

Eleven (11/11.0 SYE) new positions are included in the *FY 2010 Carryover Review* based on new requirements. On June 22, 2010, the Board of Supervisors adopted the Tysons Corner plan amendment which aims to transform Tysons Corner into a walkable, green urban center by 2050. In order to address the significant workload increase that will result from implementing this directive, an amount of $522,673 and 7/7.0 SYE new positions are included as part of the *FY 2010 Carryover Review* in the Department of Planning and Zoning and the Department of Transportation. A portion of this funding also supports an existing position within the Fairfax County Park Authority. In addition, $154,188 is included in Agency 89, Employee Benefits, for the fringe benefit expenses related to these positions. Based on the timing of the adoption of the plan amendment, these positions were unable to be considered during the FY 2011 budget process.

In addition, 4/4.0 SYE positions are required for the Fairfax-Falls Church Community Services Board to allow the department to implement a new Financial Assessment and Screening Team (FAST). There is no net cost to the County associated with this action. The cost of these positions will be covered by a portion of the $1,665,990 in additional funding from the Department of Behavioral Health and Developmental Services. The FAST initiative will expand financial screening efforts to increase utilization of non-county dollars in support of Mental Health programs by increasing use of Medicaid revenues, consumer payments and other non-county sources. The FAST team will screen consumers and/or families for eligibility in various assistance programs and be a primary step in care coordination by assisting consumers in establishing and maintaining coverage and benefits, thereby promoting healthcare. This adjustment continues the reorganization and efficiency initiatives being conducted this year.

FY 2010 Revenues and the Economy

Before discussing specific FY 2010 Carryover adjustments, it is important to review the context of the Carryover balance and recommended adjustments. Actual FY 2010 General Fund Revenues were $3.35 billion, an increase of $28.83 million over the *FY 2010 Revised Budget Plan* estimate. This increase represents a variance of just 0.9 percent. The FY 2010 net revenue increase was primarily the result of increases in Personal Property Tax receipts, Bank Franchise Tax Revenue and Revenue from the Commonwealth and the Federal Government. Personal Property Taxes were $9.10 million more than the *FY 2010 Revised Budget Plan* primarily as a result of higher than projected current tax levy. Bank Franchise Tax revenue reflects an increase of $10.57 million more than budgeted. The FY 2010 collections more than doubled compared to FY 2009 collections based on bank mergers and actual bank reserve levels. This tax is not remitted to the County until late May after the annual budget is adopted. Finally, a $7.27 million increase in Revenue from the Commonwealth and the Federal Government is primarily associated with public assistance programs linked to expenditures and lower than anticipated state funding reductions.

There have been a few positive economic signs during the first half of 2010, such as an increase in home sales and a decline in the County's unemployment rate; however, a sustainable economic recovery is far from certain. While actual revenue exceeded budget estimates for Sales Tax receipts and Business, Professional and Occupational Licenses, the level of FY 2010 receipts is still below their FY 2009 levels. Bank Franchise Taxes were up significantly as a result of banks holding excess reserves due to continued economic concerns. In addition, collections of Deed of Conveyance and Recordation Taxes, as well as County Clerk Fees, were positively impacted in FY 2010 by federal homebuyer tax credits which have since expired. The impact of economic conditions on FY 2011 revenues will be more apparent during the fall 2010 revenue review after several months of actual FY 2011 collections have been received. In addition, the state of the Commonwealth's budget in FY 2011 could impact aid to localities, should additional funding reductions become necessary.

Staff will continue to closely monitor both expenditure and revenue categories to identify trends and conditions impacting the budget, and, in particular, their effect on the level of revenue growth in the County.

FY 2010 Disbursements
The General Fund disbursement variance totals $91.86 million. An amount of $41.50 million is carried forward for encumbered and unencumbered items, as well as the associated Managed Reserve adjustment, leaving a variance of $50.36 million. Encumbered carryover includes legally obligated funding for items/services for which final financial processing has not been completed. Unencumbered carryover includes funding for items previously approved by the Board but not purchased based on timing or other issues. After adjusting for the $20.0 million retirement reserve which has been anticipated in the FY 2011 budget, the net disbursement variance is $30.36 million or 0.9 percent of total estimated disbursements. Much of this balance can be attributed to agency efforts to manage position vacancies and operating requirements as part of ongoing objectives to restrain spending and provide services as efficiently as possible. In addition, many agencies were able to generate savings as they adjusted programs and services in anticipation of FY 2011 budget reductions. More detailed information on FY 2010 General Fund Disbursement Variances is included in the Carryover attachments.

