




County of Fairfax, Virginia

MEMORANDUM

Attachment B

DATE: March 24, 2020
TO: Board of Supervisors
FROM: Bryan J. Hill 
County Executive
SUBJECT: FY 2020 Third Quarter Review

Attached for your review and consideration is the *FY 2020 Third Quarter Review*, including Supplemental Appropriation Resolution AS 20190 and Amendment to the Fiscal Planning Resolution AS 20901. 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 of \$0.88 million over the Fall 2019 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 \$56.27 million. Expenditures in Non-Appropriated Other Funds decrease a total of \$0.56 million.
- Attachment IV - Fund 50000, Federal/State Grants, detailing grant appropriation adjustments for a total net increase of \$17.17 million.
- Attachment V - Supplemental Appropriation Resolution (SAR) AS 20190, AS 19302 for FY 2019 adjustments to reflect the final audit, and Amendment to the Fiscal Planning Resolution (FPR) AS 20901.
- Attachment VI - FY 2019 Audit Package including final adjustments to FY 2019 and the FY 2020 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 synopsis of the proposed changes. A public hearing on the proposed changes included in the *FY 2020 Third*

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Quarter Review has been scheduled for April 14, 15, and 16, 2020. On April 28, 2020, the Board will take action on this quarterly review prior to marking up the FY 2021 Advertised Budget Plan.

The following is a summary of General Fund adjustments included in the *FY 2020 Third Quarter Review*.

Summary of Third Quarter Adjustments

(in millions)

Previous Balances

Reserve for Potential One-Time Requirements	\$4,977,253	
FY 2019 Audit Adjustments	908	
FY 2020 Mid-Year Revenue Adjustments	0	
	\$4,978,161	
	<i>Net Available:</i>	\$4,978,161

FY 2020 Third Quarter Adjustments

Spending Requirements

Reserve for Coronavirus Pandemic (COVID-19)	(\$11,296,481)	
Positions Supporting Coronavirus Response	0	
March 2020 Primary Election	(229,000)	
November 2020 Presidential Election	(1,209,750)	
Fairfax Peak PPEA Fee Resources	0	
Land Development Services Workload Resources	0	
Laurel Hill Maintenance	0	
Adoption Subsidy Program	0	
Two Public Health Nurses for School Health Program	0	
Additional Community Services Block Grant Revenue	(129,811)	
Fairfax County Convention and Visitors Corporation (FCCVC)	(115,075)	
IT Projects	(4,190,000)	
IT Infrastructure	(3,284,798)	
	(\$20,454,915)	

Reductions/Savings

Fringe Benefit Savings	\$7,500,000	
Accrued Liability Reserve	2,563,000	
General Fund Transfer to OPEB Trust	6,000,000	
	\$16,063,000	

Required Reserve Adjustments

Revenue Stabilization Reserve	(\$293,123)	
Economic Opportunity Reserve	(293,123)	
	(\$586,246)	

Net Third Quarter Adjustments: **(\$4,978,161)**

Net Available: **\$0**

The *FY 2020 Third Quarter Review* reflects a number of adjustments necessary to fund FY 2020 spending and reserve requirements, including adjustments to address expenditure requirements and offset potential revenue loss related to the coronavirus pandemic (COVID-19). The coronavirus has rapidly escalated, with school closures and event cancellations, and consumers are being asked to stay home to combat the spread of the virus. Current economic turmoil makes revenue forecasting very difficult, and many of the County's

revenue categories are extremely sensitive to economic conditions. There is the potential that actual FY 2020 receipts may deviate significantly from the current revenue estimates. All revenue categories will be closely monitored with respect to collections and the effects of changes in economic activity, and any necessary FY 2020 and FY 2021 adjustments will be included in the Add-On Review package.

It should be noted that agencies have been requested to defer all non-critical expenditures for the remainder of FY 2020. This includes maintaining position vacancies and filling only those positions critical to continue to operate core County functions. These steps are necessary to maximize year-end flexibility to offset potential revenue losses.

