ATTACHMENT B:

MEMO AND ATTACHMENTS I – VII TRANSMITTING THE COUNTY'S FY 2011 CARRYOVER REVIEW WITH APPROPRIATE RESOLUTIONS

Attachment B

County of Fairfax, Virginia

MEMORANDUM

DATE: July 26, 2011

TO: BOARD OF SUPERVISORS

FROM: Anthony H. Griffin
County Executive

SUBJECT: FY 2011 Actual Revenues, Expenditures and Carryover Supplemental Appropriation

Attached for your review and consideration is the FY 2011 Carryover Package, including Supplemental Appropriation Resolution AS 11155, AS 12010 and Amendment to the Fiscal Planning Resolution AS 12900. 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 by agency
Attachment IV	An explanation of General Fund Unencumbered Carryover
Attachment V	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 2012
Attachment VI	A detailed description of significant changes in Other Funds
Attachment VII	Supplemental Appropriation Resolution AS 11155, AS 12010 and Fiscal Planning Resolution AS 12900 for FY 2012 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 2011 Carryover Review* recommends changes to the FY 2012 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 13, 2011.

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FY 2011 End of Year Summary
A brief summary of the General Fund follows, comparing unaudited actual receipts and disbursements as of June 30, 2011 to the final estimates of the *FY 2011 Revised Budget Plan*.

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

	FY 2011 Revised Budget Plan	FY 2011 Actual	Variance
Beginning Balance, July 1	$240.28	$240.28	$0.00
Receipts and Transfers In	$3,277.96	$3,327.93	$49.97
Total Available	**$3,518.24**	**$3,568.20**	**$49.97**
Expenditures	$1,257.28	$1,187.80	($69.47)
Transfers Out	$2,144.78	$2,144.78	$0.00
Total Disbursements	**$3,402.06**	**$3,332.59**	**($69.47)**
Ending Balance, June 30	**$116.18**	**$235.61**	**$119.44**
Managed Reserve	$68.04	$68.04	$0.00
Balance used in FY 2012 Adopted	$48.13	$63.13	$15.00
Balance	**$0.00**	**$104.44**	**$104.44**
FY 2011 Commitments ($45.19)			
Outstanding Encumbered Obligations			($34.39)
Outstanding Unencumbered Commitments			($9.91)
Managed Reserve Adjustment			($0.89)
Balance after FY 2011 Commitments			**$59.25**
FY 2012 Adjustments ($34.81)			
Board Proposed Adjustments			
Market Rate Adjustment for County Staff of 1.52%			($11.30)
Administrative Adjustments			
Administrative Adjustments			($22.78)
Managed Reserve Adjustment			($0.73)
Balance after FY 2012 Adjustments			**$24.44**
Recommended Reserve for FY 2013			**($24.44)**
		Net Balance	$0.00

NOTE: Carryover is defined as the re-appropriation in FY 2012 of previously approved items such as outstanding encumbered obligations, unencumbered commitments and unexpended FY 2011 capital project and grant balances.

Executive Summary

FY 2011 General Fund Revenues and Transfers In were $3.33 billion, an increase of $49.97 million, or 1.5 percent, over the *FY 2011 Revised Budget Plan* estimate. In addition, expenditures were below *FY 2011 Revised Budget Plan* projections by $69.47 million. Netting out outstanding encumbrances and unencumbered commitments, as well as the required Managed Reserve adjustment totaling $45.19 million, the FY 2011 available disbursement balance is $74.25 million. It should be noted that $15.0 million of this variance is due to the reserve for FY 2012 retirement requirements which had been anticipated in beginning balance as part of the adoption of the FY 2012 budget. As a result, the combined revenue and disbursement balance, after funding obligations and Managed Reserve is $59.25 million.

Allocation of this balance is important given several significant FY 2012 funding requirements, as well as the need to hold in reserve as much as possible to be available to address FY 2013 budget requirements. I believe my recommendations in this package reflect the appropriate allocation of this funding and includes funding of $11.30 million to meet the Board of Supervisor's guidance to support a market rate adjustment for County staff which could not be accommodated within the FY 2012 Adopted budget, funding of $23.51 million for required administrative and corresponding managed reserve adjustments and the designation of $24.44 million as a reserve for FY 2013 budget requirements.

The County is fortunate that FY 2011 revenue came in higher than anticipated. Total FY 2011 revenues were $49.97 million or 1.5 percent higher than anticipated. Much of this increase occurred in the latter portion of the fiscal year. For example, Sales Tax receipts, which represent nearly $5 million of the increase, grew at only 1.5 percent through February yet ended the year up approximately 3.5 percent based on strong receipts during the last several months of the year. Business, Professional, and Occupational Licenses (BPOL) tax receipts, filed and paid in the spring, declined 1 percent in FY 2010 but increased 4.7 percent in FY 2011. As previously noted, projecting revenue during this time of economic uncertainty is problematic. 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 challenging. Staff continues to monitor revenue receipts and projections and will be providing an update of FY 2012 revenue estimates in the fall.