FY 2010 Audit Adjustments
As the Board is aware, the financial audit of FY 2010 is currently being conducted. Necessary adjustments as a result of this work will be included in the FY 2010 Comprehensive Annual Financial Report (CAFR) and in the audit package that is presented for the Board's approval as part of the *FY 2011 Third Quarter Review*.

Summary of FY 2011 Adjustments
The *FY 2010 Carryover Review* includes adjustments for items previously approved by the Board of Supervisors or other adjustments that are required at this time. These adjustments are detailed in the various attachments included in the Carryover package.

Board Proposed and Recommended Adjustments

		NON-RECURRING
Fund 090, Fairfax County Public Schools Operating	General Fund Transfer	$1,255,755
FY 2011 Reserve for State Cuts	Reserve	($1,255,755)
Priority Schools Initiative	**Net Cost**	**$0**

Funding of $1,255,755 is included for the transition in FY 2011 associated with the Priority Schools Initiative. As part of the adoption of the FY 2011 budget, the Board of Supervisors approved a motion to make funding available to assist the Fairfax County Public Schools (FCPS) with the transition from former EXCEL, Focus and Modified calendar school models, should Schools budget resources be insufficient to meet transition requirements. As noted in the June 9, 2010 memo from FCPS, an amount of $1.3 million is requested in FY 2011 to assist in the transition. Details of the transition plans were discussed at the Joint County Board-School Board meeting on July 6, 2010 and include extended teacher contracts, instructional coaches and family and community partnerships. Subsequent to the meeting, the School Board provided additional details regarding the use of local funding as part of each school's transition plan. In addition to the second-year Title I funding from the American Recovery and Reinvestment Act used in this transition, a total of $1.3 million in local transition funding was distributed among eleven schools. Each of the schools will be utilizing the transition funding to provide increased instruction for students, either through a uniform school day (no early release on Mondays), providing additional learning opportunities during the summer and/or before and after the school day, or through providing an increased number of teachers. Anticipating direction by the Board on July 27, 2010 to include the funding in Carryover, staff has included this adjustment to ensure its advertisement for Public Hearing.

		NON-RECURRING
Agency 89, Employee Benefits	Expenditure	$120,000
Retirement Study Funding	**Net Cost**	**$120,000**

As directed by the Board of Supervisors on June 29, 2010, at the Board's Personnel and Reorganization Committee, funding of $120,000 is required for a comprehensive study of the County's retirement plans. In their budget guidance approved with the adoption of the FY 2011 budget, the Board directed staff to continue to review the County's retirement policies and programs. This study will include an examination of switching to a defined contribution retirement plan for new County employees, as well as changes to early retirement provisions.

		NON-RECURRING
Agency 89, Employee Benefits	Expenditure	$2,200,000
Health Insurance Premium Holidays	**Net Cost**	**$2,200,000**

Funding of $2,200,000 is required to provide active County employees who are eligible for and enrolled in County health insurance two premium "holidays" in the Fall of 2010, whereby the County would pay the employee share of health insurance premiums for two pay periods. During deliberations on the FY 2011 budget, the Board of Supervisors expressed concern over rising health care premiums, especially in light of the suspension of compensation increases for employees for the second consecutive year. This one-time funding would provide financial relief to active employees participating in one of the County's four health plans. The level of savings for each employee would vary, ranging from approximately $66 to $395 in total for both holidays, depending on the specific health plan and level of coverage. As the County would be covering the employees' portion of premiums, the proposed premium holidays would not impact revenue or the maintenance of appropriate reserves in Fund 506, Health Benefits Trust Fund. After completing its review of claims experience, as well as the impact of health care reform, staff will be modifying plan offerings to provide more diverse options as appropriate and determining premium rates for calendar year 2011 that ensure claims and administrative costs are covered while attempting to minimize premium increases for employees. Premiums for CY 2011 will be set in August to permit adequate time for system programming and open enrollment preparation.