As a result, all available flexibility identified as part of the FY 2020 Third Quarter Review – totaling \$11.3 million – has been set aside in a reserve to address the coronavirus pandemic, including necessary spending requirements as well as to offset potential revenue losses. Funding adjustments included in this package have been minimized and are funded utilizing one-time balances available as part of the FY 2020 Adopted Budget Plan and FY 2019 Carryover Review, results of the FY 2019 audit, and savings identified as part of this process. Several of the adjustments recommended in this package were noted in the FY 2021 Advertised Budget Plan presentation, including one-time investments in information technology projects which are consistent with actions taken in prior years and have been included as part of the Third Quarter package in order to provide flexibility and balance the FY 2021 budget. Additionally, no General Fund revenue adjustments, other than those associated with expenditure adjustments, are recommended.

It should be noted that 67 new positions are recommended as part of the *FY 2020 Third Quarter Review*. These include 5 positions for the Health Department to respond to the COVID-19 outbreak, 2 positions in the Health Department to support the school health program, and 4 positions to support workload requirements in Land Development Services (LDS). Following the guidance outlined above, these positions – particularly the LDS positions – may not be filled immediately and are included to allow the agency to react quickly as soon as economic conditions improve. The remaining 56 positions are the result of an ongoing review of limited-term positions (specifically, non-merit benefits-eligible positions) to determine if reclassification to merit positions is appropriate. Of the total, 31 positions have been identified in the Department of Neighborhood and Community Services, 16 positions have been identified in the Park Authority, 8 positions have been identified in the Department of Family Services, and 1 position has been identified in the Office of the County Attorney. Employees in these positions work together with those in merit positions, performing the same tasks, and often in the same job class. Funding adjustments are not required, as it is expected that employee hours worked will remain largely unchanged and the minimal projected fringe benefit impact can be absorbed within current appropriations.

Audit Adjustments

As a result of the FY 2019 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 \$908 to the FY 2020 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 2019 Comprehensive Annual Financial Report (CAFR). Details of these audit adjustments are included in Attachment VI.

It should be noted that no County funds require a supplemental appropriation based on audit adjustments

to reflect proper accounting treatments. One Schools Fund, Fund S71100, Public School OPEB Trust, recorded revenue and expenditure adjustments in accordance with Governmental Accounting Standards Board guidelines, which resulted in expenditures exceeding the FY 2019 appropriation. As a result, an appropriation resolution is required to account for adjustments in the correct fiscal period, consistent with GAAP requirements. Supplemental Appropriation Resolution AS 19302 is included in Attachment V of the *FY 2020 Third Quarter Review*.

Summary of Administrative Adjustments

The following General Fund adjustments are made as part of the *FY 2020 Third Quarter Review*. It should be noted that, although no revenue adjustments are included other than those associated with expenditure adjustments outlined below, a discussion of revenues is included 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 **\$20.45 MILLION**

Reserve for Coronavirus Pandemic (COVID-19)		NON-RECURRING
Agency 87, Unclassified Administrative Expenses	FY 2020 Expenditure	<u>\$11,296,481</u>
	Net Cost	\$11,296,481

Funding of \$11,296,481 is held in reserve in Agency 87, Unclassified Administrative Expenses, to support preparedness efforts for multiple agencies in response to the coronavirus pandemic (COVID-19). COVID-19 is a respiratory disease caused by a new virus that began in December 2019. The Coronavirus Reserve will be available to allow for the purchase of infection prevention supplies to limit the spread of the coronavirus disease in the community and support the purchase of additional software licenses and related solutions for increased telework capacity to ensure continuity of operations during the coronavirus outbreak. Additionally, these funds may be used to provide support for the County’s non-profit and the business communities. Lastly, these funds are intended to assist in offsetting potential revenue losses.

Positions Supporting Coronavirus Response and Ongoing Efforts in Emergency Preparedness and Response Staffing		RECURRING
Agency 71, Health Department	FY 2020 Expenditure	<u>\$0</u>
	Net Cost	\$0
Agency 71, Health Department	FY 2021 Expenditure	<u>\$635,827</u>
	Net Cost	\$635,827

To immediately address the COVID-19 outbreak, 5/5.0 FTE new positions are included for the Health Department’s Office of Emergency Preparedness and Response. However, once the Coronavirus threat has passed, these positions will be redeployed to expand the emergency training and exercise capabilities of the Health Department to meet the varied educational and experiential needs of its large audiences and the community. As the Health Department’s emergency preparedness, response, and recovery program has matured over the past decade, a widening gap has developed between existing preparedness resources and the increasing demands and changing dynamics of public health preparedness. This includes significant work necessary to engage faith communities and multicultural groups in public health preparedness

endeavors to improve community resilience and to ensure equity in emergency planning representation and response and recovery service delivery.