In addition, I note the savings in County expenditures as a result of close management of agency spending. Despite several years of budget reductions, including mid-year decreases, agency FY 2011 spending remained at, and in many cases below, budget. These savings were primarily generated by agencies as a result of operational efficiencies and closely managed staffing resources, and the unexpended balance, along with higher than anticipated revenue, provided the opportunity for addressing Board priorities as it relates to employee compensation, required FY 2012 adjustments, and creating a reserve for FY 2013.

Establishing a reserve of $24.44 million for the FY 2013 budget is a prudent action given the current forecasts for FY 2013 revenues and expenditure requirements. Staff will be providing the Board with a forecast for FY 2013 in the fall, but given current projections, it does appear that there will be a shortfall of well over $100 million based on our assumptions and assuming no reduction to County programs. As such, I have instructed agencies to identify spending reduction options as part of the FY 2013 budget development, which will be incorporated into the budget recommendations for FY 2013. The reserve of $24.44 will be important as we review various budget alternatives.

Finally, I note that the FY 2011 Carryover includes an adjustment to the County's position count as it relates to transfer of grants due to the replacement of the legacy computer systems. As the Board will recall, included in the FY 2012 Adopted Budget Plan was the transfer of funding previously classified as a grant but which does not meet the grant definition of the new computer system. The grants and the grant positions did remain in place in FY 2011 prior to the conversion but the positions now need to be converted to Merit Regular. The grant positions associated with this adjustment include 83 positions in Fund 102, Federal/State Grant Fund, 28 positions in Fund 103, Aging Grants and Programs, and 97 positions in Fund 106, Fairfax-Falls Church Community Services Board (CSB) which will now be classified as Merit Regular positions in the Department of Family Services, the Department of Neighborhood and Community Services and the CSB.

A summary of some of the major adjustments included in the FY 2011 Carryover is noted below, with more detail included in the adjustment sections of this letter and its attachments:

Board Directed Adjustments
The *FY 2011 Carryover Review* includes $11.30 million to fund a 1.52 percent market rate adjustment for County staff. Funding for employee compensation increases was not available as part of the FY 2012 budget adoption. However, the Board of Supervisors included direction in spring 2011 that a market rate adjustment (MRA) for employees be included in the FY 2011 Carryover. Originally estimated to be 1.12 percent based on the previous formula, the market rate adjustment has been recalculated at 1.52 percent in accordance with the revised formula approved by the Board at its May 3, 2011 Personnel Committee meeting. I strongly concur with this adjustment. As the Board is aware, compensation increases have not been provided to employees since FY 2009. This 1.52 percent adjustment, effective with the pay period beginning September 24, 2011, begins the process of returning to a fair and competitive compensation program. The FY 2011 Carryover incorporates the other compensation plan changes approved by the Board as part of the Personnel Committee, such as the application of the MRA to employee pay scales, a reduction in the range of performance-based increases and the conversion to a single date for performance based increases to accommodate changes in our new payroll system.

Administrative Adjustments
The *FY 2011 Carryover Review* includes General Fund administrative adjustments and associated managed reserve adjustments totaling $23.51 million. Details of these adjustments can be found later in this transmittal letter. Of this amount, $10 million is associated with a progress payment for the Legacy Systems Replacement Project, FOCUS. The Board approved the multi-year contract for an implementer to guide and assist County staff with the Legacy Systems replacement on June 22, 2010 and this $10 million payment is necessary to continue to support this 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 General Fund transfer to Fund 501, County Insurance Fund, is increased by $6.0 million for accrued liability adjustments. An actuarial analysis is performed each year to estimate the value of property and other self-insured losses for which the County is liable. The increases are associated with the current trend in County loss experience. Funding of $1.0 million is included to support the relocation of Human Services agencies as a result of a new lease agreement for the human services center in the eastern part of the County. These relocation costs will be offset by cost savings over the life of the lease.

