County of Fairfax, Virginia

MEMORANDUM

Attachment B

DATE: November 16, 2020

TO: Board of Supervisors

FROM: Bryan J. Hill
County Executive

SUBJECT: FY 2021 Mid-Year Review

Attached for your review and consideration is the *FY 2021 Mid-Year Review*, including Supplemental Appropriation Resolution AS 21200 and Amendment to the Fiscal Planning Resolution AS 21902. The Mid-Year Review includes recommended funding adjustments and the following attachments for your information.

Attachment I -	A General Fund Statement reflecting adjustments included in the Mid-Year 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 of $14.99 million from the revenue estimates included in the *FY 2020 Carryover Review*.
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 $5.39 million. Expenditures in Non-Appropriated Other Funds increase a total of $0.12 million.
Attachment IV -	Fund 50000, Federal/State Grants, detailing grant appropriation adjustments for a total net increase of $10.41 million.
Attachment V -	Supplemental Appropriation Resolution (SAR) AS 21200 and Amendment to the Fiscal Planning Resolution (FPR) AS 21902.
Attachment VI -	FY 2020 Audit Package including final adjustments to FY 2020 and the FY 2021 impact.

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 2021 Mid-Year Review* will be scheduled for January 26, 2021, with Board action on the package taking place following the public hearing on the same day.

The County Executive recommended the addition of the Mid-Year Review as a supplement to the other quarterly budgetary reviews to provide a third opportunity to right-size the budget during the fiscal year

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based on the ever-changing impacts of the global COVID-19 pandemic. Revenue trends, the receipt of additional stimulus and grant funds, and expenditure requirements resulting from the trajectory of COVID-19 cases in the County all have significant impacts on the County's financial situation. County staff continue to provide the Board of Supervisors with monthly updates on the receipt and use of stimulus funds – with the last update on November 13. Additionally, staff is also prepared to submit updated *FY 2021 Mid-Year Review* recommendations, if necessary, to the Board in early January, prior to the scheduled Board Budget Committee meeting on January 12, 2021. It should be noted that the Schools Mid-Year Review is scheduled to be released on December 3, 2020 with action by the School Board scheduled for December 17, 2020. Schools Mid-Year adjustments will be noted in the update memo in early January or included in final motions when the Board of Supervisors takes action on the *FY 2021 Mid-Year Review* on January 26, 2021.

The following is a summary of General Fund adjustments included in the *FY 2021 Mid-Year Review*.

Summary of Mid-Year Adjustments

	General Fund	Coronavirus Relief Funds
Previous Balances		
FY 2020 Audit Adjustments	$4,773,025	($257,456)
	$4,773,025	**($257,456)**
Net Available:	***$4,773,025***	***($257,456)***
FY 2021 Mid-Year Adjustments		
Revenue/Expenditure Adjustments		
Revenue Reductions	($14,987,221)	--
Hypothermia Program Requirements	(1,698,609)	--
Savings in Neighborhood and Community Services	2,300,000	--
Reserve for Coronavirus Pandemic (COVID-19)	9,074,333	--
Adjustment to Carryforward of Coronavirus Relief Funds	--	($257,456)
	($5,311,497)	**($257,456)**
Required Reserve Adjustments		
Revenue Stabilization Reserve	$269,236	--
Managed Reserve	215,389	--
Economic Opportunity Reserve	53,847	--
	$538,472	**--**
Net Mid-Year Adjustments:	***($4,773,025)***	***($257,456)***
Net Available:	***$0***	***$0***

The *FY 2021 Mid-Year Review* includes a limited number of adjustments, with the most significant change being a recommended $14.99 million reduction in General Fund revenues to reflect current trends. A funding increase of $1.70 million is also included to support the County's hypothermia program. To offset revenue losses and increased expenditures, $2.30 million in savings are recognized in the Department of Neighborhood and Community Services and the General Fund Reserve for the Coronavirus Pandemic is reduced by $9.07 million. An increase to the FY 2021 General Fund beginning balance resulting from FY 2020 audit adjustments is also used to balance. An audit adjustment related to the County's Coronavirus Relief Funds (CRF) also results in a small adjustment to reconcile the carryforward of those funds. Additional details on all of these adjustments are included in this package.

Projecting revenues in the current economic climate has proven to be a difficult task. As the Board will recall, General Fund revenues in the FY 2021 Adopted Budget Plan were held at FY 2020 levels in order to remain conservative in the face of so many fiscal unknowns. Revenue reductions were included for Sales, Personal Property, Transient Occupancy, and BPOL (Business, Professional, and Occupational Licenses) Tax revenues, among others. These reductions were offset by a projected increase in Real Estate Taxes based on a 3.76 percent increase in the Real Estate Tax base. At the *FY 2020 Carryover Review*, the only revenue adjustment – other than smaller adjustments related to expenditures – was to reduce revenues by $10.77 million to reflect Board approve changes to late tax payment penalty charges.