Administrative Adjustments

		RECURRING
Agency 31, Land Development Services	Expenditure	($1,812,474)
Agency 35, Department of Planning and Zoning	Expenditure	($1,575,871)
Agency 71, Health Department	Expenditure	($122,238)
Agency 97, Department of Code Compliance	Expenditure	$3,510,583
Department of Code Compliance	**Net Cost**	**$0**

		NON-RECURRING
Agency 31, Land Development Services	Expenditure	($239,669)
Agency 35, Department of Planning and Zoning	Expenditure	($150,000)
Agency 97, Department of Code Compliance	Expenditure	$389,669
Department of Code Compliance	**Net Cost**	**$0**

As part of the FY 2011 Adopted Budget Plan, the Board approved the creation of the Department of Code Compliance (DCC), combining the functions of the Code Enforcement Strike Team primarily budgeted in Land Development Services (LDS), the majority of the Zoning Enforcement function in the Department of Planning and Zoning (DPZ), and two positions in the Environmental Health Division of the Health Department. The vision of the consolidation is to create an adaptable, accountable, multi-code enforcement organization within a unified leadership/management structure that responds effectively and efficiently toward building and sustaining neighborhoods and communities. Effective July 1, 2010, administration of compliance programs pertaining to Zoning, Building, Property Maintenance, Health, and Fire Codes, as well as the Blight and Grass Ordinances, are now centralized in DCC, a collaborative multi-functional environment that investigates and resolves violations and concerns in the residential and commercial communities. DCC will also be responsible for customer service intake and administrative support. It should be noted that Public Safety/Fire Marshal staff will continue to be deployed from their home agencies, through the currently funded positions, in support of the new department.

In the ensuing months, significant work has occurred on defining the specific functions, responsibilities, goals, and organizational structure of the Department of Code Compliance. A multi-agency transition team was established to provide the essential planning and development of the key components of the consolidation. One of the highlights of the new organization is the creation of five geographically-based teams of inspectors assembled in a manner that fosters assistance and coordination with the local Police district stations and enhances connections to Board member offices. Under this structure, multi-disciplined teams of inspectors are concentrated in areas that have demonstrated a higher number of complaints while simultaneously reducing the span of control of the team supervisor allowing for greater efficiencies and effectiveness in case management and quality control.

The specific fiscal and position-related adjustments required as part of the *FY 2010 Carryover Review*, are as follows:

- $2,052,143, 18/18.0 SYE merit positions, and associated limited term support are transferred from Agency 31, LDS, to Agency 97, DCC. This primarily reflects the positions and operating funding that have supported the Code Enforcement Strike Team since its creation as part of the *FY 2008 Carryover Review*. Of this total, $1,812,474 reflects recurring ongoing funding for salaries and operating expenses, while the remaining $239,669 reflects encumbered carryover from FY 2010.
- $1,725,871 and 24/24.0 SYE merit positions will be transferred from Agency 35, DPZ, to Agency 97, DCC, reflecting the majority of the Zoning Enforcement function. Of this total, $1,575,871 reflects recurring funding for salaries and ongoing operating expenses, while the remaining $150,000 reflects encumbered carryover.
- $122,238, and 2/2.0 SYE merit positions are transferred from the Environmental Health Division of Agency 71, Health Department, to Agency 97, DCC.

There is no net cost to the County associated with these actions.

		RECURRING
Agency 35, Department of Planning and Zoning	Expenditure	$326,671
Agency 40, Department of Transportation	Expenditure	$130,668
Agency 51, Fairfax County Park Authority	Expenditure	$65,334
Agency 89, Employee Benefits	Expenditure	$154,188
Tysons Corner Plan Amendment	**Net Cost**	**$676,861**

On June 22, 2010, the Board of Supervisors adopted the Tysons Corner plan amendment which aims to transform Tysons Corner into a walkable, green urban center by 2050. The plan seeks to make Tysons Corner a national example of smart growth that will provide a “second downtown” for the metropolitan Washington, D.C., region. The plan envisions Tysons Corner as home to up to 100,000 residents and 200,000 jobs by 2050, becoming a 24-hour urban center where people live, work and play - instead of a sprawling suburban office park. The plan is built on transit-oriented development (TOD) principles. By building homes, stores and offices near four new Metro stations coming to Tysons in 2013, car trips can be dramatically reduced. In order to address the significant workload increase that will result from implementing this directive, an amount of $522,673 and 7/7.0 SYE new positions are included as part of the *FY 2010 Carryover Review* in the Department of Planning and Zoning and the Department of Transportation. A portion of this funding also supports an existing position within the Fairfax County Park Authority. In addition, $154,188 is included in Agency 89, Employee Benefits, for the fringe benefit expenses related to these positions. Based on the timing of the adoption of the plan amendment, these positions were unable to be considered during the FY 2011 budget process.