Other Funds Adjustments
Attachment VI of the *FY 2011 Carryover Review* details changes in other funds which do not have a General Fund impact. This attachment includes a review of the FY 2011 fund expenditure and revenue variances and notes changes in FY 2012 expenditures. Some of the more significant adjustments in Other Funds include:

- As directed by the Board of Supervisors as part of their deliberations on the FY 2012 Adopted Budget Plan, funding of $2,000,000, supported by a transfer from Fund 105, Cable Communications, is included for deployment of up-to-date technology to support secure access of new web-based social media functionalities. This project will implement protected web security gateway infrastructure that will provide comprehensive secure web and social media access to County agencies for business needs. This project also improves compliance with regulatory standards, proactively mitigates against cyber security threats to the County's networks, enables real-time security monitoring and captures web traffic intelligence efficiently. As funds available in Fund 105, Cable Communications, are being used to secure and deploy this technology, there is no net cost to the General Fund.

- Funding of $5,000,000, offset entirely by revenue from Fund 319, Affordable Housing Fund, is required to support several affordable housing initiatives consistent with the Blueprint for Affordable Housing. The Fund 319 revenue is a result of accrued program income and savings from Wedgewood Apartments operations accumulated since the purchase of the complex in November 2007. As the Board will recall, $4.1 million in recurring Wedgewood program income was identified and applied to annually fund the first phases of the Housing Blueprint. However, funding of the Blueprint did not commence until FY 2011. This program income and efficiencies and strong operations at Wedgewood, have resulted in the accrued $5 million. Of the $5.0 million, funding of $2,000,000 will be used to support the gap in funding for FY 2012 Housing Blueprint activities, equating to services for an additional 194 households, as directed by the Board in the FY 2012 budget guidelines. Funding of $1,500,000 will be used for rehabilitation and renovation work at the Wedgewood Apartments community center and related facilities. The community center will be made fully accessible given that it is currently located on the second floor and can only be accessed by stairs. Funding of $1,500,000 will be used to support non-profit organizations to leverage additional funding to provide supportive services to 72 homeless individuals and families and an additional 303 households on the County's affordable housing waiting lists who are receiving rental subsidies through the Bridging Affordability Program as part of a framework for providing a full continuum of supports that address the root causes of homelessness. In addition, funding may further enable non-profit organizations to expand services and the affordable housing stock for the benefit of those with very low and extremely low incomes, including the potential relocation of the Lamb Center.

- Funding of $6,800,000 is included to support $5,000,000 required for the construction document design phase, permitting and other design costs associated with a replacement Public Safety Headquarters building and $1,800,000 to support design work associated with the renovation of the Bailey's Fire Station. This funding is available through fall 2006 Public Safety Bond Referendum funds which may be used to support a variety of public safety requirements including renewal and renovation efforts. After this action, no bond authority will remain from the 2006 Public Safety Bond Referendum.

FY 2011 Revenues and the Economy

Before discussing specific FY 2011 Carryover adjustments, it is important to review the context of the Carryover balance and recommended adjustments. Actual FY 2011 General Fund Revenues and Transfers In were $3.33 billion, an increase of $49.97 million over the *FY 2011 Revised Budget Plan* estimate, which represents a variance of 1.5 percent. This increase is primarily the result of increases in Personal Property Tax receipts, Other Local Taxes, including Bank Franchise Taxes, Local Sales Tax and BPOL, Recovered Costs, and Revenue from the Commonwealth and Federal Governments, partially offset by a decrease in Revenue from the Use of Money and Property. Attachment II of the Carryover Review summarizes significant revenue variances.

The economy has continued to recover, but the pace of the expansion during the first half of 2011 has been modest. While the County's unemployment rate has been on a downward trajectory this year and home prices have increased, there is still a lot of uncertainty about a sustainable economic recovery, which weighs down on consumer confidence. While actual revenue exceeded the budget estimate for Sales Tax receipts, the level of FY 2011 collections is still below the FY 2008 level. Bank Franchise Taxes were also significantly higher than the budget estimate as a result of banks holding excess reserves due to continued economic concerns. The impact of economic conditions on FY 2012 revenues will be more apparent during the fall 2011 revenue review after several months of actual FY 2012 collections have been received.

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 2011 Disbursements

The General Fund disbursement variance totals $69.47 million. An amount of $45.19 million is carried forward for encumbered and unencumbered items, as well as the associated Managed Reserve adjustment, leaving a variance of $24.28 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 $15.0 million retirement reserve which has been anticipated and already appropriated in the FY 2012 budget, the net disbursement variance is $9.28 million or 0.3 percent of total estimated disbursements. More detailed information on FY 2011 General Fund Disbursement Variances is included in the Carryover attachments.

FY 2011 Audit Adjustments

As the Board is aware, the financial audit of FY 2011 is currently being conducted. Necessary adjustments as a result of this work will be included in the FY 2011 Comprehensive Annual Financial Report (CAFR) and in the audit package that is presented for the Board's approval as part of the *FY 2012 Third Quarter Review*.

