County of Fairfax, Virginia

MEMORANDUM

Attachment B

DATE: March 14, 2017

TO: Board of Supervisors

FROM: Edward L. Long Jr.
County Executive

SUBJECT: FY 2017 Third Quarter Review

Attached for your review and consideration is the *FY 2017 Third Quarter Review*, including Supplemental Appropriation Resolution AS 17190 and Amendment to the Fiscal Planning Resolution AS 17901. The Third Quarter Review includes recommended funding adjustments and the following attachments for your information.

Attachment I - A General Fund Statement reflecting adjustments included in 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 an increase in FY 2017 revenue of $0.87 million over the Fall 2016 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 increase of $182.91 million. Expenditures in Non-Appropriated Other Funds decrease a total of $1.60 million.

Attachment IV - Fund 50000, Federal/State Grants, detailing grant appropriation adjustments for a total net increase of $19.92 million.

Attachment V - Supplemental Appropriation Resolution (SAR) AS 17190, AS 16305 for FY 2016 adjustments to reflect the final audit, and Amendment to the Fiscal Planning Resolution (FPR) AS 17901.

Attachment VI - FY 2016 Audit Package including final adjustments to FY 2016 and the FY 2017 impact.

Attachment VII - Fairfax County Public Schools (FCPS) 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

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synopsis of the proposed changes. A public hearing on the proposed changes included in the *FY 2017 Third Quarter Review* has been scheduled for April 4, 5, and 6, 2017. On April 25, 2017, the Board will take action on this quarterly review prior to marking up the FY 2018 Advertised Budget Plan.

The following is a summary of General Fund adjustments included in the *FY 2017 Third Quarter Review*.

Summary of Third Quarter Adjustments

(in millions)

Previous Balances		
Reserve for Potential FY 2017 One-Time Requirements (available as part of *FY 2016 Carryover Review*)	$5,463,153	
FY 2016 Audit Adjustments	$677,093	
FY 2017 Mid-Year Revenue Adjustments	$10,351,830	
	$16,492,076	
	Net Available:	**$16,492,076**
FY 2017 Third Quarter Adjustments		
Spending Adjustments Due to Operations		
Infrastructure Replacement and Upgrades at County Facilities	($5,544,047)	
Accrued Liability Adjustment	($3,726,000)	
ADA and other Capital Improvements	($2,573,458)	
FLSA Ruling	($1,722,000)	
Reduction in Social Security Offset	($1,400,000)	
Children’s Services Act	($309,637)	
Fire and Rescue Department Training	($300,000)	
Replacement Capital Equipment Funding	($255,000)	
Elections Funding	($200,000)	
Personnel Services in Tax Administration	($200,000)	
Fire and Rescue Compensation/Organization Study	($200,000)	
Fairfax County 275th Anniversary Celebration	($40,000)	
Elevator and Escalator Inspection Contract Costs	$0	
Office of the Independent Police Auditor	$0	
Presidential Inauguration Costs	$0	
	($16,470,142)	
Reductions/Savings in County Agencies		
Other Post-Employment Benefit Savings	$1,500,000	
Incentive Reinvestment Initiative	$504,875	
	$2,004,875	
Required Reserve Adjustments		
Revenue Stabilization Reserve	($900,986)	
Managed Reserve	($722,416)	
	($1,623,402)	
Net Third Quarter Adjustments:	*($16,088,669)*	
	Net Available:	**$403,407**

The *FY 2017 Third Quarter Review* reflects a small number of adjustments necessary to fund FY 2017 spending and reserve requirements. These adjustments are funded utilizing one-time balances available as part of the *FY 2016 Carryover Review*, results of the FY 2016 audit, and mid-year FY 2017 revenue adjustments, as well as savings identified as part of this process. Several of the adjustments recommended in this package were noted in my FY 2018 Advertised Budget Plan presentation, including funding for a compensation and organizational study for uniformed Fire and Rescue personnel, the one-time impact of the second year of the three-year plan to eliminate the remaining Social Security offset for service-connected disability retirees, and one-time capital expenses for infrastructure replacement and upgrades. Consistent with actions taken in prior years, funding for one-time items that may otherwise have been included in my Advertised proposal – including for the Social Security offset, infrastructure replacement, and ADA (Americans with Disabilities Act) project funding – have been included as part of the Third Quarter package in order to provide flexibility and balance the FY 2018 budget. It should be noted that no new positions are recommended as part of the *FY 2017 Third Quarter Review*. Additionally, other than the associated revenue impact of expenditure adjustments included in this package, no General Fund revenue adjustments are recommended. After funding the required reserve adjustments, a balance of $0.4 million remains for the Board of Supervisors to address additional one-time requirements.

