County of Fairfax, Virginia

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Attachment B

DATE: March 4, 2014

TO: BOARD OF SUPERVISORS

FROM: Edward L. Long Jr.
County Executive

SUBJECT: FY 2014 Third Quarter Review

Attached for your review and consideration is the *FY 2014 Third Quarter Review*, including Supplemental Appropriation Resolution AS 14171 and Amendment to the Fiscal Planning Resolution AS 14901. 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 decrease in FY 2014 revenue of $6.57 million from the Fall 2013 Revenue estimates.

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 decrease of $0.20 million. Expenditures in Non-Appropriated Other Funds increase a total of $0.003 million.

Attachment IV - Fund 50000, Federal/State Grant Fund, detailing grant appropriation adjustments for a total net increase of $11.57 million.

Attachment V - Supplemental Appropriation Resolution (SAR) AS 14171, AS 13346 for FY 2013 adjustments to reflect the final audit, and Amendment to the Fiscal Planning Resolution (FPR) AS 14901.

Attachment VI - FY 2013 Audit Package including final adjustments to FY 2013 and the FY 2014 impact.

Attachment VII - Fairfax County Public Schools (FCPS) Third Quarter Review (The School Board is not scheduled to act on the FCPS Third Quarter Review until March 6, 2014 so any adjustments made by the School Board will be provided to the Board of Supervisors prior to their action on the *FY 2014 Third Quarter Review.*)

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As the Board is aware, the Code of Virginia requires that a public hearing be held prior to the adoption of amendments to the current year budget when the adjustments exceed 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 2014 Third Quarter Review* has been scheduled for April 8, 9 and 10, 2014. On April 22, 2014, the Board will take action on this quarterly review prior to marking up the FY 2015 Advertised Budget Plan.

The following is a summary of the current financial status as of the Third Quarter Review compared to the *FY 2014 Revised Budget Plan*.

Third Quarter Summary General Fund Statement
(in millions of dollars)

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2014 Third Quarter Estimate	Variance
Beginning Balance	$209.44	$87.78	$182.81	$182.81	$0.00
Revenue [1,2]	$3,498.10	$3,559.55	$3,584.33	$3,577.76	($6.57)
Transfers In	$6.77	$23.87	$23.87	$23.87	$0.00
Total Available	$3,714.31	$3,671.20	$3,791.01	$3,784.44	($6.57)
Direct Expenditures [2]	$1,269.32	$1,309.40	$1,360.47	$1,354.98	($5.49)
Transfers Out					
School Operating	$1,683.32	$1,716.99	$1,716.99	$1,716.99	$0.00
School Debt Service	164.76	172.37	172.37	172.37	0.00
Subtotal Schools	$1,848.08	$1,889.36	$1,889.36	$1,889.36	$0.00
Contributory Fund	$15.68	$13.37	$14.37	$14.37	$0.00
Information Technology	14.28	2.91	9.76	9.76	0.00
County Debt Service	116.85	118.80	118.80	118.80	0.00
County Transit	36.55	34.55	34.55	34.55	0.00
Community Services Board	109.61	109.23	110.04	110.08	0.04
E-911	15.26	17.05	17.28	17.28	0.00
County Insurance	22.09	21.02	21.03	58.69	37.66
Capital Paydown	18.00	12.03	25.88	27.64	1.76
Other Transfers	65.76	58.65	61.94	63.46	1.52
Subtotal County	$414.10	$387.61	$413.65	$454.63	$40.98
Total Transfers Out	$2,262.17	$2,276.97	$2,303.00	$2,343.99	$40.99
Total Disbursements	$3,531.50	$3,586.37	$3,663.47	$3,698.96	$35.49
Total Ending Balance	$182.81	$84.83	$127.53	$85.47	($42.06)
Less:					
Managed Reserve	$71.88	$71.73	$73.27	$73.98	$0.71
Reserve for State/Federal Reductions and Federal Sequestration Cuts [3]	8.10	8.10	7.70	7.70	0.00

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2014 Third Quarter Estimate	Variance
Litigation Reserve [4]	$5.00	$5.00	$30.00		($30.00)
Transportation Reserve [5]	0.54				0.00
Reserve for FY 2014 Budget Development [6]	0.74				0.00
FY 2012 Audit Adjustments [7]	1.51				0.00
FY 2013 Audit Adjustments [2]	1.47		1.47		(1.47)
Reserve for FY 2014 Requirements [8]			15.10	3.80	(11.30)
Total Available	$93.56	$0.00	$0.00	$0.00	$0.00

[1] *FY 2014 Revised Budget Plan* revenues reflect a net increase of $24,481,152 based on revised revenue estimates as of fall 2013. The *FY 2014 Third Quarter Review* contains a detailed explanation of these changes. Of the total, $25,000,000 has been added to the Litigation Reserve and the remaining amount, a decrease of $518,848, has been taken from the Reserve for FY 2014 Third Quarter.