Of the $522,673 total noted above, an amount of $326,671 and 5/5.0 SYE positions are required for DPZ as a significant number of complex high density zoning applications will be filed in the near term associated with the Tysons Corner plan. In order to address this increased workload, DPZ requires additional planner positions to provide the depth of analysis required. DPZ does not have the ability to defer application workload because Virginia law says that the County must handle a zoning case through the Board of Supervisors within one year of its filing.

In addition, an amount of $130,668 and 2/2.0 SYE Transportation Planner III positions are included for DOT to address the transportation component of development case reviews associated with an influx of applications in the Tysons Urban Center. Highly complex submissions for intensification of land use will demand an extensive and multimodal traffic impact analysis, the maintenance of balance between land use and transportation over time, the determination of appropriate street types and characteristics, and the negotiation of an extensive and aggressive Transportation Demand Management (TDM) program, among numerous analysis requirements.

Finally, an amount of $65,334 is included for FCPA in support of dedicating a Planner III to Tysons parks master plan development and to Tysons application review and analysis. This position will facilitate innovative park designs and functions in the Tysons area and will work with DOT, urban forestry and stormwater staff to evaluate park land impacts and natural/cultural resource impacts of development proposals for that district. It should be noted that this funding will support an existing position that was originally not funded in the FY 2011 Adopted Budget Plan.

It should be noted that all funding levels noted in this item for FY 2011 are ten-month (September 2010 – June 2011) funding levels. The full-year FY 2012 funding levels are $392,005 for DPZ, $156,802 for DOT, $78,401 for FCPA, and $185,026 in Employee Benefits. These amounts will be included in the FY 2012 Advertised Budget Plan.

		NON-RECURRING
Agency 57, Department of Tax Administration	Expenditure	$225,000
Expert Appraisal Analysis and Consultation Services	**Net Cost**	**$225,000**

Funding of $225,000 is required for contracting of expert appraisal analysis and consultation services concerning income capitalization rates (cap rates) for the assessment of commercial properties. County specific cap rates are generally derived using office building sales data. Given the continuing decline in commercial sales, the additional expert analysis will help staff determine appropriate cap rates for 2011 in order to ensure uniform and equitable commercial assessments.

		RECURRING
	Revenue	$377,851
Agency 67, Department of Family Services	Expenditure	$377,851
School-Age Child Care	**Net Cost**	**$0**

In an effort to address the waiting list for the School-Age Child Care (SACC) program, staff from the Department of Family Services reviewed the SACC program, identified efficiencies and as a result was able to expand services to nearly 400 children in the after school program during the 2009-2010 school year and this expansion of available slots continues into FY 2011. The additional children are being served in 32 schools (the number of children being served varies from school to school).

The addition of the additional children was accomplished by:

- Maximizing shared space in the elementary schools through additional collaboration with Fairfax County Public Schools principals.
- Redirecting existing program costs.
- Generating additional revenue of $848,250 through parent fees. This is partially offset by expenditures of $377,851 for net revenue to the County of $470,399. Please note, the additional revenue of $470,399 is already reflected in the FY 2011 Adopted Budget Plan; therefore, only an adjustment appropriating the remaining revenue, offset by the corresponding expenditure increase, is needed. There is no net impact to the General Fund.

		NON-RECURRING
Agency 73, Office to Prevent and End Homelessness	Expenditure	$150,000
Disability Housing Study	**Net Cost**	**$150,000**

Funding of $150,000 is required to fund a Disability Housing Study consistent with the recommendations of the Housing Blueprint approved by the Board of Supervisors in FY 2010. The study is intended to support a comprehensive analysis of needs, resources and systems that are being utilized to meet the affordable, accessible, integrated housing needs and related services for extremely low income and/or homeless individuals and families with intellectual, physical, behavioral, and sensory and developmental disabilities in Fairfax County.