Board Directed Adjustments

		RECURRING
General Fund Agencies	Expenditure	$7,786,221
Agency 89, Employee Benefits	Expenditure	$2,291,225
General Fund Supported Funds	Transfers Out	$1,222,554
1.52% Market Rate Adjustment	**Net Cost**	**$11,300,000**

Funding of $11,300,000 is required to provide County employees with a 1.52 percent Market Rate Adjustment (MRA) effective with pay period beginning September 24, 2011. The 1.52 percent adjustment was calculated based on a formula agreed upon at the May 3, 2011 Personnel and Reorganization Committee meeting of the Board of Supervisors. The MRA is calculated using a weighted average of the following components: Consumer Price Index (40 percent), Employment Cost Index (50 percent), and the Federal Structure Adjustment (10 percent). The funding of $11.3 million reflects the cost to the General Fund with the impact for positions funded by Other Funds reflected in the Other Funds Detail package of Carryover.

Due to budget constraints, compensation increases have not been provided to employees since FY 2009. During FY 2011, a review of the County's compensation program was initiated and changes to the current program were approved by the Board of Supervisors in spring 2011 after input from county employee groups and senior managers. Since the implementation of pay for performance for nonpublic safety employees, the MRA was applied to public safety pay steps which resulted in increases for employees on the public safety pay plans. To ensure that pay scales remained competitive with the market, non-public safety pay scales were increased in accordance with the MRA calculation but employee pay increases were based solely on annual performance ratings. In line with revisions to the compensation program as approved by the Board, the MRA will now be applied to all pay scales and will result in pay increases for all County employees. This change will be accompanied by a reduction in the range of performance-based increases for non-public safety employees, with the current range of 0-6.0 percent revised to 0-3.5 percent as discussed by the Board's Personnel Committee on June 28, 2011. Additionally, in part because of the implementation of the performance management module in the new FOCUS system, performance-based increases will occur on a single date for all non-public safety employees rather than individual anniversary dates.

This carryover adjustment implements these revised compensation policies, in addition to funding the FY 2012 Market Rate Adjustment. These changes to the compensation program are made pending funding availability in future years and no adjustments for Pay for Performance or merit increments are funded in the FY 2012 budget.

It should be noted that under the County's previous formula for the MRA, the calculated percentage increase would be 1.12 percent, with the cost estimated at $8.3 million. The calculation was previously calculated using a weighted average of the following components: Consumer Price Index (40 percent), Local Area Jurisdiction salary structure adjustments, including the federal wage adjustment (50 percent), and the HRA-NCA Salary Planning Survey, which includes mostly private companies (10 percent).

Administrative Adjustments

		NON-RECURRING
	Revenue	$0
Agency 08, Facilities Management Department	Expenditure	$1,000,000
New Lease Agreement for Human Services Agencies	**Net Cost**	**$1,000,000**

Funding of $1,000,000 is required for costs associated with a new lease agreement for several Human Service agencies. Requirements include: information technology costs such as the installation and equipment for telephones, I-Net connections and other cabling, architectural design costs associated with the new space and moving costs. For many years, multiple Human Services agencies have occupied the property located at 6245 Leesburg Pike, Falls Church, Virginia. This over 96,000 square foot facility has served as one of several co-located Human Service delivery sites within Fairfax County. Over 300 County employees serve more than 4,000 clients per month at the current facility providing services and programs including, Self-Sufficiency, SkillSource, Job Corner, Adult and Aging, Child Protective Services, Foster Care and Adoption services, Family Preservation Services, Healthy Families, Child Care Assistance and Referral (CCAR) Program, and Office for Women and Domestic and Sexual Violence Services. The current facility has many inefficiencies, including, aged and obsolete HVAC, electrical and plumbing systems resulting in frequent breakdowns and disruptions in operations. In addition, parking at the facility is insufficient for the client population. Based on these building inefficiencies and the unwillingness of the current landlord to accommodate the County requested contract length, FMD has identified alternative space in the Heritage Center located at 7611 Little River Turnpike. This lease space is approximately five miles from the current Falls Church Human Services building and it is located along a well-traveled public transportation route. All Fairfax County Human Service agencies currently located at 6245 Leesburg Pike will be relocated to 7611 Little River Turnpike. The expected move date is anticipated to occur in January 2012.

Although one-time costs of $1,000,000 are required to accommodate the relocation of several Human Service agencies, this cost will be offset by realized savings in lease expenses over the life of the lease. In addition, the County has for several years studied the viability of building a hub facility that would provide a wide variety of services for the residents of the Bailey's Crossroads area of the County. The planned "East County Center" is anticipated to be operational by late 2016. Given the anticipated new facility, the terms of the new Heritage Center lease are in line with this long range plan.