Audit Adjustments

As a result of the FY 2016 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 the net increase of $0.68 million to the FY 2017 beginning General Fund balance mentioned above.

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 2016 Comprehensive Annual Financial Report (CAFR). Details of these audit adjustments are included in Attachment VI.

It should be noted that one County General Fund agency, the Department of Tax Administration (DTA), and one County fund, Fund 73030, OPEB (Other Post-Employment Benefits) Trust, require a supplemental appropriation based on audit adjustments to reflect proper accounting treatments. Expenditures in both DTA and OPEB were increased 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 16305 is included in Attachment V of the *FY 2017 Third Quarter Review*.

Summary of Administrative Adjustments

The following adjustments are made as part of the *FY 2017 Third Quarter Review*. It should be noted that the revenue adjustments included in the *FY 2017 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.

SPENDING ADJUSTMENTS DUE TO OPERATIONS $16.47 MILLION

Disbursement increases related to the following adjustments total $17.34 million. It should be noted that associated revenue increases of $0.87 million results in a total net impact to the General Fund of $16.47 million.

Office of Elections Funding		**NON-RECURRING**
Agency 15, Office of Elections	Expenditure	$200,000
	Net Cost	**$200,000**

Funding of $200,000 is required based on the significant voter turnout experienced during the November 2016 Presidential Election and the projected voter turnout for the June Primaries. During the Presidential Election, 563,729 or 82.5 percent of Fairfax County's active registered voters cast a ballot. In addition, voter turnout for the June Primaries is projected to be significantly higher than in recent years as there will likely be a Democratic and Republican primary for both Governor and Lieutenant Governor. In addition, there will also likely be a primary to determine the Republican candidate for Attorney General. The higher number of statewide offices being contested in both parties is anticipated to result in additional turnout.

Elevator and Escalator Inspection Contract Costs		**RECURRING**
	Revenue	$250,000
Agency 31, Land Development Services (LDS)	Expenditure	$250,000
	Net Cost	**$0**

Funding of $250,000 is required for contracted elevator and escalator inspection services. Under the Code of Virginia, commercial buildings are required to have elevators and escalators inspected twice a year and LDS uses contracted services to complete these inspections. The cost of elevator and escalator inspections is fully offset by license fees, thus there is no net impact to the General Fund as a commensurate revenue adjustment can be made.

As the County urbanizes and redevelops vertically, the number of elevators and escalators is growing. Since FY 2012, the number of elevators and escalators inspected has grown nearly 15 percent. Over the same time period, the cost charged by the contractor per elevator or escalator has increased by more than 19 percent. Between the growth in cost per inspection and the increased number of escalators and elevators inspected, the total cost of contracted inspections has increased 37 percent since FY 2012 and now exceeds the budget. An equivalent adjustment will be made to FY 2018 as part of the *FY 2017 Carryover Review*.

Office of the Independent Police Auditor		**NON-RECURRING**
Agency 42, Office of the Independent Police Auditor	Expenditure	$76,681
Agency 87, Unclassified Administrative Expenses	Expenditure	($98,308)
Agency 89, Employee Benefits	Expenditure	$21,627
	Net Cost	**$0**

At the September 20, 2016 meeting, the Board of Supervisors formally established an Office of the Independent Police Auditor, including 3/3.0 FTE positions, based on the recommendation of the Independent Oversight and Investigations Subcommittee of the Ad Hoc Police Practices Review Commission. This recommendation and others made by the Independent Oversight and Investigations Subcommittee are designed to help the County achieve its goals of maintaining a safe community, enhancing a culture of public trust, and ensuring that policies provide for the fair and timely resolution of police-involved incidents.

As a result, funding of $98,308 is transferred from the Reserve for Ad-Hoc Police Practices Review Commission Recommendations in Agency 87, Unclassified Administrative Expenses, to cover the partial-year (April 17, 2017 through June 30, 2017) costs associated with the Office of the Independent Police Auditor in FY 2017. Of this total, funding of $76,681 is transferred to Agency 42, Office of the Independent Police Auditor, for partial-year salary and operating costs and funding of $21,627 is transferred to Agency 89, Employee Benefits, for fringe benefits. It should be noted that recurring funding of $433,249 ($305,992 in Agency 42 and $127,257 in Fringe Benefits) was included in the FY 2018 Advertised Budget Plan to support the full-year cost of this office, leaving a recurring balance in the Ad Hoc Reserve of $1,973,787.

