



County of Fairfax, Virginia

MEMORANDUM

DATE: March 9, 2010

TO: BOARD OF SUPERVISORS

FROM: Anthony H. Griffin
County Executive 

SUBJECT: FY 2010 Third Quarter Review

Attached for your review and consideration is the *FY 2010 Third Quarter Review*, including Supplemental Appropriation Resolution AS 10145 and Amendment to the Fiscal Planning Resolution AS 10901. 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 increase in FY 2010 revenue of \$3.22 million over the *FY 2009 Carryover Review* estimate.
- Attachment III - A Detail of Major Expenditure Changes in Appropriated and Non-Appropriated Other Funds. Expenditure changes, excluding audit adjustments, in all Appropriated Other Funds and excluding Schools, the General Fund, and the Federal/State Grant Fund, total a net increase of \$49.25 million. Expenditures in Non-Appropriated Other Funds increase a total of \$1.41 million.
- Attachment IV - Fund 102, Federal/State Grant Fund, detailing grant appropriation adjustments for a total net increase of \$6.92 million.
- Attachment V - Supplemental Appropriation Resolution (SAR) AS 10145, AS 09162 for FY 2009 adjustments to reflect the final audit, and Amendment to the Fiscal Planning Resolution (FPR) AS 10901.
- Attachment VI - FY 2009 Audit Package including final adjustments to FY 2009 and the FY 2010 impact.
- Attachment VII - Fairfax County Public Schools Third Quarter Review

As the Board is aware, the Code of Virginia requires that a public hearing be held prior to the adoption of amendments to the current year budget when the adjustments exceed one percent of total expenditures. In addition, any amendment of one percent of expenditures or more requires that the Board advertise a synopsis of the proposed changes. A public hearing on the proposed changes included in the *FY 2010 Third Quarter Review* has been scheduled for April 6, 7 and 8, 2010. On April 20, 2010, the Board will take action on this quarterly review prior to marking up the FY 2011 Advertised Budget Plan.

The following is a summary of the current financial status as of the Third Quarter Review compared to the *FY 2010 Revised Budget Plan*.

SUMMARY OF GENERAL FUND STATEMENT (Dollars in Millions)

	FY 2009 Actuals	FY 2010 Adopted Budget Plan	FY 2010 Revised Budget Plan	FY 2010 Third Quarter Estimate	Variance
Beginning Balance	\$161.39	\$71.45	\$185.39	\$185.39	\$0.00
Revenue ¹	\$3,331.66	\$3,313.97	\$3,316.67	\$3,319.88	\$3.22
Transfers In	\$44.98	\$11.62	\$12.12	\$12.12	\$0.00
Total Available	\$3,538.04	\$3,397.04	\$3,514.17	\$3,517.39	\$3.22
Direct Expenditures ¹	\$1,208.98	\$1,208.99	\$1,279.23	\$1,253.94	(\$25.29)
Transfers Out					
School Operating	\$1,626.60	\$1,626.60	\$1,626.60	\$1,626.60	\$0.00
School Debt Service	154.63	163.77	163.77	163.77	0.00
<i>Subtotal Schools</i>	<i>\$1,781.23</i>	<i>\$1,790.37</i>	<i>\$1,790.37</i>	<i>\$1,790.37</i>	<i>\$0.00</i>
Revenue Stabilization	\$0.00	\$0.00	\$16.21	\$16.21	\$0.00
Metro	7.51	7.41	7.41	7.41	0.00
Community Services Board	101.43	97.52	97.40	93.62	(3.78)
County Transit Systems	33.38	23.81	21.56	21.56	0.00
Capital Paydown	21.91	16.07	20.89	20.89	0.00
Information Technology	17.02	7.38	13.43	13.43	0.00
County Debt Service	113.17	110.93	110.93	110.93	0.00
Other Transfers	68.02	67.95	70.04	71.98	1.94
<i>Subtotal County</i>	<i>\$362.44</i>	<i>\$331.07</i>	<i>\$357.87</i>	<i>\$356.03</i>	<i>(\$1.84)</i>
Total Transfers Out	\$2,143.67	\$2,121.44	\$2,148.24	\$2,146.40	(\$1.83)
Total Disbursements	\$3,352.66	\$3,330.43	\$3,427.47	\$3,400.34	(\$27.13)
Ending Balance	\$185.39	\$66.61	\$86.71	\$117.05	\$30.34
Less:					
Managed Reserve	\$68.45	\$66.61	\$68.55	\$68.01	(\$0.54)
Balances used for FY 2010 Adopted ²	3.00				0.00
Balances held in reserve for FY 2010 ³			5.00		(5.00)
Balances held in reserve for FY 2011 ⁴			12.43	12.43	0.00
Additional Balances held in reserve for FY 2011 ⁵				0.54	0.54
Audit Adjustments ¹			0.73	0.73	0.00
Third Quarter Reductions ⁶				35.34	35.34
Total Available	\$113.94	\$0.00	\$0.00	\$0.00	\$0.00