The Health Department can absorb these positions within the existing budget appropriation for the remainder of FY 2020. Baseline funding of \$635,857 will be added as part of the *FY 2021 Add-On Package* to address FY 2021 and beyond. The Health Department will immediately begin recruitment of these positions.

In addition to these five positions, the Health Department is using contracted Public Health Nurses and actively recruiting for four new benefits-eligible positions to assist with Coronavirus monitoring. The Health Department does not anticipate the Coronavirus monitoring will be an ongoing long-term need so merit positions are not necessary. The Health Department is absorbing the benefits-eligible positions within the existing budget appropriation for the remainder of FY 2020. Staff will monitor FY 2021 expenditures and recommend an adjustment as part of the *FY 2021 Third Quarter Review* should it be needed.

March 2020 Primary Election

Agency 15, Office of Elections

NON-RECURRING	
	FY 2020 Revenue (\$500,000)
	FY 2020 Expenditure <u>\$729,000</u>
	Net Cost \$229,000

One-time funding in the amount of \$729,000 is required to address a budget shortfall in the Office of Elections due to the March 2020 Primary Election. This expenditure increase is partially offset by \$500,000 in revenue anticipated from the Virginia Department of Elections as reimbursement for March 2020 Primary expenditures, for a net cost of \$229,000. Funding supports staff necessary for voting locations, the purchase of ballots and mailings, and supplies for polling and satellite locations.

November 2020 Presidential Election

Agency 15, Office of Elections

NON-RECURRING	
	FY 2020 Expenditure <u>\$1,209,750</u>
	Net Cost \$1,209,750

One-time funding in the amount of \$1,209,750 is necessary to support anticipated expenditures related to the November 2020 Presidential Election. Funding in the amount of \$906,000 supports staff necessary to process absentee ballots and staff voting locations, the purchase of ballots and registration notices, and supplies for polling and satellite locations. Funding in the amount of \$303,750 supports software development and upgrades, a third-party security assessment, and the buildout and upgrade of the ballot production and storage rooms necessary prior to the November 2020 Presidential Election.

Fairfax Peak PPEA Fee Resources

Agency 30, Department of Economic Initiatives

NON-RECURRING	
	FY 2020 Revenue \$50,000
	FY 2020 Expenditure <u>\$50,000</u>
	Net Cost \$0

Funding of \$50,000 is required to appropriate Unsolicited Public-Private Education Facilities and Infrastructures Act (PPEA) Fee revenue received in conjunction with the Fairfax Peak Project and address costs associated with evaluation of the proposal. There is no net funding impact to the General Fund.

Land Development Services Workload Resources

		RECURRING
	FY 2020 Revenue	\$684,290
Agency 31, Land Development Services	FY 2020 Expenditure	\$649,464
Agency 89, Employee Benefits	FY 2020 Expenditure	<u>\$34,826</u>
	Net Cost	\$0
	FY 2021 Revenue	\$1,197,206
Agency 31, Land Development Services	FY 2021 Expenditure	\$973,078
Agency 89, Employee Benefits	FY 2021 Expenditure	<u>\$224,128</u>
	Net Cost	\$0

Funding of \$684,290 is required to address development regulation workload requirements. Funding of \$264,290, including \$229,464 and 4/4.0 FTE positions in Agency 31, Land Development Services, and \$34,826 in Agency 89, Employee Benefits, is required to address building permit inspection workload, to perform quality control on infill plan submissions, to provide business integration and support for users of the new Planning Land Use System (PLUS) solution, to provide dedicated enforcement of the Chesapeake Bay Preservation Ordinance and support for the Chesapeake Bay Exceptions Review Committee. Additionally, funding of \$420,000 in Agency 31, Land Development Services, is required to support contracted elevator safety compliance. A commensurate revenue increase completely offsets expenditures based on strong collections to date, with no net funding impact to the General Fund. Staff is monitoring building permit and inspection activity, and associated revenues, closely for potential COVID-19 impacts.