[2] In order to appropriately reflect actual revenues and expenditures in the proper fiscal year, FY 2013 revenues are increased $2,084,386 and FY 2013 expenditures are increased $614,936 to reflect audit adjustments as included in the FY 2013 Comprehensive Annual Financial Report (CAFR). As a result, the *FY 2014 Revised Budget Plan* Beginning Balance reflects a net increase of $1,469,450. Details of the FY 2013 audit adjustments are included in the FY 2014 Third Quarter package. This reserve has been utilized as part of the *FY 2014 Third Quarter Review*.

[3] As part the *FY 2012 Carryover Review*, an amount of $8,099,768 was set aside in reserve for State/Federal Reductions and Federal Sequestration Cuts. As part of the County Executive's proposed *FY 2013 Carryover Review*, $401,888 of this reserve was utilized to offset federal sequestration reductions for the Head Start and Early Head Start grant programs. Use of the reserve funding was in line with the direction given by the Board of Supervisors as part of the June 25, 2013 Human Services Committee meeting. As part of their deliberations on the *FY 2013 Carryover Review*, the Board of Supervisors earmarked $1,000,000 of this reserve for potential requirements within the Housing Blueprint/Bridging Affordability program as a result of the use of $1,000,000 in Blueprint funding for the Housing Choice Voucher (HCV) Reserve.

[4] As part of the *FY 2012 Carryover Review*, an amount of $5,000,000 was set aside in reserve to address the impact of a number of potential refunds resulting from pending tax appeals. As a result of revised projections of the timing of the litigation requirements, this reserve has been increased by $25,000,000 to $30,000,000. As part of the *FY 2014 Third Quarter Review*, the County Executive recommends transferring this reserve to Fund 60000, County Insurance.

[5] As part of the *FY 2012 Carryover Review*, an amount of $538,344 was set aside in reserve for transportation requirements. This reserve was utilized to balance the FY 2014 budget.

[6] As part of the *FY 2012 Carryover Review*, an amount of $742,333 was set aside in reserve for FY 2014 budget development. This reserve was utilized to balance the FY 2014 budget.

[7] As a result of FY 2012 audit adjustments, an amount of $1,513,332 was available to be held in reserve in FY 2013 and was utilized to balance the FY 2014 budget.

[8] As part of the *FY 2013 Carryover Review*, an amount of $15,616,776 was set aside in reserve for FY 2014 requirements or FY 2015 budget development. As a result of revised FY 2014 revenue estimates, this reserve was reduced by $518,848 to $15,097,928. As part of the County Executive's proposed *FY 2014 Third Quarter Review*, $11,300,516 has been used for Third Quarter requirements, leaving $3,797,412 in balance for Board consideration.

Total revenues are estimated at $3.58 billion and reflect a decrease of $6,569,377, or 0.2 percent, from the FY 2014 fall estimate. As noted in the FY 2015 Advertised Budget Plan, FY 2014 revenue estimates were increased a net $24.5 million as part of a fall 2013 revenue review prior to Third Quarter during the development of the FY 2015 budget. These adjustments were based on actual FY 2013 receipts and collections through the first several months of FY 2014 and include the recognition of $25 million in revenues previously held for litigation requirements that will not be concluded in FY 2014. This $25 million and an additional $5 million also reserved for litigation are transferred to the County's Self Insurance fund pending the outcome of the protracted litigation. The $6.57 million revenue decrease noted as part of Third Quarter is the result of a $2.7 million decrease in Sales Tax receipts and a $1.3

million decrease in Recordation taxes based on actual year-to-date collections. In addition, there is a decrease of $2.5 million in Revenue from the Commonwealth and Federal Government associated with commensurate decreases in expenditures.