¹ In order to appropriately reflect actual revenues and expenditures in the proper fiscal year, FY 2009 revenues are increased \$0.74 million and expenditures are increased \$0.01 million to reflect audit adjustments as included in the FY 2009 Comprehensive Annual Financial Report (CAFR). As a result, the FY 2010 Revised Beginning Balance reflects a net increase of \$0.73 million. It should be noted that this amount is held in reserve in FY 2010 and has been utilized to balance the FY 2011 Advertised Budget Plan.

² An amount of \$3.0 million from FY 2009 reserves was identified to be carried forward and was utilized to balance the FY 2010 Adopted Budget Plan.

³ As part of the *FY 2009 Carryover Review*, \$5.0 million was identified to be held in reserve for FY 2010 requirements.

⁴ As part of the *FY 2009 Carryover Review*, \$12.43 million was identified to be held in reserve for FY 2011 requirements. It should be noted that this reserve has been utilized to balance the FY 2011 Advertised Budget Plan.

⁵ As part of the *FY 2010 Third Quarter Review*, an additional amount of \$0.54 million has been set aside and held in reserve for FY 2011 requirements. This balance is the result of decreased Managed Reserve requirements attributable to reductions taken as part of the *FY 2010 Third Quarter Review*. This reserve has been utilized to balance the FY 2011 Advertised Budget Plan.

⁶ As part of the *FY 2010 Third Quarter Review*, \$35.34 million in reductions have been taken and set aside in reserve for utilization to balance the FY 2011 Advertised Budget Plan.

The *FY 2010 Third Quarter Review* includes adjustments necessary to support the FY 2011 budget proposal, funding to address the County's costs related to recent snow events and other miscellaneous adjustments primarily offset by intergovernmental revenue or reserves. Total FY 2010 revenue is projected to be \$3,319,883,857 which includes a net increase of \$1.04 million over the FY 2010 fall revenue estimates as well as state revenue increases with offsetting expenditure requirements in the amount of \$2.18 million. A detailed description of both the fall and current revenue adjustments are noted in Attachment II and include increased revenue from personal property tax collections as a result of lower exonerations and a higher than anticipated Public Service Corporation levy offset by a reduction in Business Professional and Occupational license tax delinquent revenues based on the projected level of refunds.

The FY 2011 budget proposal includes expenditure reductions of \$103.3 million. Of this amount, \$10 million is associated with fringe benefits savings, \$58.7 million is from specific FY 2011 reductions in a large number of County agencies and \$34.5 million is included as assumed savings in FY 2010 as a result of the acceleration of these FY 2011 reductions. As the Board is aware, County agencies were required to identify savings during FY 2010 which could be held in reserve to address FY 2011 requirements. The purpose of this directive was two-fold – to generate additional funds to support FY 2011 costs and to allow the agencies sufficient time to transition the implementation of FY 2011 required cuts. Based on County agency work, total FY 2010 savings of \$37.62 million has been identified. Of this amount \$35.34 million was assumed in the FY 2011 budget and the balance of \$2.28 will be used to offset FY 2010 Third Quarter adjustments