		NON-RECURRING
Business, Professional and Occupational Licenses	Revenue	$8,025,000
Public Service Corporation Litigation Reserve	Revenue	(7,800,000)
Agency 17, County Attorney	Expenditure	$225,000
Personal Property Litigation	**Net Cost**	**$0**

Funding of $225,000 is required for legal services in support of litigation concerning an existing appeal of Public Service Corporation property assessments. In addition, a reserve has been established to offset potential revenue loss. Property owned by Public Service Corporations is assessed by the state for all localities and the current litigation impacts many jurisdictions and multiple years. A Public Service Corporation (PSC) Litigation Reserve in revenue has been established for a potential refund associated with the appeal in the amount of $7.8 million. Final resolution of this case is anticipated in FY 2012 and the County Attorney has requested that funding of $225,000 for outside counsel be made available to assist in the case. The FY 2012 estimate for Business Professional and Occupational Licenses is increased $8,025,000, consistent with current projections and FY 2011 actuals. This additional revenue, which is projected to be higher than estimated in the FY 2012 Adopted Budget Plan, provides a source of funds for the reserve.

		NON-RECURRING
Agency 17, County Attorney	Expenditure	$422,000
Litigation Services	**Net Cost**	**$422,000**

Funding of $422,000 is required for litigation services in support of pending cases. Of this total, an amount of $200,000 is required to support a case impacting the County's retirement systems. The Virginia Attorney General is suing Bank of New York Mellon on behalf of the Virginia Retirement System and the local retirement systems of Fairfax County, Arlington County, and the Fairfax County Public Schools under the Virginia Fraud Against the Taxpayers Act. All of the impacted retirement systems will pay their proportionate share of the legal expenses. It should be noted that this total will likely be reimbursed if the lawsuit is successful. The remaining $222,000 is required in support of pending real estate tax appeal cases for both business and residential properties. These funds will support expert witness testimony and other litigation-related services in these cases.

		NON-RECURRING
	Revenue	$0
Agency 52, Fairfax County Public Library	Expenditure	$200,000
Electronic Books	**Net Cost**	**$200,000**

Funding of $200,000 is included to increase the Library collection of electronic materials without reducing the number of copies of printed materials. Since FY 2008, the Library has faced increasing customer demand for books in electronic formats as a result of the growing popularity of personal electronic devices that will store and display reading materials. In FY 2011, the circulation of electronic materials was up 70 percent from the previous year, circulating 220,056 items, and up 171 percent since FY 2009, when the Library experienced significant reductions in the materials budget. It should be noted that the Library budget's FY 2011 ending balance was approximately $600,000. This adjustment seeks to re-appropriate a portion of the savings directly into Library materials for patrons.

		NON-RECURRING
Agency 57, Tax Administration	Expenditure	$75,000
Expert Appraisal Analysis and Consultation Services	**Net Cost**	**$75,000**

Funding of $75,000 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 uncertain economic times, the additional expert analysis will help staff determine appropriate cap rates for 2012 in order to ensure uniform and equitable commercial assessments.

		NON-RECURRING
	Revenue	$2,530,000
Agency 67, Department of Family Services	Expenditure	$5,000,000
	Cost	$2,470,000
Agency 87, Unclassified Administrative Expenses	Reserve	($2,470,000)
Comprehensive Services Act	**Net Cost**	**$0**

Funding of $5,000,000 is included to address an increase in the Comprehensive Services Act (CSA) funding requirements based on anticipated expenditures in FY 2012. The expenditure increase is offset by an increase in FY 2012 revenue from the state of $2,530,000. 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 as part of the FY 2009 Adopted Budget Plan and has been supplied annually to address changing funding requirements in the CSA program. 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 $2,470,000 resulting in no net impact to the County.

In addition, transportation services are currently provided by the Department of Family Services (DFS) to children in foster care receiving CSA services. This service is reimbursed with CSA revenue. To capitalize on infrastructure efficiencies and focus staff in areas of expertise, this function is being transferred from the Department of Family Services (DFS) to the Department of Neighborhood and Community Services (DNCS) in human services transportation. In addition, two positions will also be transferred from DFS to DNCS to support this service.

		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	Expenditure	($2,750,000)
Agency 67, Department of Family Services	Expenditure	$2,750,000
Child Care Assistance and Referral FY 2012 Requirements	**Net Cost**	**$0**

Funding of $2,750,000 is included to address FY 2012 requirements for the Child Care Assistance and Referral (CCAR) program. As the Board may recall, a reserve was established as part of the *FY 2008 Carryover Review* and has been supplied annually to replace CCAR funding that was originally reduced as part of the FY 2010 Adopted Budget Plan. This reserve is funded with one-time funding available from the state for CCAR. The reserve will continue to address the reduction in FY 2013 and address mandated changes anticipated from the state as a result of the state's new automated child care information system. Funding held in reserve in Agency 87, Unclassified Administrative Expenses, at year end and carried over as unencumbered carryover is available for reallocation to Agency 67, Department of Family Services. There is no net impact to the General Fund.