		RECURRING
Agency 85, General District Court	Expenditure	$120,000
Court Appointed Attorneys	**Net Cost**	**$120,000**

Funding of $120,000 is required due to 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. This is expected to continue going forward. In addition, the current economic conditions have increased the number of overall requests for, and appointments of, court appointed attorneys as the indigent defendant population increases

		NON-RECURRING
	Revenue	$675,000
Agency 87, Unclassified Administrative Expenses	Expenditure	($2,750,000)
Agency 67, Department of Family Services	Expenditure	$3,425,000
Child Care Assistance and Referral FY 2011 Requirements	**Net Cost**	**$0**

Funding of $3,425,000 is required in FY 2011 to replace funding that was originally eliminated as part of the FY 2010 Adopted Budget Plan. As the Board may recall, when the $3.4 million was eliminated from the Child Care Assistance and Referral (CCAR) program in FY 2010 it was indicated that the reduction would be funded with balances available as a result of additional funding received from the state for CCAR. Additional funding was received and reallocated in FY 2009 and FY 2010 and sufficient funding was received to also use in FY 2011. This adjustment fully funds the reduction with funding held in reserve in Agency 87, Unclassified Administrative Expenses at year end and carried over as unencumbered carryover and additional resources included in the 2008-2010 Biennium Budget bill. There is no net impact to the General Fund.

		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	Expenditure	$4,200,000
Child Care Assistance and Referral Reserve	**Net Cost**	**$4,200,000**

Consistent with funding received from the state for use in FY 2011 and discussed above, additional funding of $4,200,000 was received from the state in FY 2010 for the Child Care Assistance and Referral (CCAR) program. This funding, along with $150,000 in unencumbered carryover, will be held in reserve in Agency 87, Unclassified Administrative Expenses. This brings total funding for the FY 2012 CCAR reserve to $4,350,000. The reserve will continue to fully address the $3.4 million reduction in FY 2012 and address mandated changes anticipated from the state as a result of the state's new automated child care information system. Funding will be reallocated to Agency 67, Department of Family Services at a quarterly review during FY 2012.

		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	Expenditure	$750,000
Agency 71, Health Department	Expenditure	$250,000
Human Services Transition Reserve and Health Care Reform Study	**Net Cost**	**$1,000,000**

Funding of $1,000,000 is required to establish a reserve to fund transition and implementation costs associated with the Human Services System reorganization initiatives included in the FY 2011 budget and to provide consultant support for the County to address the impact of health care reform on County programs and services. Consistent with the recommendation of the Human Services Council, the Board of Supervisors approved the establishment of a transition reserve, to be funded with balances available from Human Services agencies at the end of FY 2010, as part of the Budget Guidance for FY 2011 and FY 2012 approved on April 20, 2010.

The initial recommendation for the reserve was in the amount of $500,000 however as a result of a review of the extent and breadth of the reorganization requirements, including but not limited to transition of the Fairfax Families4Kids program, the merger of the Departments of Systems Management for Human Services and Community and Recreation Services into the new Department of Neighborhood and Community Services and the implementation of the System of Care effort within Comprehensive Services Act programs, the reserve amount is now recommended to be $750,000.

As another component of a significant transition underway in the County and throughout the nation, funding of $250,000 is required to procure the services of an outside consultant to help the County analyze the impacts of health care reform on County programs and clients and to develop a plan to address these impacts. In addition to services directly provided by the County, the new regulations will impact the County's partners in the provision of health care and it is anticipated that the provider community will look to the County for assistance in making this transition successfully.

All of the agencies within the Human Services system identified FY 2010 balances for use in meeting these requirements including the Department of Family Services, the Fairfax-Falls Church Community Services Board, the Health Department, the Department of Community and Recreation Services, the Juvenile & Domestic Relations District Court, the Department of Housing and Community Development, the Department of Administration for Human Services and the Department of Systems Management for Human Services. These balances were unexpended at the end of FY 2010 and will be appropriated from the resultant fund balance. Appropriation of any necessary funds from the $750,000 transition reserve will be recommended by the Human Service Leadership Team and included for approval by the Board of Supervisors as part of the *FY 2011 Third Quarter Review*.

		NON-RECURRING
Agency 89, Employee Benefits	Expenditure	$15,000,000
Retirement Contribution Reserve	**Net Cost**	**$15,000,000**

Funding of $15,000,000 will be set aside in reserve in anticipation of increased employer contribution requirements for the County's retirement systems in FY 2012. During FY 2009, the Uniformed, Employees' and Police Officers Retirement Systems all experienced significant investment losses as a result of the global financial and economic crisis experienced nationally. As a result, employer contribution rates for the systems increased in FY 2011 and are expected to continue to increase in FY 2012 as the FY 2009 losses are amortized.