It should be noted that of the total \$37.62 million in savings, approximately \$9.38 million is associated with savings in fringe benefits primarily as a result of agencies holding positions vacant and reducing overtime spending during FY 2010. A number of agencies, particularly in the public safety area have made significant reductions in regular overtime spending. These reductions have been possible as a result of eliminating controllable overtime, diverting staffing to essential requirements as well as holding non-essential positions vacant. In total approximately \$16.20 million in savings in public safety agencies has been identified. In some cases agencies have accelerated the actions planned to generate savings for FY 2011 as appropriate without making programmatic changes that would require Board action. County agencies have been successful the last several years in managing resources to minimize direct service impact on consumers and maintain the integrity of programs. In part, the FY 2010 savings are available as agencies have kept positions vacant that will be eliminated in FY 2011 to minimize the number of employees actually losing employment. In other cases, if any agency was unable to accelerate the specific savings for FY 2011, flexibility in another area was substituted.

Cost increases included in the *FY 2010 Third Quarter Review* are minimal and are primarily the result of the recent snow event. To date, approximately \$6.70 million of additional costs are directly related to the County's response to the snow which included increased overtime for both the Police Department and the Fire and Rescue Department, snow removal, and other facilities support at County-owned buildings including fire stations, libraries and recreation centers and other related costs. Of this increase, \$5.0 million will be funded through application of the FY 2010 reserve which was established as part of the

FY 2009 Carryover Review and the remainder of the funding increases will be supported through higher than anticipated accelerated reductions discussed above.

I would caution that with the total reduction in agency appropriations in FY 2010 by more than \$37 million to primarily support FY 2011 and the balance of snow-related cost increases, there is little flexibility in the remaining budget to address anything but these essential needs. Our estimates for FY 2010 revenue have been updated based on the latest year-to-date receipt data and additional revenues above those currently estimated are not anticipated. In fact, economic changes that may dampen the already tepid recovery projected through June 30 could result in less revenue. In addition, by accelerating the FY 2011 reductions into FY 2010, the agencies have lost any additional remaining flexibility. This is evidenced by the fact that in previous years, snow events were largely accommodated within existing resources. Clearly the snow of the winter of 2009-10 was beyond what the County normally experiences and had the Board not wisely chosen to create the FY 2010 reserve at the *FY 2009 Carryover Review*, we would have had to make very difficult reductions late in the year to generate the funding to meet this requirement.

Summary of General Fund Revenue

A brief summary of the \$3.22 million increase in General Fund Revenues over the FY 2010 Revised estimate is provided below, while details concerning the increase are provided in Attachment II. It should be noted that in addition to this adjustment, changes for FY 2010 were identified as part of the Fall Revenue Review that net to zero. Information regarding those midyear adjustments is also provided in Attachment II.

- Personal Property Taxes reflect an increase of \$3.64 million based on a projected decrease in exonerations and an increase in Public Service Corporation levy.
- Delinquent taxes from Business, Professional and Occupational Licenses reflect a decrease of \$2.60 million based on refunds processed in FY 2010.
- Revenue from the Commonwealth/Federal Government increases \$2.18 million as a result of additional state and federal funding for the Comprehensive Services Act Program and the Child Care and Assistance Program. This revenue is entirely offset by increased expenditures.

Audit Adjustments

As a result of the FY 2009 Comprehensive Annual Audit, a number of adjustments to revenues and expenditures are necessary to reflect Generally Accepted Accounting Principles (GAAP) requirements. Revenue and expenditure adjustments result in a net increase of \$0.73 million to the FY 2010 beginning General Fund balance. This balance was used to offset FY 2011 budget requirements.