The Office of the Independent Police Auditor will be tasked with reviewing all relevant cases to determine the thoroughness, completeness, accuracy, objectivity, and impartiality. The Auditor will have the authority to request further investigation by the Internal Affairs Bureau (IAB), or other Police Department investigating authorities, if it is determined that an investigation is deficient or the IAB's conclusions are incorrect or unsupported by the evidence. If the Auditor disagrees with the results or conclusions of an IAB investigation, the Auditor shall advise the Fairfax County Chief of Police who shall resolve the disagreement and make the final decision. The Board of Supervisors shall be informed of the Auditor's disagreement and the ultimate resolution. The Chief's decision shall be made in a public statement that sets forth the basis for the Chief's resolution of the disagreement. This open process should enhance the public's trust and help the County to achieve its goal of maintaining a safe and caring community.

Personnel Services		**NON-RECURRING**
Agency 57, Department of Tax Administration	Expenditure	$200,000
	Net Cost	**$200,000**

Funding of $200,000 is required for the Department of Tax Administration to cover a projected shortfall in Personnel Services primarily based on actual salary requirements and leave payout costs. Due to the increased number of employees who have retired or will retire in FY 2017 and the associated leave payouts, there is limited ability to absorb significant unbudgeted expenses of this nature.

Children's Services Act (CSA)		**NON-RECURRING**
	Revenue	$361,882
Agency 67, Department of Family Services	Expenditure	$671,519
	Net Cost	**$309,637**

Funding of $671,519 is included to address an increase in the Children's Services Act (CSA) program requirements, primarily attributed to an increase in the number of youth served and changes in state policy that were effective January 1, 2017. The Children's Services Act is a mandated program and the County is required to provide services if the youth meets CSA program eligibility requirements and/or the youth receives services through a school Individualized Education Program (IEP). The number of youth served between FY 2015 and FY 2016 increased by 11.2 percent and, as of January 2017, the number of youth served has increased by another 4.5 percent. Additionally, changes in state policy, effective July 1, 2017, may increase the number of children served in residential treatment services. Children served in residential treatment services are the most costly in the CSA program, thus this change may have a significant impact on CSA expenditures. Staff will continue to monitor CSA costs; however, if the current trends continue, it is anticipated that additional funding will be needed in FY 2018 and beyond. The expenditure increase is partially offset by an increase in state funding of $361,882 for a net cost to the County of $309,637.

Replacement Capital Equipment Funding **NON-RECURRING**
Agency 87, Unclassified Administrative Expenses, Public Works

Expenditure	$255,000
Net Cost	**$255,000**

Funding of $255,000 is required for the purchase of replacement equipment, including 15 snow plows and 10 sand/salt spreaders. This equipment has outlived its useful life and is critical for snow removal and emergency operations. This is part of a five-year replacement program. The request was initially submitted as part of the FY 2018 Annual Budget, but is recommended to be funded as part of the *FY 2017 Third Quarter Review*.

Fairfax County 275th Anniversary Celebration **NON-RECURRING**
Agency 87, Unclassified Administrative Expenses, Non-Departmental

Expenditure	$40,000
Net Cost	**$40,000**

Funding of $40,000 is required to provide limited support for Fairfax County 275th Anniversary Celebration. During 2017, Fairfax County is hosting multiple events to celebrate the history of the County since its 1742 formation. The signature event will be free to the public on June 17, 2017, in the area surrounding the historic courthouse in central Fairfax. Funding will be targeted at the discretion of the Chairman of the Board of Supervisors who is working with the committee assembling these events.

Fire and Rescue Compensation/Organization Study **NON-RECURRING**
Agency 89, Employee Benefits

Expenditure	$200,000
Net Cost	**$200,000**

Funding of $200,000 is required for a compensation and organization study that is anticipated to be completed in FY 2018. The Department of Human Resources, with the assistance of an outside consultant, will provide analysis and develop recommendations regarding the compensation and organizational structure of the Fire and Rescue Department based on a comparison to competing jurisdictions. The results of this study will be used for discussion by the Board of Supervisors potentially impacting the FY 2019 budget process.