Refining revenue estimates has been challenging this year as a result of several factors. One such challenge has been the federal budget issues including federal agency furloughs that were implemented beginning in the summer 2013 as well as the federal shutdown which occurred in October. As a result of the federal furloughs and shutdown, staff anticipated changes in consumer behavior which in turn impact County revenue receipts in categories such as sales tax and personal property taxes. Sales tax receipts in FY 2014, for example, have ranged from an increase of 15.4 percent to a decrease of 10.1 percent. Another factor impacting County revenues this fall has been the increase in mortgage interest rates. Currently, 30-year fixed mortgage rates are 4.43 percent, a whole percentage point higher than the 3.41 percent rate this time last year. Consequently, County revenues in the areas of recordation taxes and Clerk Fees, which are collected at the time of refinancing, have been impacted. Based on Circuit Court figures, the number of mortgage refinancings has declined over 62 percent since the beginning of FY 2014. Complicating matters further is the impact of the extremely cold and inclement weather experienced in the region this winter because it negatively impacts consumer spending. Because many revenue categories are sensitive to economic conditions, there is the potential that actual receipts may deviate from the revenue estimates included in Third Quarter. Finally, it should be noted that little information is available concerning Business, Professional, and Occupational License (BPOL) Taxes, since filings and payments are not due until March 1, with additional time required to process returns. Similarly, revenue from the Bank Franchise Tax is not received until late May or early June so there is no information currently available to help estimate FY 2014 receipts. All revenue categories are closely monitored with respect to collections and the effects of changes in economic activity. Any necessary FY 2015 revenue adjustments will be included in the Add-On Review. A detailed description of both the fall and current revenue adjustments are noted in Attachment II.

A net General Fund Disbursement increase of $35.49 million is also included in the *FY 2014 Third Quarter Review* and is the result of reductions of $5.98 million and additional requirements of $41.47 million described below. As a result of these changes a net balance of $3.80 million remains available.

As we quickly approach the end of FY 2014, it is important to note a number of requirements that will require funding at year-end as part of the *FY 2014 Carryover Review*. These include funds for the County's infrastructure contribution to the Laurel Hill Adaptive Re-use that the Board had endorsed, recommendations that may come from the Infrastructure Financing Committee and the second contribution towards installing turf fields at the remaining County High Schools that do not yet have them. In addition, County staff will be providing options to respond to the rating agency concern about low levels of reserves.

Audit Adjustments

As a result of the FY 2013 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 $1.47 million to the FY 2014 beginning General Fund balance. This balance is available for Third Quarter requirements.

In addition, several other adjustments to various funds are required, including Fairfax County Public Schools' funds and the Fairfax County Redevelopment Housing Authority Funds. All of these audit adjustments were reflected in the FY 2013 Comprehensive Annual Financial Report (CAFR). Details of these audit adjustments are included in Attachment VI.

It should be noted that two County funds, Fund 60000, County Insurance, and Fund S43000, Public School Adult and Community Education, require a supplemental appropriation based on audit adjustments to reflect proper accounting treatments. Expenditures were increased in both funds in order to accurately record expenditure accruals in the appropriate fiscal period. An appropriation resolution is required to account for adjustments in the correct fiscal period, consistent with GAAP requirements. Supplemental Appropriation Resolution AS 13346 is included in Attachment V of the *FY 2014 Third Quarter Review*.

Summary of Adjustments

The following adjustments are made as part of the *FY 2014 Third Quarter Review*. It should be noted that the revenue adjustments included in the *FY 2014 Third Quarter Review* are described in detail in the Summary of General Fund Revenue, Attachment II.

In addition, there are various General Fund Supported and Other Fund expenditure adjustments, supported by both non-General Fund revenue and the use of fund balance. Adjustments to Other Funds are reflected in the Other Funds Detail section, Attachment III.

ADMINISTRATIVE ADJUSTMENTS – GENERAL FUND IMPACT

		NON-RECURRING
	Revenue	$0
Agency 13, Office of Public Affairs	Expenditure	$20,000
Personnel Services	**Net Cost**	**$20,000**

Funding of $20,000 is required for the Office of Public Affairs to cover a projected shortfall in Personnel Services primarily based on actual salary requirements and anticipated leave payout costs. Due to the small size of the agency budget, there is limited ability to absorb significant unbudgeted expenses of this nature.

		NON-RECURRING
	Revenue	$0
Agency 26, Office of Capital Facilities	Expenditure	$150,000
Personnel Services	**Net Cost**	**$150,000**

Funding of $150,000 is required for the Office of Capital Facilities to cover a projected shortfall in Personnel Services resulting from revised salary projections based on staffing requirements and current salaries of merit employees.