In addition, several other adjustments to various funds are required, including Fairfax County Public Schools' funds and the Fairfax County Redevelopment Housing Authority Funds. Details of these audit adjustments are included in Attachment VI. It should be noted that one County fund, Fund 501, County Insurance, requires 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. 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 2010 Third Quarter Review*. It should be noted that the revenue adjustments included in the *FY 2010 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	
Agency 13, Office of Public Affairs	Expenditure	\$50,000
Agency 38, Housing and Community Development	Expenditure	\$450,000
Agency 51, Fairfax County Park Authority	Expenditure	\$150,000
Agency 70, Department of Information Technology	Expenditure	\$25,000
Agency 81, Juvenile and Domestic Relations District Court	Expenditure	\$50,000
Agency 87, Unclassified Administrative Expenses-DPWES Stormwater	Expenditure	\$1,600,000
Agency 90, Police Department	Expenditure	\$1,150,000
Agency 92, Fire and Rescue Department	Expenditure	\$2,750,000
Agency 93, Office of Emergency Management	Expenditure	\$25,000
Fund 120, E-911	General Fund Transfer	\$200,000
Fund 501, County Insurance	General Fund Transfer	\$250,000
Use of FY 2010 Reserve		<u>(\$5,000,000)</u>
Snow-Related Costs	Net Cost	\$1,700,000

Funding of \$6.7 million is required to provide additional funding for the General Fund and General Fund-supported agencies that were impacted by the December 2009 and February 2010 snow events. Of this total, \$5.0 million will be supported by funds set aside by the Board as part of the *FY 2009 Carryover Review* for unanticipated costs in FY 2010, resulting in a net cost of \$1.7 million. Of the \$6.7 million total, an amount of \$250,000 is being provided to Fund 501, County Insurance Fund in the event of additional losses on the part of the County for which a deductible is required or for which the County is self insured.

Where possible and appropriate, Fairfax County will seek federal reimbursement for storm-related costs; however, it is anticipated that if any cost recovery is accomplished, funds will not be received until FY 2011, and therefore are not reflected at this time. Further, it should be noted that several other agencies and funds incurred storm-related costs but have the ability to absorb the cost impact within their current appropriations. These agencies include, but are not limited to, the Office of the Sheriff, CSB, the Department of Vehicle Services, Solid Waste Collection/Disposal, and the Department of Purchasing and Supply Management, and the McLean Community Center. Further, there were substantial employee benefit-related costs as well as those incurred by the Fairfax County Public Schools that are not reflected.

	NON-RECURRING
	Revenue \$1,526,855
Agency 67, Department of Family Services	Expenditure <u>\$2,880,858</u>
	Cost \$1,354,003
Agency 87, Unclassified Administrative Expenses	Reserve <u>(\$1,354,003)</u>
Comprehensive Services Act	Net Cost \$0

Funding of \$2,880,858 is included to address an increase in the Comprehensive Services Act (CSA) funding requirements based on anticipated expenditures in FY 2010. The expenditure increase is offset by an increase in state funding of \$1,526,855 for a net cost to the County of \$1,354,003. Actual costs for the CSA program are dependent on the number of youth served and the complexity of services provided. Both of these factors can fluctuate significantly from year to year; therefore, a CSA reserve was established to address funding requirements in the CSA program as a result of these factors. An annual allocation from the reserve is made at a quarterly review once costs have been refined for the given fiscal year. Funding in the CSA reserve in Agency 87, Unclassified Administrative Expenses, is available for reallocation to Agency 67, Department of Family Services to support actual CSA costs. This funding will be used to offset the net cost of \$1,354,003 resulting in no net impact to the County.

	NON-RECURRING
	Revenue \$650,000
Agency 67, Department of Family Services	Expenditure <u>\$650,000</u>
Child Care Assistance and Referral Program	Net Cost \$0

Funding of \$650,000 is required to appropriate additional federal and state revenue for the Child Care Assistance and Referral (CCAR) program to provide child care services to the mandated population (i.e. those receiving services through TANF/VIEW/Head Start). The expenditure increase is fully offset by an increase in federal and state revenues for no net impact to the County.