Reduction in Social Security Offset **NON-RECURRING**
Agency 89, Employee Benefits

Expenditure	$1,400,000
Net Cost	**$1,400,000**

Funding of $1,400,000 is required to fund a one-time increase in employer contributions to the retirement systems for the increased liability resulting from a reduction in the Social Security offset for service-connected disability retirees from 10 percent to 5 percent. This is the second year of a Board-directed 3-year plan at a total estimated cost of $4.3 million to enhance benefits for service-connected disability retirees by eliminating the Social Security offset in the Employees' and Uniformed Retirement systems.

Presidential Inauguration Costs **NON-RECURRING**

	Revenues	$255,887
Agency 89, Fringe Benefits	Expenditures	$92,694
Agency 90, Police Department	Expenditures	$163,193
	Net Cost	**$0**

Funding of $255,887, including $163,193 in the Police Department and $92,694 in Fringe Benefits, is required to cover reimbursable costs incurred by the Police Department associated with increased staffing associated with the 2017 Presidential Inauguration. This amount has been billed to the Metropolitan Police Department of the District of Columbia for overtime expenses, applicable regular salaries, and fringe benefits. It should be noted that an additional $10,649 in non-reimbursable inaugural expenses primarily associated with increased security requirements within Fairfax County will be absorbed by the Police Department.

Fair Labor Standards Act (FLSA) Ruling **NON-RECURRING**

Agency 89, Employee Benefits	Expenditure	$122,000
Agency 92, Fire and Rescue Department	Expenditure	$1,600,000
	Net Cost	**$1,722,000**

Funding of $1,722,000 is required to cover costs associated with a Fourth Circuit Court of Appeals ruling which stated Fire and Rescue Department uniformed employees at the rank of Captain I and Captain II do not fall within the executive or administrative exemptions for the FLSA overtime requirement because management is not their primary duty. Of this total, $1,600,000 is included in the Fire and Rescue Department and $122,000 is included for associated employee benefits. It should be noted that recurring funding has already been included in the FY 2018 Advertised Budget Plan to cover this cost.

Fire and Rescue Department Training **NON-RECURRING**

Agency 92, Fire and Rescue Department	Expenditure	$300,000
	Net Cost	**$300,000**

Funding of $300,000 is required to fund training and development requirements resulting from the Cultural Organizational Assessment Report which was released on February 15, 2017. The Fire Chief has been tasked with reviewing this assessment in detail, and working with department and County staff to develop and present an action plan to the Executive Review Committee by May 1, 2017. It is encouraged and expected that he will form work groups to address different issues, and to include appropriate stakeholders, including employee groups, diverse department members, and partners such as the Department of Human Resources (DHR) and the Office of Human Rights and Equity Programs (OHREP). Training and development opportunities in this context are expected to include areas such as harassment/bullying, avoiding discrimination, promoting the health, safety, and wellbeing of all employees, and numerous other related topics.

ADA and Other Capital Improvements **NON-RECURRING**

Fund 30010, General Construction and Contributions	General Fund Transfer	$2,573,458
	Net Cost	**$2,573,458**

The General Fund transfer to Fund 30010, General Construction and Contributions, is increased by $2,573,458 to support capital improvements throughout the County. Of this amount, funding of $1,278,458 will support the continuation of ADA (Americans with Disabilities Act) improvements at County-owned facilities and $800,000 at Park Authority facilities. The continuation of both County and Parks ADA improvements is required as part of the Department of Justice audit and identified in the settlement agreement signed by the Board of Supervisors on January 28, 2011. In addition, funding in the amount of $400,000 will support the completion of a developer default project at the Centreville Trinity Center. This project is estimated to cost $1,200,000, of which $800,000 has been received in developer bonds and $400,000 will be required from the County. The project includes roadway, sidewalk, utility relocation, and sewer capital improvements. Lastly, an amount of $95,000 is included to address immediate site safety and security issues at the Laurel Hill property, including cleaning-up of the Nike site, removing unsafe rubbish, preventing illegal dumping, demolishing dilapidated structures, and installing barrier fences or security devices on historic structures throughout the entire park area. As indicated in the FY 2018 Advertised Budget Plan, this funding in combination with the funding included in the FY 2018 Advertised Budget Plan, will address FY 2018 capital improvement requirements. Partial funding of one-time capital improvements as part of a quarterly review is consistent with actions taken by the Board of Supervisors in previous years.