The current actuarial methodology includes using an actuarial rate of return which smooths investment returns over three years to phase in total recognition of a given year's returns above or below the long-term expected rate of 7.5 percent. This is done to mitigate volatility in funding requirements, recognizing the cyclical nature of capital market returns. As a result, the FY 2009 investment returns continue to place upward pressure on employer contribution rates, although strong performance in FY 2010 helps to partially mitigate that impact. Total returns in FY 2010 through May were 24.7 percent for the Employees' System, 23.3 percent for the Police Officers System, and 16.9 percent for the Uniformed System. Final results for June are not yet available, but based on general market returns in June, the full year results are expected to be close to the returns through May. Employer contribution rates for FY 2013 will also be impacted by the investment losses experienced in FY 2009.

In order to prepare for the fiscal impact of the anticipated increase in employer contribution rates, $15 million will be held in Agency 89, Employee Benefits, for use in FY 2012. It should be noted that, although the systems experienced investment gains in FY 2010, the actuarial valuations performed in the fall to determine FY 2012 employer contribution rates will also include the impact of changes to liabilities. Employer contribution rates are calculated based on a number of actuarial assumptions, including the impact of liability gains or losses which are determined by comparing actual experience, such as rates of retirement and death, against actuarial assumptions. Thus, while investment gains could positively impact employer contribution rates, an increase in liabilities as a result of system experience could offset that impact. It should also be noted that a experience study will be conducted in FY 2011 to compare actual experience to actuarial assumptions, both economic and demographic, to ensure that the plan is being valued appropriately. The results of this study, which is conducted every five years, may also impact employer contribution rates for FY 2012.

		RECURRING
Agency 90, Police Department	Expenditure	$100,000
Police and Fire World Games	**Net Cost**	**$100,000**

Funding of $100,000 is required to provide ongoing support for the 2015 Police and Fire World Games in Fairfax County. Upon approval, the County Executive will redirect an available position to the Police Department to support the planning and preparation for this international event. The games are an Olympic-style event held biennially throughout the world to promote friendly competition, camaraderie, and international relationships among the participants. This event is anticipated to generate considerable revenue through the thousands of visitors that will come to Fairfax County for the Games and will stay in local hotels, eat, and shop at County establishments. The 10-day event is projected to bring as many as 10,000 participants and 15,000 visitors to Fairfax County. Additional corporate and private support is also being generated for this effort.

		RECURRING
Agency 93, Office of Emergency Management	Expenditure	$120,000
Continuity of Operations (COOP) Support	**Net Cost**	**$120,000**

Funding of $120,000 is required to support ongoing efforts to enhance the County's capability to effectively plan for, respond to, and recover from a natural or man-made disaster. A recently completed Management Review by the County Office of Internal Audit concluded that while the County has made significant efforts in this area, additional resources are required especially in the area of critical technology systems and other related issues. Current staff have been detailed to support initial COOP efforts in the short term, but ongoing support is needed to continue planning and preparedness efforts as staff that have been detailed to this effort return to their primary agency functions.

		NON-RECURRING
Fund 104, Information Technology Projects	General Fund Transfer	$10,000,000
Additional Funding for FOCUS Project	**Net Cost**	**$10,000,000**

The General Fund transfer to Fund 104, Information Technology Projects, is increased by $10,000,000. This amount will provide funding to support milestone payments related to the Fairfax County Unified System (FOCUS) implementation contract award, as well as support infrastructure and training obligations. FOCUS is the Fairfax County government and school system multi-year, joint initiative that will modernize the portfolio of enterprise systems that support finance (FAMIS), human resources (government: PRISM/schools: Lawson), budget (BPREP), procurement (CASPS) 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 the school system 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.

The FOCUS project will be implemented in three major phases: Financials, Procurement and Budget for the County government and school system; the core elements of Human Capital Management for the County government; and then the core elements of Human Capital Management for the school system and the non-core elements of Human Capital Management for both the County government and school system.

This action is in accordance with the information shared with the Board in the June 22, 2010 Information Board item.