	NON-RECURRING
	Revenue \$0
Agency 85, General District Court	Expenditure <u>\$120,000</u>
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. 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
Fund 501, County Insurance Fund	General Fund Transfer <u>\$1,500,000</u>
Self Insurance Increases	Net Cost \$1,500,000

The General Fund transfer to Fund 501, County Insurance Fund, is increased by \$1,500,000 in support of costs associated with self-insurance losses pending from various liability incidents, including the recent settlement approved by the Board of Supervisors on January 26, 2010. It should be noted that these adjustments represent significant increases in Self-Insurance and cannot be absorbed within the existing appropriation.

**General Fund and Other Funds
Reductions used to balance FY 2011 and for FY 2010 Requirements**

NON-RECURRING
General Fund (\$33,834,201)
General Fund Transfers (\$3,784,870)
Net Cost (\$37,619,071)

A number of reductions totaling \$37,619,071 are included reflecting the direction to County agencies early in FY 2010 to generate savings in FY 2010 to meet a portion of the projected deficit in FY 2011. Of this amount, \$35.34 million in FY 2010 savings is included in the FY 2011 Advertised Budget Plan, and are necessary to balance the FY 2011 budget. An additional amount of \$2,278,885 is also available and will be used to meet additional FY 2010 requirements. The total of \$37,619,071 includes \$33,834,201 from General Fund agencies and \$3,784,870 from General Fund-supported funds.

In some cases agencies have accelerated the actions planned to generate savings for FY 2011 as appropriate without making programmatic changes that would require Board action. County agencies have been successful the last several years in managing resources to minimize direct service impact on consumers and maintain the integrity of programs. In part the FY 2010 savings are available as agencies have kept positions vacant that will be eliminated in FY 2011 to minimize the number of employees actually losing employment. In some cases if any agency was unable to accelerate the specific savings for FY 2011 flexibility in another area was substituted. The agencies with reductions in FY 2010 are:

Agency	Reduction Description	Net Reduction
Board of Supervisors (Clerk to the Board)	Position vacancy	\$15,000
Cable Communications and Consumer Protection	Operating expenditure efficiencies	\$50,000
Finance	Audit costs	\$100,000
County Attorney	Position vacancies	\$90,000
Management and Budget	Printing of budgets	\$25,000
Land Development Services	Position vacancies due to reduced permit processing	\$3,700,000
Human Rights and Equity Programs	Reduction based on historical spending patterns	\$50,000
Transportation	Operating expenditure efficiencies	\$150,000
Community and Recreation Services	Operating expenditure efficiencies	\$275,000
Parks	Operating expenditure efficiencies	\$500,000
Library	Position vacancies and operating expenditure efficiencies	\$500,000
Family Services	Alignment of personnel services budget	\$1,916,363
Systems Management for Human Services	Operating expenditure efficiencies	\$130,000
Juvenile and Domestic Relations District Court	Position vacancies due to reduced Juvenile Detention placements	\$700,000
Commonwealth's Attorney	Position vacancy	\$50,000
Employee Benefits	Fringe benefit flexibility as the result of position eliminations and vacancies	\$9,382,838

Agency	Reduction Description	Net Reduction
Police	Personnel services and operating expense savings including one-time flexibility in COPS local cash match. Minimum staffing being met and savings are focused on controllable overtime and non-essential positions.	\$7,000,000
Sheriff	Personnel services primarily overtime	\$3,300,000
Fire and Rescue	Personnel services primarily overtime and operating expense efficiencies. Minimum staffing being met and savings are focused on controllable overtime and non-essential positions.	\$5,900,000
Community Services Board	One-time program savings based on current service levels	\$3,784,870
TOTAL		\$37,619,071

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 \$49.25 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 2010 Third Quarter Review* package (Attachment VII).
 - Supplemental Appropriation Resolution AS 10145
 - Supplemental Appropriation Resolution AS 09162
 - Amendment to Fiscal Planning Resolution AS 10901
- Board appropriation of Federal/State grant adjustments in Fund 102, Federal/State Grant Fund totaling an increase of \$6.92 million.
- Board approval of adjustment to the Managed Reserve to reflect the adjustments included in the *FY 2010 Third Quarter Review*.