Based on the recommended FY 2020 adjustments, funding of \$1,197,206, including \$973,078 in Agency 31, Land Development Services, and \$224,128 in Agency 89, Employee Benefits, will be required in FY 2021 to support the aforementioned activities on an ongoing basis. A commensurate revenue increase completely offsets these expenditures, with no net funding impact to the General Fund. This adjustment is subject to change as the longer-term impacts of the coronavirus pandemic are determined.

Laurel Hill Maintenance

		RECURRING
Agency 08, Facilities Management Department	FY 2020 Expenditure	\$300,800
Agency 51, Park Authority	FY 2020 Expenditure	<u>(\$300,800)</u>
	Net Cost	\$0

Funding of \$300,800 is transferred from Agency 51, Park Authority, to Agency 08, Facilities Management Department (FMD), associated with operational expenses related to the management of the Laurel Hill property. This funding will support continued security and maintenance efforts at the Workhouse Arts Foundation and FMD will be responsible for all related operational costs. This adjustment results in no impact to the General Fund. It should be noted that a commensurate adjustment for FY 2021 was included in the FY 2021 Advertised Budget Plan.

Adoption Subsidy Program

		RECURRING
Agency 67, Department of Family Services	FY 2020 Revenue	(\$350,000)
	FY 2020 Expenditure	<u>(\$350,000)</u>
	Net Cost	\$0

A decrease of \$350,000 to both revenues and expenditures is included for the Adoption Subsidy Program to more accurately align the program's budget with actual spending and aligns with the number of youth served in recent years. This adjustment is consistent with the adjustment made as part of the FY 2021

Advertised Budget Plan. The expenditure decrease is fully offset by a decrease in federal and state revenues for no net impact to the County.

Two Public Health Nurses for School Health Program		RECURRING
Agency 71, Health Department	FY 2020 Expenditure	<u>\$0</u>
	Net Cost	\$0

Fairfax County Public Schools (FCPS) funded 2/2.0 FTE nursing positions to address Public Health Nursing shortages in the school setting. Since the school health program is operated and managed by the Health Department, the 2/2.0 FTE new Public Health Nurse II positions are included in the Health Department budget; however, costs associated with the positions will be fully reimbursed by FCPS. Consistent with the increasing enrollment in the FCPS district, the number of students with health conditions continues to increase. However, the number of PHNs has not kept pace. Additionally, the increase in students with health conditions has led to the increased demand for student health assessments and health care planning. Both are necessary so that students are able to attend school, ready to learn.

Additional Community Services Block Grant Revenue		NON-RECURRING
Fund 10020, Consolidated Community Funding Pool	FY 2020 General Fund Transfer	<u>\$129,811</u>
	Net Cost	\$129,811

The General Fund transfer to Fund 10020, Consolidated Community Funding Pool (CCFP), is increased by \$129,811 as a result of additional one-time federal pass-through Community Services Block Grant (CSBG) revenue available from the state in FY 2020. CSBG revenue is received in the General Fund and transferred to Fund 10020, Consolidated Community Funding Pool; therefore, this adjustment is necessary in order to recognize the revenue in Fund 10020. Funding will be used for various CCFP projects in FY 2020 that meet CSBG eligibility criteria.

Fairfax County Convention and Visitors Corporation (FCCVC)		NON-RECURRING
Fund 10030, Contributory Fund	FY 2020 General Fund Transfer	<u>\$115,075</u>
	Net Cost	\$115,075

The General Fund transfer to Fund 10030, Contributory Fund, is increased by \$115,075 to reconcile FY 2019 payments to the Fairfax County Convention and Visitors Corporation. As a result of enabling legislation approved by the 2004 General Assembly, the County was granted the authority to impose an additional 2 percent Transient Occupancy tax beginning July 1, 2004. As required by the legislation, no less than 25 percent of the additional revenue is to be designated for and appropriated to a nonprofit Convention and Visitors Corporation located in Fairfax County. Each year, the County transfers 25 percent of the estimated revenue for the upcoming fiscal year from the 2 percent additional Transient Occupancy tax to the FCCVC. After the close of the fiscal year, a reconciliation between estimated and actual receipts received occurs. Based on the reconciliation, an additional \$115,075 is required to be remitted to FCCVC.