		NON-RECURRING
	Revenue	$0
Agency 36, Planning Commission	Expenditure	$60,000
Personnel Services	**Net Cost**	**$60,000**

Funding of $60,000 is required for the Planning Commission to cover a projected shortfall in Personnel Services resulting from revised salary projections based on staffing requirements, current salaries of merit employees, and overtime pay related to Planning Commission meetings. Due to the small size of the agency budget, there is limited ability to absorb significant unbudgeted expenses of this nature.

		NON-RECURRING
	Revenue	($1,587,470)
Agency 67, Department of Family Services	Expenditure	($3,500,000)
Comprehensive Services Act	**Net Cost**	**($1,912,530)**

A decrease of $3,500,000 is included due to a decrease in mandated funding requirements in the Comprehensive Services Act (CSA) based on anticipated expenditures in FY 2014. Actual costs for the CSA program are dependent on the number of youth served and the complexity of services provided. The CSA system has worked to contain costs by utilizing community-based services and minimizing the length of stay when a residential placement is necessary. As an example, residential and group home placements have been cut nearly in half from 139 in December 2010 to 71 in December 2013. The expenditure decrease is partially offset by a decrease in state funding of $1,587,470 for a net savings to the General Fund of $1,912,530.

		NON-RECURRING
	Revenue	($1,000,000)
Agency 67, Department of Family Services	Expenditure	($1,000,000)
Adoption Subsidy Program	**Net Cost**	**$0**

A decrease of $1,000,000 to both revenues and expenditures for the Adoption Subsidy Program is included to more accurately align the program's budget with actual spending. Program spending has declined significantly due to the maximization of Medicaid as an alternative funding source for these subsidies. This adjustment is consistent with adjustments made at previous third quarter reviews and is needed in order to reconcile program year funding to actual experience. The expenditure decrease is fully offset by a decrease in federal and state revenues for no net impact to the County.

		RECURRING
	Revenue	$108,140
Agency 67, Department of Family Services	Expenditure	$108,140
Public Assistance Eligibility Workers	**Net Cost**	**$0**

An increase of $108,140 to both revenues and expenditures is required to address 9,000 FAMIS cases that are being transferred to the County from the state, effective March 1, 2014. Funding will support 8/8.0 FTE new positions. FAMIS is Virginia's health insurance program for children. Eligibility for the FAMIS program was previously determined by a state contractor; however, with the implementation of the Patient Protection and Affordability Care Act (PPACA), eligibility will now be determined by each locality. The state has provided additional funding to support 8/8.0 FTE positions to address the new caseloads. The additional FAMIS eligibility cases will increase caseloads by more than 10 percent and cannot be absorbed within existing resources. While the additional 8/8.0 FTE positions is not sufficient to fully cover the new FAMIS cases, it is hoped that these positions will provide some relief to current eligibility workers who are at capacity. The expenditure increase is fully offset by an increase in federal and state revenues for no net impact to the County.

In addition to the new FAMIS cases DFS is now responsible for, public assistance caseloads have increased more than 60 percent since FY 2008. To manage the significant increase within existing resources, in 2012, the Self Sufficiency Division completed implementation of a new service delivery model whereby work is disaggregated and assigned by specific processes rather than the traditional case management model. However, caseloads continue to grow. The current monthly on-going public assistance caseload is more than 93,000. This is up from 51,939 in FY 2008. Additionally, the implementation of PPACA has increased the amount of time each application takes to process. For example, a new application form needed to be developed in order to capture new information required by

PPACA. The new application form is 18 pages and in some instances, depending on family size, may be as long as 27 pages. This compares to the old application form which was two pages. These new requirements, coupled with the significant increase in caseload, means new positions were needed. To address this, in FY 2014, 18/18.0 FTE SACC Teacher I merit positions that were vacant due to the acceleration of the SACC conversion of merit positions to benefits-eligible positions were redeployed. In FY 2015, an additional 3/3.0 FTE positions are proposed as part of the FY 2015 Advertised Budget Plan. All of the positions added address existing caseloads; there is no capacity to absorb additional caseload increases within existing resources. The new positions are fully offset by an increase in federal and state revenues for no net impact to the County.