Infrastructure Replacement and Upgrades at County Facilities		**NON-RECURRING**
Fund 30020, Infrastructure Replacement and Upgrades	General Fund Transfer	$5,544,047
	Net Cost	**$5,544,047**

The General Fund transfer to Fund 30020, Infrastructure Replacement and Upgrades, is increased by $5,544,047 for infrastructure replacement and upgrades at County facilities. Partial funding of one-time capital improvements as part of a quarterly review is consistent with actions taken by the Board of Supervisors in previous years. As indicated in the FY 2018 Advertised Budget Plan, this funding in combination with the funding included in the FY 2018 Advertised Budget Plan, will provide $7.37 million to address FY 2018 infrastructure replacement and upgrades project requirements.

Funding of $1,994,047 will support the replacement of the fire alarm system at the Adult Detention Center (West Wing) based on performance history, age, and difficulty in obtaining replacement parts and service. This replacement equipment supports the fire/smoke evacuation system and is required in order for the Adult Detention Center to meet state funding requirements. The system is tied to the building automation system and is critical to the safe operation of the facility. In addition, funding of $3,550,000 will support the HVAC system component replacements at the Government Center. Approximately six Air Handling Units are required to be replaced based on increased failure of the equipment, the difficulty in procuring obsolete parts, outdated technology and multiple water leaks. Failure to replace these units can lead to mold accumulation, increased energy usage and a disruption to the building.

Accrued Liability Reserve		**NON-RECURRING**
Fund 60000, County Insurance	General Fund Transfer	$3,726,000
	Net Cost	**$3,726,000**

The General Fund transfer to Fund 60000, County Insurance, is increased by $3,726,000 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 yet reported.

REDUCTIONS/SAVINGS IN COUNTY AGENCIES ($2.00 MILLION)

Employer Group Waiver Plan Savings **NON-RECURRING**

Fund 73030, OPEB Trust	General Fund Transfer	($1,500,000)
	Net Cost	**($1,500,000)**

The General Fund transfer to Fund 73030, OPEB Trust, is decreased by $1,500,000 to recognize reduced General Fund contribution requirements as a result of the implementation of an Employer Group Waiver Plan (EGWP) for Medicare retiree prescription drug coverage in January 2016. The EGWP is a standard Medicare Part D plan with enhanced coverage that allows the County to maximize prescription drug subsidies from the federal government and pharmaceutical manufacturers. This change has had a significant impact on the County's GASB 45 liability, as GASB accounting rules allow EGWP revenue to directly offset plan costs in the GASB valuation. It is anticipated that this reduced transfer level, when combined with contributions from other funds and the implicit subsidy contribution, will fully fund the FY 2017 Annual Required Contribution (ARC).

Incentive Reinvestment Initiative **NON-RECURRING**

Multiple Agencies	Expenditure	($504,875)
	Net Cost	**($504,875)**

A net decrease of $504,875 reflects the savings generated by agencies as the result of careful management of their expenditures during the fiscal year. The Incentive Reinvestment Initiative was established 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 were allowed to identify savings less than, but not more than, 1 percent of their FY 2017 Adopted personnel budget. Of the total amount identified, 50 percent will be 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.

INCREASE TO RESERVES $1.62 MILLION

Reserve Adjustments **NON-RECURRING**

Fund 10010, Revenue Stabilization	General Fund Transfer	$900,986
	Net Cost	**$900,986**

Funding of $900,986 is transferred from the General Fund to Fund 10010, Revenue Stabilization, as a result of the County's policy that any budgeted increase in General Fund disbursements is accompanied by a 10 percent commitment to reserves, with the increase divided between the Managed Reserve and the Revenue Stabilization Reserve. As a result of this adjustment, the $21,406,421 General Fund transfer included in the *FY 2017 Revised Budget Plan*, and a transfer of $13,076,233 from Fund 20000, Debt Service, the projected FY 2017 balance of the Revenue Stabilization Reserve is 4.35 percent of General Fund disbursements.

It should be noted that an additional $722,416 is allocated to the Managed Reserve as part of the *FY 2017 Third Quarter Review*, for a total General Fund increase to reserves of $1,623,402.

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 $0.40 million and an increase of $182.91 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 Fairfax County Public Schools are provided in the Schools' Recommended *FY 2017 Third Quarter Review* package (Attachment VII).

    - Supplemental Appropriation Resolution AS 17190

    - Amendment to Fiscal Planning Resolution AS 17901

    - Supplemental Appropriation Resolution AS 16305

- Board appropriation of Federal/State grant adjustments in Fund 50000, Federal/State Grants, totaling an increase of $19.92 million.

- Board approval of an adjustment to the Managed Reserve to reflect the adjustments included in the *FY 2017 Third Quarter Review.*