		NON-RECURRING
	Revenue	$10,000
Agency 67, Department of Family Services	Expenditure	$10,000
John Hudson Summer Intern Program	**Net Cost**	**$0**

Funding of $10,000 is required to appropriate additional FY 2012 state revenue for the John Hudson Internship Program. The overall objective of the program is to address unemployment and underemployment of people with disabilities in the Fairfax area by providing work experience and training opportunities which will enhance participants' competitiveness in the job market. This expenditure is fully offset by an increase in state funding with no net impact to the General Fund.

		NON-RECURRING
Agency 73, Office to Prevent and End Homelessness	Expenditure	$850,000
Agency 87, Unclassified Administrative Expenses	Reserve	($850,000)
Financial Assistance and Stabilization Funding	**Net Cost**	**$0**

Reallocation of $850,000 from the Reserve for Support of Community Organizations in Agency 87, Unclassified Administrative Expenses to Agency 73, Office to Prevent and End Homelessness will support financial assistance and stabilization for families and individuals who are at-risk of homelessness. In combination with OPEH unencumbered funding of $250,000, a total of $1.1 million will be available for the full year of the program. These services were previously provided with funding received through the American Recovery and Reinvestment Act of 2009. The FY 2012 use of the funds will allow a continuation of these services.

		RECURRING
Agency 89, Employee Benefits	Expenditure	$360,000
Tuition Assistance Program	**Net Cost**	**$360,000**

Funding of $360,000 is included in Agency 89, Employee Benefits, to restore the County's employee tuition assistance (TAP) and language tuition assistance (LTAP) programs. Funding for these programs was eliminated as part of reductions taken to balance the budget in FY 2010. The programs provide for reimbursement for continuing education classes taken by County employees, and restoration of the funding is expected to impact more than three-hundred employees.

		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 continue to support milestone payments related to the Fairfax County Unified System (FOCUS) implementation contract award, as well as support training and ancillary 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, as well as a future request for another $10 million that will be requested in the FY 2012 Carryover Review to complete the installation of the new system, is in accordance with the information shared with the Board in the June 22, 2010 Information Board item.

		NON-RECURRING
Fund 104, Information Technology	General Fund Transfer	$900,000
IT Tactical Initiatives	**Net Cost**	**$900,000**

Funding of $900,000 is required in Fund 104, Information Technology, for hardware and system infrastructure requirements, application testing, and disaster recovery associated with the FOCUS project and other major County computer systems. Of this total, $700,000 is included for additional hardware and system infrastructure requirements including increased storage capacity as multiple environments and the simultaneous development of multiple phases continues. These funds will also be used to procure additional network components and performance tools as well as additional firewall equipment supporting the production environment. An amount of $100,000 is included to allow the testing of SAP application performance with programmed test scripts. This work is critical in establishing performance metrics for the system. Finally, $100,000 is included to procure consulting support to assist with establishing the County's system-related disaster recovery policies and developing technical requirements from those policies.

As with previous investments, this funding is necessary to ensure a modern application and data architecture that provides both business productivity and technology architecture efficiencies and is projected to result in long-term return on investment. This implementation is a critical step in the County's ongoing infrastructure modernization program and technological improvement strategy.

		RECURRING
Fund 119, Contributory	General Fund Transfer	$250,000
Police and Fire World Games	**Net Cost**	**$250,000**

The General Fund Transfer to Fund 119, Contributory Fund, is increased by $250,000 to provide ongoing support for the 2015 Police and Fire World Games in Fairfax County. 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. It should be noted that two additional changes have been included in Fund 119, Contributory, and supported by allocation from fund balance. This includes $81,100 for the 150th Civil War Anniversary and $50,000 for the Birmingham Green Feasibility Study. More details are included in the Other Funds Detail section of Carryover.