Finally, there is an ever growing backlog of applications that have been received but staff has not yet been able to process. Once an application is filed, in accordance with federal and state policy, the County is required to determine eligibility and deliver benefits within a certain timeframe. The County is currently not meeting these timeframes. As of February 2014 there were 4,460 cases that were awaiting eligibility determination. This is up from 371 cases that were awaiting eligibility determination in October 2013. Staff is currently developing a plan on how to address this workload. It is hoped DFS can utilize benefits-eligible positions to address the backlog but additional merit positions may be needed if the average monthly on-going public assistance caseload does not level off.

		RECURRING
	Revenue	$0
Agency 82, Office of the Commonwealth's Attorney	Expenditure	$104,040
Filling Vacant Assistant Commonwealth's Attorney Positions	**Net Cost**	**$104,040**

A net increase of $104,040, including $81,040 in Personnel Services and $23,000 in associated Operating Expenses reflects the partial year impact of funding four existing (but currently held vacant) Assistant Commonwealth's Attorney II positions to address increased workload requirements in the Office of the Commonwealth's Attorney (OCA). When combined with the proposed FY 2015 Advertised Budget Plan adjustment of adding 3/3.0 FTE Senior Assistant Commonwealth's Attorney positions in this agency, this will provide an increase of nearly 30 percent capacity in the prosecutorial staff in OCA.

For an extended period of time, OCA has been significantly understaffed, with the agency's already difficult workload becoming even more challenging in recent years due to several factors. First, due to a 2009 United States Supreme Court decision, *Melendez-Diaz v. Massachusetts*, OCA has had to designate one prosecutor and one office staff member with the full-time responsibility of complying with the additional notices and subpoenas now required for each DWI that is prosecuted in the County. This has effectively removed that prosecutor from the other work of the office, including preliminary hearing and Circuit Court dockets. In addition, preparation time for cases and time spent in trial has increased dramatically in the past 5-7 years for various reasons including the evolution of discovery standards and pretrial motions, the split of trials into two phases, guilt and sentence, longer periods of jury *voire dire*, and the increase in court appointed experts for Defendants. Also, OCA now has to respond in writing to all motions made by the Defendant in Circuit Court by order of the Court. Formerly, oral responses were adequate on motions considered routine by the Court. Finally, in the early 2000's, the average daily number of traffic court rooms that OCA had to staff was 3-4. Over the last 8 years, that number has increased to 5 or 6 traffic courtrooms daily, requiring an extra two attorneys per day to staff daily traffic dockets.

The most direct comparator jurisdictions for OCA are other large, urban, high caseload offices in the Commonwealth of Virginia, often referred to as "super-jurisdictions", namely the City of Richmond, Virginia Beach, and the City of Norfolk. The table below summarizes some very high level comparison data:

	Attorney per Citizens	Total Defendants Per Year	Number of Defendants per Prosecutor	Staff Size (Prosecutors/ Support/Total)1
City of Richmond	1 / 5,534	3,935	104	38 + 28 = 66
Virginia Beach	1 / 12,082	5,680	154	37 + 87 = 124
City of Norfolk	1 / 6,643	3,891	105	37 + 40 = 77
Fairfax County	1 / 44,744	5,741	230	25 + 8 = 33
Fairfax County ***(with the funding of four currently held vacant ACA IIs (FY14 Third Quarter) and addition of 3/3.0 FTE additional Sr. ACAs (FY 15 Advertised))***	1/ 34,956	5,741	179	32 + 8 = 40

[1] Fairfax County has two fully grant funded attorneys that are restricted by the terms of the grant to only prosecute domestic violence cases. They are not included in the Fairfax County totals cited in this table. Likewise, the City of Norfolk has an additional two grant funded attorneys that are not included in their totals.

		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	Expenditure	$1,000,000
Agency 89, Employee Benefits	Expenditure	($1,000,000)
Fringe Benefit Employer Contributions	**Net Cost**	**$0**

An increase of $1,000,000 to expenditures is included in Agency 87, Unclassified Administrative Expenses, that is fully offset by a decrease of $1,000,000 to expenditures in Agency 89, Employee Benefits, resulting in no net impact to the County. Savings of $1.0 million were included in Agency 87 to balance the FY 2014 Adopted Budget Plan based on efficiencies to be identified during the fiscal year. These savings have been identified in Agency 89, as expenditures for employer group health insurance contributions are projected to be lower than previously anticipated. These savings in employee benefits are expected to be realized as the result of lower than budgeted premium increases as of January 1, 2014.