		RECURRING
Fund 106, Fairfax-Falls Church Community Services Board	Revenue	$210,000
Financial Assessment and Screening Team	Expenditures	$210,000
	Net Cost	**$0**

A total of 4/4.0 SYE positions are required for the Fairfax-Falls Church Community Services Board (CSB) to allow the department to implement a new Financial Assessment and Screening Team (FAST). There is no net cost to the County associated with this action. The cost of these positions will be covered by a portion of the $1,665,990 in additional funding from the state Department of Behavioral Health and

Developmental Services (DBHDS). The state funding resulted from the closure of the Community Resource Pharmacy at which time DBHDS awarded the medication allotment that they previously managed to each CSB.

The FAST initiative will expand financial screening efforts and deliver a return on investment to the County of:

- Greater cost avoidance through pharmacy-related benefit programs of $500,000 (these programs already save the County roughly $5 million annually);
- Greater Mental Health Medicaid enrollment resulting in increased Medicaid revenues by 10 percent;
- Increase in Community Health Care Network (CHCN) enrollment and working to ensure that appointments among CSB consumers are met;
- Reduction in outstanding consumer account balances by 20 percent in its first year, thereby reducing costs associated with engaging collection agency and mailing statements to bad addresses; and
- Guarantee that 95 percent of annual financial updates with existing Mental Health consumers are completed timely (approximately 3,500 annual financial intakes and fee-setting events should have occurred over the past year, but only 44 percent did).

Utilizing dedicated trained staff, FAST will screen consumers and/or families for eligibility in various assistance programs and be a primary step in care coordination by assisting consumers in establishing and maintaining coverage and benefits, thereby promoting healthcare. In addition, a critical feature of the initiative is the development of a simple automated tool that will incorporate screening for federal and state assistance program and local primary health access, with the CSB fee-setting regulation, ability-to-pay scale and fees-for-services. At five Mental Health clinic sites, FAST staff will:

- conduct comprehensive interviews with consumers about private health insurance coverage and assistance programs;
- counsel consumers and gather information to initiate applications for Medicaid and other federal/state/local assistance programs (e.g., Medicare Part D, Subsidized Nutrition Assistance Program, Supplemental Security Income (SSI), Supplemental Security Disability Income (SSDI), CHCN, as well as charitable care through Kaiser Bridge);
- submit applications to the Department of Family Services' Benefits Program and/or Health Access Assistance Team (HAAT) for formal review and determination; and
- set CSB fees and conduct financial interviews at least annually with consumers.

In addition to emphasizing the significance of financial assessment in promoting positive outcomes for consumers, the FAST initiative also permits the CSB to be proactive with respect to two near-future transformational events. These are the implementation of the federal Patient Protection and Affordable Care Act by 2014, the result of which is some form of insurance coverage and payment for all, and the migration to a mid-County facility, designed to facilitate the largest community-based treatment services in the State, by 2013.

		RECURRING
Fund 112, Energy Resources Recovery Facility	General Fund Transfer	$1,745,506
Covanta Tax Liability	General Fund Revenue	$1,745,506
	Net Cost	**$0**

The General Fund transfer to Fund 112, Energy Resources Recovery Facility is increased by $1,745,506 for real estate tax liability. On July 15, 2002, the Lorton property was transferred from the federal government to the County. As a result, the Energy/Resource Recovery Facility (E/RRF) located on the Lorton property and operated by Covanta Fairfax, International changed from tax-exempt to taxable status. The Department of Tax Administration will levy Real Estate and Business Personal Property Taxes on the E/RRF in the amount of $1,745,506 in FY 2011. As a cost of operations and pursuant to

Covanta's contract with the County, Covanta will pay the tax to the County and then be reimbursed by the County via a General Fund Transfer In to Fund 112.

		NON-RECURRING
Fund 303, County Construction	General Fund Transfer	$330,455
Prevention Fund	**Net Cost**	**$330,455**

The General Fund Transfer to Fund 303, County Construction, is increased by $330,405 to replenish the Prevention Fund created in FY 2007 to provide incentive funding for the development of programs to prevent youth violence and gang involvement. The transfer of $330,455 replenishes the fund to the preferred funding level of $500,000. The Prevention Fund is a funding pool from which competitive awards are made to community-based organizations to implement evidence-based prevention programs that have demonstrated effectiveness in reducing gang involvement. The County's community partners are supported by a multi-agency Implementation Support Team that works in partnership with them to deliver the programs reliably and to support the programs' evaluation. Evaluation of the programs, processes, and outcomes will be conducted in partnership with the Center for Advancement of Public Health at George Mason University. Funding for the Prevention Fund has been made available through FY 2010 balances from all Human Services agencies.