As stated earlier, revenues are recommended to be reduced by $14.99 million as part of this package, although it should be noted that the County's conservative posture when building the FY 2021 budget has helped avoid more dramatic revenue reductions at Mid-Year. However, it is important to note that the County's annual fall revenue review typically identifies *additional* revenue at this point in the fiscal year. So, this reduction is more significant when viewed in light of that fact. Reductions are recommended in a number of categories, with the largest reduction – $22.5 million – in School-Age Child Care (SACC) revenues. This represents a 50 percent cut in anticipated revenues in this category as the SACC program was impacted by the closure of Fairfax County Public Schools in response to the pandemic. Although SACC has been temporarily replaced by the Supporting Return to School (SRS) program, this program is operating at a limited number of FCPS sites and is generating significantly less revenue. A one-time reduction of $2.30 million in the Department of Neighborhood and Community Services is also included in this package in recognition of savings resulting from changes to service delivery in several programs, including SACC. A reduction of $9.49 million is included for Transient Occupancy Tax (TOT) revenue as hotel revenues have declined almost 75 percent between March and August 2020 compared to the same period in 2019. Other categories recommended for reductions include General District Court fines, partially attributable to reduced case filings, and EMS billings, as the number of EMS transports has declined, as well as many other charges and fees as a result of program closures and lower levels of activity across the County.

Two revenue categories, however, are recommended to increase at Mid-Year, helping to partially offset the reductions noted above. By far the largest increase – $23.32 million – is for Sales Tax revenue. When the FY 2021 budget was adopted, Sales Tax revenue was projected to decrease 13.5 percent based on the anticipated impact of the pandemic on restaurant, amusement, and retail businesses. Through October, however, sales tax collections are down only 0.8 percent. Recordation taxes are recommended to be increased by $4.16 million based primarily on a strong residential real estate market and re-financings driven by record low mortgage rates.

More information on revenue adjustments is included in the Summary of General Fund Revenue (Attachment II) included later in this package. Staff in the Department of Management and Budget (DMB) will continue to monitor revenue trends to determine if additional adjustments are warranted as part of an update to the Mid-Year Review recommendations in early January or as part of the *FY 2021 Third Quarter Review*.

Only one programmatic expenditure increase is recommended as part of this package, for the County's hypothermia program, in recognition of the increased costs associated with providing that program within social distancing guidelines and increased non-profit support. Additionally, it should be noted that there are no position adjustments included in this package. Across the County, agencies continue to maintain position vacancies and fill only those positions critical to continue core operations. Uniformed public safety positions are being filled in order to meet minimum staffing levels and limit overtime expenses. Non-critical expenditures continue to be deferred in order to maximize flexibility within the fiscal year and at year-end. DMB staff are working closely with agencies to identify recurring baseline savings – primarily attributable to position vacancy savings – which can be captured in FY 2021 and built into the FY 2022 budget. It is anticipated that these reductions will be included as part of the *FY 2021 Third Quarter Review*, with savings utilized to fund critical expenditure requirements, to offset additional revenue reductions, or redirected to the General Fund pandemic reserve.

To offset the impact of revenue losses and increased expenditures for the hypothermia program, the General Fund pandemic reserve has been reduced by $9.07 million. After this adjustment, $15.95 million remains in the reserve to be used to offset additional revenue losses and fund pandemic response programs in 2021 (after the expiration of Coronavirus Relief Funds). As noted in the November 13 stimulus memo, unused balances in Coronavirus Relief Fund (CRF) allocations will be applied to eligible public safety and public health salaries (assuming that the expiration of CRF funds remains December 30, 2020) to ensure that no stimulus funds remain unutilized. As part of the *FY 2021 Third Quarter Review*, adjustments will likely be included to reduce agency appropriation levels to recognize these adjustments and redirect the savings to the General Fund pandemic reserve or offset revenue losses.

Audit Adjustments

As a result of the FY 2020 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 $4,773,025 to the FY 2021 beginning General Fund balance mentioned above.

In addition, several other adjustments to various funds are required, including Fairfax County Redevelopment Housing Authority Funds. All of these audit adjustments will be reflected in the FY 2020 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.

Summary of Administrative Adjustments

The following General Fund adjustments are made as part of the *FY 2021 Mid-Year Review*. A discussion of revenue adjustments 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.