		RECURRING
	Revenue	$0
Multiple Agencies	Expenditure	($1,475,575)
Incentive Reinvestment Initiative	**Net Cost**	**($1,475,575)**

A net decrease of $1,475,575 reflects the savings generated by agencies as the result of careful management of their expenditures during the fiscal year. An Incentive Reinvestment Initiative was approved by the Board of Supervisors on December 3, 2013 to be implemented as part of the FY 2014 Third Quarter Review. The initiative was established by the County Executive to encourage staff to identify additional savings and efficiencies by allowing County departments to retain a portion of the savings generated to reinvest in employees. General Fund agencies were challenged to save an amount equal to 1 percent of their personnel budget. It is important to note that agencies will be allowed to identify savings less than, but not more than, 1 percent of their FY 2014 Adopted personnel budget. Of the total amount identified, 50 percent will be returned to the General Fund as part of Third Quarter. As a result of this effort $2.95 million in savings was identified by General Fund agencies with $1.48 million being returned to the General Fund as part of Third Quarter. The remaining 50 percent of the savings is retained by agencies and will be reinvested in employee training, conferences and other employee development and succession planning opportunities. In order to accommodate these savings which are being generated late in the fiscal year, the balance will be treated as unencumbered carryover for one year.

		NON-RECURRING
	Revenue	$0
Multiple Agencies	Expenditures	$40,000
Fund 40040, Community Services Board	General Fund Transfer	$39,812
Fund 83000, ASAP	General Fund Transfer	$2,690
Non-Merit One-Time Compensation Adjustment	**Net Cost**	**$82,502**

A net increase of $82,502 reflects adjustments required for the one-time $500 (before taxes) compensation adjustment awarded to exempt benefits-eligible positions in November 2013. These adjustments were approved by the Board of Supervisors at their October 8, 2013 meeting to acknowledge the hard work of employees in these positions. As part of the FY 2013 Carryover Review, the Board approved one-time $850 (before taxes) compensation adjustments for all merit employees. It should be noted that the original cost estimate for the one-time $500 adjustments for these exempt benefits-eligible employees was $265,000. However, a number of funds and agencies are able to absorb the costs within their current appropriations; therefore, the net cost to the General Fund is $82,502.

		NON-RECURRING
Fund 10010, Revenue Stabilization	General Fund Transfer	$1,518,380
Maintaining Reserve of 3.0 percent of General Fund Disbursements	**Net Cost**	**$1,518,380**

Funding of $1,518,380 is transferred from the General Fund to Fund 10010, Revenue Stabilization, to maintain the reserve at 3.0 percent of General Fund disbursements. On September 13, 1999, the Board of Supervisors established a Revenue Stabilization Fund to provide a mechanism for maintaining a balanced budget without resorting to tax increases and expenditure reductions that aggravate the stresses imposed by the cyclical nature of the economy. The Revenue Stabilization Fund is based on a balance of 3.0 percent of General Fund disbursements. Based on the *FY 2014 Revised Budget Plan* disbursement level, as well as the projected low interest earnings for FY 2014, a transfer from the General Fund is required to maintain the 3.0 percent of disbursements fully funded target level.

		NON-RECURRING
Fund 30010, General Construction and Contributions	General Fund Transfer	$630,000
Human Services Facilities Studies	**Net Cost**	**$630,000**

The General Fund Transfer to Fund 30010, General Construction and Contributions, is increased $630,000 to support Human Services facility assessments. Funding is required to conduct physical inspection of several Human Services buildings, develop conceptual drawings for redesigned space, develop cost estimates for renovation work, and determine retrofits required to comply with updated state licensure requirements. Assessments will be conducted at A New Beginnings, Cornerstones and Crossroads residential facilities as well as three family shelters which are more than 20 years old and do not meet modern standards for accessibility or enhanced service delivery. In addition, a feasibility study is required for the Sully Senior/Teen Center which will be required to relocate when VDOT widens route I-66 in Centreville. This center provides social, recreational, and health wellness activities and programs for older adults residing in Centreville and Chantilly. Youth programming is also in great demand in this area and a center will help meet that need. These assessments were noted by the joint County / School Board Infrastructure Financing Committee as an important step in determining full condition assessments of County facilities including facility evaluation and cost estimates.