		RECURRING
Fund 142, Community Development Block Grant	General Fund Transfer	$284,190
General Fund Support for Federal Cuts	**Net Cost**	**$284,190**

A General Fund Transfer of $284,190 is required to support programs in Fund 142, Community Development Block Grant (CDBG), that are impacted due to federal budget reductions. The final FY 2011 federal budget that impacts the County's FY 2012 budget resulted in a decrease of $1,044,704 or 15.7 percent to the CDBG's FY 2012 Adopted Budget Plan amount of $6,643,133. To address this loss of federal funding the Department of Housing and Community Development (HCD) identified administrative and programmatic reductions for review by the Fairfax County Redevelopment and Housing Authority (FCRHA) and Consolidated Community Funding Advisory Committee (CCFAC), as well as some additional funds that could be reallocated from new HOME Investment Partnership Grant (HOME) program income. Proposed reductions of $760,514 were covered by HCD administrative and personnel reductions, as well as reallocated HOME funding. The remaining $284,190 in reductions that will now be supported by the General Fund Transfer are comprised of $156,705 in support to non-profit organizations and the Consolidated Community Funding Pool program, $80,400 for the Home Repair for the Elderly Program, and $47,085 for the North Hill project. Please note that the $2.3 million reserve that was set aside in the FY 2012 Adopted Budget Plan is still available for other potential state and federal funding reductions that could occur during FY 2012.

		NON-RECURRING
Fund 303, County Construction	General Fund Transfer	$3,000,000
ADA Compliance	**Net Cost**	**$3,000,000**

The General Fund transfer to Fund 303, County Construction is increased by $3,000,000 to continue to fund requirements associated with Countywide ADA compliance. On January 28, 2011, the Board of Supervisors entered into an agreement with the Department of Justice (DOJ) to mitigate ADA violations identified during the DOJ audit. The DOJ surveyed 46 of the County's 180 owned buildings and identified required improvements. The agreement requires that the County survey the remaining 134 buildings by January 28, 2012. Funding of $200,000 will allow FMD to contract out the survey work associated with the remaining facilities. The agreement also requires an inventory of County maintained trails, sidewalks, and roads to identify the scope of ADA deficiencies. To date, a preliminary assessment indicates that corrective work will be required to address 778 handicap ramps and/or warning strip deficiencies. Funding of $800,000 is included to begin to address those most critical improvements including 90 locations that currently do not have any curb ramps and/or warning strips. The order-of-magnitude cost to address the remaining walkway deficiencies is $1.8 million. In addition, $2.0 million is included to continue to address deficiencies identified including $1.0 million for the County and $1.0 million for the Park Authority facilities. Staff has categorized identified improvements by color: easy, inexpensive (green); more timely and costly (yellow); and difficult, time consuming, and/or expensive (red). Funding included in the FY 2012 Adopted Budget Plan addressed the category green and yellow improvements identified by both FMD and Park Authority. This additional funding will begin to address the red category improvements. It should be noted that future funding will be required to address additional walkway requirements of $1.8 million, additional category red improvements at both County and Park facilities estimated at over $10 million and additional requirements which may be identified as a result of the building assessment survey.

		RECURRING
Fund 303, County Construction	General Fund Transfer	$250,000
Mandated Street Sign Upgrades	**Net Cost**	**$250,000**

The General Fund transfer to Fund 303, County Construction is increased by $250,000 to fund the first year of a seven year program to address new reflectivity standards for street signs on all primary and secondary roads in Fairfax County. In March 2011, the County Attorney's Office determined that the revised federal Manual of Uniform Traffic Control Devices (MUTCD) and the federal law that serves as the basis for the MUTCD, requires that the County is mandated to meet new retro-reflectivity standards.

In September 2009, Section 406 of Public Law 102-388 provided that the MUTCD set a "standard for a minimum level of retro-reflectivity that must be maintained for pavement markings and signs, which shall apply to all roads open to public travel." In addition, Title 23, Highways, of the Code of Federal Regulations provides that the MUTCD is the national standard for all traffic control devices installed on any street, highway, or bicycle trail open to public travel, and requires that states and localities systematically upgrade substandard traffic control devices and install needed devices to achieve conformity with the MUTCD. By January 2018, "all agencies must comply with new retro-reflectivity requirements for overhead guide signs and all street name signs" in accordance with a new national standard set forth by the Federal Highways Administration" and the U.S. Department of Transportation.

It is estimated that this program will entail replacing 4,000 green signs and 1,000 sign posts. The street name signs shall be retro-reflective or illuminated to show the same shape and similar color both day and night. The color of the legend must contrast with the background color of the sign. The program also requires inspection and reflectivity testing of up to 50,000 locations within the County. Preliminary estimates indicate a cost of approximately $350 per intersection or approximately $1.75 million. DPWES has developed a 7 year program at $250,000 annually to address the unfunded federal mandate.

		NON-RECURRING
Fund 501, County Insurance Fund	General Fund Transfer	$6,037,049
Accrued Liability Reserve	**Net Cost**	**$6,037,049**

The General Fund transfer to Fund 501, County Insurance, is increased by $6,037,049 for accrued liability adjustments. An actuarial analysis is performed every year by an outside actuary to estimate the ultimate value of losses for which the County is liable. It is the County's policy to fully fund the Accrued Liability Reserve each year based on the actuarial valuation, in order to ensure adequate funding for those risks that are self-insured.