Hypothermia Program		**NON-RECURRING**
Agency 38, Housing and Community Development	FY 2021 Expenditure	$1,698,609
	Net Cost	**$1,698,609**

One-time funding in the amount of $1,698,609 is required to support the Hypothermia Program in FY 2021. Of this amount, $1,232,520 is included for non-profit support, $432,832 for contracted security services, and $33,257 for cleaning.

In previous fiscal years, the Hypothermia Program was run primarily through volunteers and donated space, requiring minimal paid staff support. This year, as a result of COVID-19, new and larger spaces are necessary to maintain social distancing requirements, therefore greater program oversight is needed requiring increased non-profit support. Additionally, due to the new space requirements, contracted security services are required to help keep the sites safe as well as maintain COVID-19 protocols.

One-Time Savings in Personnel Services and Operating Expenses **NON-RECURRING**

Agency 79, Dept. of Neighborhood and Community Services FY 2021 Expenditure ($2,300,000)

Net Cost ($2,300,000)

A number of reductions totaling $2,300,000 are included in Personnel Services and Operating Expenses. These reductions are due to savings that were a result of operational changes during the pandemic, including FASTRAN shifting towards meal delivery services instead of normal transportation operations as well as reduced operations in therapeutic recreation and programs in community centers and senior centers; and savings realized in the School-Age Child Care (SACC) program since SACC is currently not operating due to Fairfax County Public Schools (FCPS) operating in a primarily virtual learning model. It should be noted that SACC has been temporarily replaced by the Supporting Return to School (SRS) program which is operating at a limited number of FCPS sites. Staff may need to modify the SRS program as FCPS returns more children to in-person learning. Since these savings are a direct result of a shift in service delivery and/or a decrease in service delivery, it is not anticipated that these savings will be realized once the pandemic is over and service delivery returns to normal.

Reserve for Coronavirus Pandemic (COVID-19) **NON-RECURRING**

Agency 87, Unclassified Administrative Expense FY 2021 Expenditure ($9,074,333)

Net Cost ($9,074,333)

A reduction of $9,074,333 in the General Fund Reserve for Coronavirus Pandemic in Agency 87, Unclassified Administrative Expenses, is required to help offset revenue losses as a result of COVID-19. The reserve was established as part of the *FY 2020 Third Quarter Review* to support preparedness efforts for multiple agencies in response to COVID-19, as well as to assist in offsetting potential revenue losses. With this adjustment, the balance of the reserve is $15,954,462. Staff will continue to provide updates to the Board of Supervisors regarding usage of the reserve for pandemic response efforts not eligible for funding through the Coronavirus Relief Fund (CRF) or eligible for reimbursement through FEMA. Currently, $1,375,000 has been allocated for response efforts, primarily to augment basic needs assistance to residents and to fund RISE grants for businesses not eligible for CRF funds.

CARES Coronavirus Relief Fund **NON-RECURRING**

Agency 87, Unclassified Administrative Expenses FY 2021 Expenditure ($257,456)

Net Cost ($257,456)

A reduction of $257,456 is required to update the carryover appropriation of stimulus fund balances in Agency 87, Unclassified Administrative Expenses – CARES Act Coronavirus Relief Fund (CRF). The County received over $200 million in stimulus funds from the CARES CRF to support the County's response to the pandemic. As of mid-September, FY 2020 expenditures totaling $55,444,951 had been identified to be charged against the CRF funds, and the appropriation of the balance of $144,790,534 was included in the *FY 2020 Carryover Review*. As a result of County staff reviewing FY 2020 expenses for CRF eligibility, an additional $0.26 million was shifted against the CRF funds. As a result, the carryforward amount is reduced by a commensurate amount. As this adjustment reflects only the carryforward treatment of FY 2020 balances, there is no net impact to the General Fund.

Reserve Adjustments		**NON-RECURRING**
Fund 10010, Revenue Stabilization Fund	FY 2021 Expenditure	($269,236)
Fund 10015, Economic Opportunity Reserve	FY 2021 Expenditure	($53,847)
	Net Cost	**($323,083)**

The transfers from the General Fund to Fund 10010, Revenue Stabilization, and Fund 10015, Economic Opportunity Reserve, are reduced by a total of $323,083 based on revised FY 2021 Total General Fund Disbursement levels. This is consistent with the County's reserve policy. The Revenue Stabilization Reserve, Managed Reserve and Economic Opportunity Reserve are fully funded at their new target levels.

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 an increase of $5.39 million in Appropriated Other Funds expenditures excluding Federal and State Grants, audit adjustments and Schools' funds.
  - Supplemental Appropriation Resolution AS 21200
  - Amendment to Fiscal Planning Resolution AS 21902
- Board appropriation of Federal/State grant adjustments in Fund 50000, Federal/State Grants, totaling an increase of $10.41 million.