		NON-RECURRING
Fund 501, County Insurance Fund	General Fund Transfer	$7,151,066
Workers' Compensation, Self Insurance and Accrued Liability	**Net Cost**	**$7,151,066**

The General Fund transfer to Fund 501, County Insurance Fund, is increased by $7,151,066 for costs associated with anticipated increases in Workers' Compensation based on recent experience, self-insurance losses pending from various liability incidents, fully funding the Accrued Liability Reserve based on the May 2010 actuarial evaluation of the outstanding liabilities of the fund, and funding to replace revenue losses realized in FY 2010 and anticipated in FY 2011.

Based on the current outstanding and projected Workers' Compensation claims, it is projected that Workers' Compensation expenses in FY 2011 will require additional funding of $3,372,735. A large number of hospitalizations have occurred recently which are contributing to this increase and include costs for recent cases as well as a number of prior year cases for which additional treatment has become necessary. This funding level is consistent with increasing Workers' Compensation costs also experienced in FY 2010 which were $2.1 million higher than budgeted.

Self Insurance losses in FY 2011 are currently anticipated to increase by $747,103 including the recent settlement approved by the Board of Supervisors on July 13, 2010 and legal costs incurred for outside counsel defending the County in litigation currently underway.

The May 2010 actuarial analysis identified increases of $1,294,983 in additional liability for the fund. As a result, the total Accrued Liability Reserve totals $34,379,609. The County Insurance program is largely self insured and as a result it is required that the County fully fund the Accrued Liability Reserve.

It should be noted that funding of $2,066,245 is also required to ensure that the Reserve for Catastrophic Occurrences be maintained at the FY 2011 Adopted level as a result of revenue decreases experienced in FY 2010 and anticipated in FY 2011. The Reserve for Catastrophic Occurrences is currently at a level of $7.1 million, which is well below the $10 million to $15 million goal for this fund. This Reserve is maintained as added security in the event of a significant incident or series of incidents which, even if covered by the commercial insurance policies in place for property damage, would require significant expense on the part of the County for deductibles.

Partially offsetting these increases is a savings in Commercial Insurance Premiums realized effective July 1, 2010 as a direct result of a joint renewal by the County and Fairfax County Public Schools (FCPS) due to the efforts of the Smart Savings Task Force. The County savings total $330,000. FCPS savings will be included in their mid year budget review.

Consideration Items

No consideration items are included as part of the *FY 2010 Carryover Review*.

Additional Adjustments in Other Funds

Total FY 2011 expenditures in Appropriated Other Funds are requested to increase $1.651 billion over the FY 2011 Adopted Budget Plan. In addition to the adjustments in Appropriated Funds, there are adjustments totaling $41.47 million in Non-Appropriated Other Funds. Details of Fund 102, Federal/State Grant Fund, are discussed in Attachment IV, while details of FY 2011 adjustments in Appropriated and Non-Appropriated Other Funds other than Federal and State Grants are found in Attachment V. School Board adjustments total $533.18 million, excluding debt service, over the FY 2011 Adopted Budget Plan. Details of School Board actions are available in Attachment C.

Summary of Recommended Actions

In summary, I am recommending that the Board take the following actions:

Approve Supplemental Appropriation Resolutions AS 10192 and AS 11025 as well as Fiscal Planning Resolution AS 11900 to provide expenditure authorization for FY 2010 Carryover encumbrances, unexpended balances, administrative adjustments and the associated adjustments to the Managed Reserve, including the following:

- Board appropriation of $37.67 million in General Fund encumbrances related to Direct Expenditures from FY 2010 as noted in the General Fund Statement and in Attachment III.

- Board appropriation of General Fund unencumbered Board commitments totaling $3.02 million as detailed in Attachment III.

- Board appropriation of net General Fund Board and administrative adjustments totaling $41.3 million as detailed earlier in this memorandum.

- Board appropriation of Federal/State grants in Fund 102, Federal/State Grant Fund, totaling $162.06 million or an increase of $99.10 million as detailed in Attachment IV.

- Board appropriation of remaining Other Funds Carryover. Details are available in Attachment I, Carryover Expenditures by Fund; in Attachment V, Other Funds Detail; and in Attachment C, Fairfax County School Board's FY 2010 Final Budget Review and Appropriation Resolutions.

- Board approval of adjustments to the Managed Reserve to reflect all carryover adjustments.