		NON-RECURRING
Fund 30010, General Construction and Contributions	General Fund Transfer	$500,000
County-owned Roads and Service Drives Study	**Net Cost**	**$500,000**

The General Fund Transfer to Fund 30010, General Construction and Contributions, is required to increase $500,000 to determine an accurate inventory and condition assessment of County-owned roads and service drives. The Department of Public Works and Environmental Services is responsible for maintaining approximately 17 miles of roadway service drives and 4 miles of County maintained roads that do not meet the standards for acceptance into the VDOT maintenance system. The estimated value of service drives is approximately $52 million and the estimated value of County maintained roads is approximately $12 million. The condition assessment will provide a better inventory, assess the condition of the roads and determine a cost estimate for repairs and on-going maintenance. These assessments were noted by the joint County / School Board Infrastructure Financing Committee as an important step in determining full condition assessments of County facilities including facility evaluation and cost estimates.

		NON-RECURRING
Fund 30010, General Construction and Contributions	General Fund Transfer	$630,000
ADA Compliance - FMD	**Net Cost**	**$630,000**

The General Fund Transfer Fund 30010, General Construction and Contributions, is required to increase $630,000 to address ADA assessment study requirements. On January 28, 2011, the Board of Supervisors signed a settlement agreement with the Department of Justice (DOJ) related to requirements identified on 78 buildings in the County as well as approximately ten program areas which needed improvement in order to comply with the ADA. In addition, the County is required as part of the agreement with the DOJ to perform assessments at all facilities not included in the original audit. The Facilities Management Department is currently making improvements identified by the DOJ and reassessing the remaining County-owned buildings for additional required improvements. Funding in the amount of $630,000 will provide for the required self-assessments on 90 facilities not yet assessed and will complete all of the DOJ required assessments.

		NON-RECURRING
Fund 60000, County Insurance	General Fund Transfer	$5,663,287
Accrued Liability Reserve	**Net Cost**	**$5,663,287**

The General Fund transfer to Fund 60000, County Insurance, is increased by $5,663,287 for accrued liability adjustments. An actuarial analysis was performed after the close of the fiscal 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. The information that was used by the actuaries reflected a slight decrease in the number of new cases reported but an increase in the severity of the injuries reported so the long term liability is continuing to rise, especially for claims involving Police officers. In addition, there was an increase in older claim activity as a result of several factors, including joint replacements and heart related medical procedures. These can be attributed to the aging population of injured employees.

		NON-RECURRING
Fund 60000, County Insurance	General Fund Transfer	$2,000,000
Litigation Expenses	**Net Cost**	**$2,000,000**

The General Fund transfer to Fund 60000, County Insurance, is increased by $2,000,000 for anticipated expenditures due to pending litigation in personnel-related matters. This funding is required to hire outside counsel and retain expert witnesses. It should be noted that this pending litigation has previously been discussed with the Board in Closed Session.

		NON-RECURRING
	Litigation Reserve	$30,000,000
Fund 60000, County Insurance	General Fund Transfer	$30,000,000
Litigation Reserve	**Net Cost**	**$0**

The General Fund transfer to Fund 60000, County Insurance, is increased by $30,000,000 to move the Litigation Reserve, currently residing in the General Fund, to the County's Self Insurance Fund pending the outcome of the protracted litigation process currently underway. The Board originally established a Litigation Reserve of $5 million at the *FY 2012 Carryover Review* at the recommendation of the County Executive due to the increasing number of tax related lawsuits that were identified by the Department of Tax Administration and the County Attorney. During the development of the FY 2014 Budget another $25 million in potential litigation losses was identified and accounted for in the revenue estimates for Real Estate, Personal Property and Business, Professional and Occupational License (BPOL) delinquencies as potential refunds associated with a number of cases that had been filed or were anticipated to be filed. Consistent with briefings to the Board in Closed Session on the legal matters pertaining to this litigation, the current projected timeframe for the litigation continues to be extended and it is not anticipated that a significant number of cases will be concluded in FY 2014. As a result the $30 million reserve is being placed in the County Insurance Fund pending the outcome of the litigation.

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 $3.80 million, a decrease of $0.20 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 in Draft are provided in the Schools' Recommended *FY 2014 Third Quarter Review* package (Attachment VII).

  - Supplemental Appropriation Resolution AS 14171
  - Supplemental Appropriation Resolution AS 13346
  - Amendment to Fiscal Planning Resolution AS 14901

- Board appropriation of Federal/State grant adjustments in Fund 50000, Federal/State Grant Fund, totaling an increase of $11.57 million.

- Board approval of adjustment to the Managed Reserve to reflect the adjustments included in the *FY 2014 Third Quarter Review*.