The actuarial analysis estimates the ultimate value both for those cases where claims have already been reported as well as for those claims and future loss payments that could occur, or that have been incurred but not reported yet. Case reserves are established for reported claims at the time that they are reported, and are then adjusted up or down as more information is gathered pertaining to the loss or when closed cases are reopened. Incurred But Not Reported (IBNR) claims are those where a loss has occurred but, due to the time that it takes for some losses to be discovered and reported, have not yet been reported to the County. Actuaries estimate the liability for IBNR claims based on trends in claim frequency and cost levels. Projected future values for reported and IBNR claims are discounted to a present value to determine the current accrued liability.

The actuarial valuation as of June 30, 2011 estimates the County's accrued liability at $40,416,658, an increase of $6,037,049, or 17.56 percent, over the June 30, 2010 valuation of $34,379,609. The accrued liability valuations of four of the five self-insurance categories increased from 2010 to 2011; these categories are Workers' Compensation, Auto Liability, General Liability, and Public Officials Liability.

The majority of these increases have been in the actuarial estimate of IBNR claims. While case reserves for reported claims have increased by only 7.60 percent, the accrued liability for IBNR claims has increased by 21.22 percent. The primary cause of this increase is the trend in County loss experience and the assumption of future loss payments that could occur. Recent large settlements involved with lawsuits that have been resolved in recent months have caused an increase in claims payments and also affected the trend in loss experience overall. There are also older claims, to include closed claims that have been reopened, that have incurred significant additional expenses. These older claims continue to impact the County due to its statutory responsibility to provide medical treatment for life for occupational injuries and illnesses. These recent case experiences are projected and interpreted by the actuaries as an indication that future costs of IBNR claims will also increase, causing an increase in accrued liability. These projections also include consideration of industry loss rate information and development patterns where appropriate.

	NON-RECURRING	
Agency 68, Department of Administration for Human Services	Expenditure	$387,000
Agency 67, Department of Family Services	Expenditure	(155,000)
Fund 106, Fairfax-Falls Church Community Services Board	Transfer In	(105,000)
Agency 71, Health Department	Expenditure	(55,000)
Agency 79, Department of Neighborhood and Community Services	Expenditure	(50,000)
Agency 81, Juvenile and Domestic Relations District Court	Expenditure	(22,000)
Align costs	**Net Cost**	**$0**

Funding of $387,000 is transferred to the Department of Administration for Human Services (DAHS) to properly align costs at no net cost. DAHS supports critical activities within the Human Services system and it has not had the sufficient resources in the last several fiscal years to meet ongoing and emergency requirements, including revenue collection and contract administration. This reallocation is made by the agencies partnering with DAHS in recognition of their reliance on the services the agency performs on their behalf to meet the mission of the Human Services system.

Consideration Items

No consideration items are included as part of the *FY 2011 Carryover Review*.

Additional Adjustments in Other Funds

Total FY 2012 expenditures in Appropriated Other Funds are requested to increase $1.249 billion over the FY 2012 Adopted Budget Plan. In addition to the adjustments in Appropriated Funds, there are adjustments totaling $25.61 million in Non-Appropriated Other Funds. Details of Fund 102, Federal/State Grant Fund, are discussed in Attachment V, while details of FY 2012 adjustments in Appropriated and Non-Appropriated Other Funds other than Federal and State Grants are found in Attachment VI. School Board adjustments total $432.61 million, excluding debt service, over the FY 2012 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 11155 and AS 12010 as well as Fiscal Planning Resolution AS 12900 to provide expenditure authorization for FY 2011 Carryover encumbrances, unexpended balances, administrative adjustments and the associated adjustments to the Managed Reserve, including the following:

- Board appropriation of $34.39 million in General Fund encumbrances related to Direct Expenditures from FY 2011 as noted in the General Fund Statement and in Attachment III.

- Board appropriation of General Fund unencumbered Board commitments totaling $9.91 million as detailed in Attachment IV.

- Board appropriation of General Fund Board and administrative adjustments totaling $36.8 million as detailed earlier in this memorandum.

- Board appropriation of Federal/State grants in Fund 102, Federal/State Grant Fund, totaling $192.25 million or an increase of $124.44 million as detailed in Attachment V.

- Board appropriation of remaining Other Funds Carryover. Details are available in Attachment I, Carryover Expenditures by Fund; in Attachment VI, Other Funds Detail; and in Attachment C, Fairfax County School Board's FY 2011 Final Budget Review and Appropriation Resolutions.

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

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.