IT Projects		NON-RECURRING
Fund 10040, Information Technology	FY 2020 General Fund Transfer	<u>\$4,190,000</u>
	Net Cost	\$4,190,000

The General Fund transfer to Fund 10040, IT Projects, is increased by \$4,190,000 to support the funding of continued IT projects. As indicated in the FY 2021 Advertised Budget Plan, projects were anticipated to

be funded with one-time balances as part of the *FY 2020 Third Quarter Review*. While using one-time funds at Third Quarter and Carryover reviews to support County initiatives has been a consistent strategy employed in recent years due to limited funding, it will be necessary in future years to increase baseline funding for these investments.

IT Infrastructure		NON-RECURRING
Fund 60030, Technology Infrastructure	FY 2020 General Fund Transfer	<u>\$3,284,798</u>
	Net Cost	\$3,284,798

The General Fund transfer to Fund 60030, Technology Infrastructure, is increased by \$3,284,798 primarily to support the PC Replacement Program as a result of changes in Microsoft licensing, required funding related to audit findings for licenses required for the disaster recovery environment, and funding to support the modernization of the County’s telephone system.

REDUCTIONS/SAVINGS **(\$16.06 MILLION)**

Fringe Benefit Savings		RECURRING
Agency 89, Employee Benefits	FY 2020 Expenditure	<u>(\$7,500,000)</u>
	Net Cost	(\$7,500,000)

A decrease of \$7,500,000 is included to reflect fringe benefit savings, including savings from continued efforts to encourage plan migration out of the County’s high-cost health plan into other more cost-effective co-insurance and consumer-directed health plans. In addition to savings for the County, these movements also result in out-of-pocket savings to County employees. This adjustment is consistent with the adjustment made as part of the FY 2021 Advertised Budget Plan.

Accrued Liability Reserve		NON-RECURRING
Fund 60000, County Insurance	FY 2020 General Fund Transfer	<u>(\$2,563,000)</u>
	Net Cost	(\$2,563,000)

The General Fund transfer to Fund 60000, County Insurance, is decreased by \$2,563,000 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.

General Fund Transfer to OPEB Trust		RECURRING
Fund 73030, OPEB Trust	FY 2020 General Fund Transfer	<u>(\$6,000,000)</u>
	Net Cost	(\$6,000,000)

The General Fund transfer to Fund 73030, OPEB Trust, is reduced by \$6,000,000, from \$10,490,000 to \$4,490,000, based on a decrease in the Actuarially Determined Contribution (ADC) that is primarily the result of actual retiree claims experience. 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 2020 ADC. This adjustment is consistent with the adjustment made as part of the FY 2021 Advertised Budget Plan.

INCREASE TO RESERVES

\$0.59 MILLION

Reserve Adjustments

		NON-RECURRING
Fund 10010, Revenue Stabilization Fund	FY 2020 Expenditure	\$293,123
Fund 10015, Economic Opportunity Reserve	FY 2020 Expenditure	<u>\$293,123</u>
	Net Cost	\$586,246

Funding of \$293,123 is transferred from the General Fund to both Fund 10010, Revenue Stabilization, and Fund 10015, Economic Opportunity Reserve, for a total of \$586,246, based on revised FY 2020 Total General Fund Disbursement levels. This is consistent with the County’s reserve policy. The Revenue Stabilization and Managed Reserves are fully funded at their new target levels, and the Economic Opportunity Reserve is at 0.75 percent of its 1.0 percent target.

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 no General Fund Available Balance and a decrease of \$56.27 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 2020 Third Quarter Review* package (Attachment VII).
 - Supplemental Appropriation Resolution AS 20190
 - Amendment to Fiscal Planning Resolution AS 20901
 - Supplemental Appropriation Resolution AS 19302
- Board appropriation of Federal/State grant adjustments in Fund 50000, Federal/State Grants, totaling an increase of \$17.17 million.