County of Fairfax, Virginia

MEMORANDUM

Attachment B

DATE: December 6, 2021

TO: Board of Supervisors

FROM: Bryan J. Hill
County Executive

SUBJECT: FY 2022 Mid-Year Review

Attached for your review and consideration is the *FY 2022 Mid-Year Review*, including Supplemental Appropriation Resolution AS 22200 and Amendment to the Fiscal Planning Resolution AS 22902. 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 an increase of $17.78 million over the revenue estimates included in the *FY 2021 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 $12.89 million. Expenditures in Non-Appropriated Other Funds are unchanged.
Attachment IV -	Fund 50000, Federal/State Grants, detailing grant appropriation adjustments for a total net increase of $35.87 million.
Attachment V -	Supplemental Appropriation Resolution (SAR) AS 22200 and Amendment to the Fiscal Planning Resolution (FPR) AS 22902.
Attachment VI -	FY 2021 Audit Package including final adjustments to FY 2021 and the FY 2022 impact.
Attachment VII -	Fairfax County Public Schools (FCPS) Midyear 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 2022 Mid-Year Review* will be scheduled for January 25, 2022, with Board action on the package taking place following the public hearing on the same day.

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The County Executive recommended the addition of the Mid-Year Review in FY 2021 as a supplement to the other quarterly budgetary reviews to provide a third opportunity to right-size the budget during the fiscal year based on the ever-changing impacts of the global COVID-19 pandemic. This additional review has been continued in FY 2022 to allow adjustments based on revenue trends, the receipt of additional stimulus and grant funds, and expenditure requirements. It should be noted that the Schools Midyear Review was released on December 2, 2021, with action by the School Board scheduled for December 16, 2021. School Board action will be included in final motions when the Board of Supervisors takes action on the *FY 2022 Mid-Year Review* on January 25, 2022.

The following is a summary of General Fund adjustments included in the *FY 2022 Mid-Year Review*.

Summary of Mid-Year Adjustments

	General Fund	Coronavirus Relief Funds
Previous Balances		
FY 2021 Audit Adjustments	$4,892,892	$3,390,981
	$4,892,892	**$3,390,981**
Net Available:	***$4,892,892***	***$3,390,981***
FY 2022 Mid-Year Adjustments		
Revenue/Expenditure Adjustments		
Revenue Adjustments	$17,775,108	--
Warehouse Operations	(380,200)	--
Prevailing Wage Ordinance and PLA Project Development	(300,000)	--
Hypothermia Program	(942,297)	--
Office of the Police Civilian Review Panel	(166,582)	--
Additional Positions for Tax Relief Program	(273,133)	--
Response to Behavioral Health Crisis Calls – Co-Responder Model	0	--
Construction Escalation Reserve	(5,000,000)	--
Lake Anne Studies	(250,000)	--
Bicycle and Pedestrian Access	(5,000,000)	--
Accrued Liability Adjustment	(1,642,000)	--
Adjustment to Carryforward of Coronavirus Relief Funds	--	($3,390,981)
	$3,820,896	**($3,390,981)**
Required Reserve Adjustments		
Revenue Stabilization Reserve	($1,089,808)	--
Managed Reserve	(871,846)	--
Economic Opportunity Reserve	(217,960)	--
	($2,179,614)	**--**
Net Mid-Year Adjustments:	***$1,641,282***	***($3,390,981)***
Net Available:	***$6,534,174***	***$0***

The *FY 2022 Mid-Year Review* includes a limited number of adjustments, which are supported by a recommended $17.78 million increase in General Fund revenues to reflect current trends. An increase of $4.89 million to the FY 2022 General Fund beginning balance is also included as a result of FY 2021 audit adjustments. An audit adjustment related to the County's Coronavirus Relief Funds (CRF) also results in an adjustment to reconcile the carryforward of those funds. Additional details on all of these adjustments are included in this package.

As noted earlier, FY 2022 revenues are recommended to be increased by $17.78 million as part of this package. Increases are recommended in a number of categories, with the largest increase of $8.8 million in Personal Property Tax which has benefited from a higher-than-expected vehicle levy. Sales Tax revenue is recommended to increase by $8.7 million, based on robust year-to-date collections. BPOL (Business, Professional and Occupational License) Tax revenue is increased by $6.4 million due to strong economic growth in calendar year 2021. FY 2022 BPOL receipts are based on economic activity during CY 2021. Other categories recommended to be increased include the Transient Occupancy Tax, reflecting the hotel industry's gradual recovery from the pandemic, and Recordation Taxes and Deed of Conveyance Taxes which have continued to benefit from the strong real estate market and low mortgage interest rates.

Partially offsetting these revenue increases are recommended decreases in several revenue categories that are recovering more slowly than expected from depressed pandemic levels. The largest is a $4.1 million decrease in School-Age Child Care (SACC) fee revenue due to COVID-related capacity constraints and fee scale adjustments. Many other revenue categories such as Parking Violation fines and fees associated with other County services are still depressed compared to the pre-pandemic FY 2019 levels. More information on revenue adjustments is included in the Summary of General Fund Revenue (Attachment II) included later in this package.

A limited number of adjustments have been included in this package to address FY 2022 spending and reserve requirements. These adjustments are detailed in the Summary of Administrative Adjustments below, and include the following:

- As an initial step toward meeting the Board's directive to identify new funding for pedestrian and bicycle infrastructure, $5.00 million is included to expedite efforts to make one-time investments that will have long-term, meaningful impacts on accessibility and safety in the community.

- An increase of $5.00 million is included to support construction project cost escalation, including cost increases due to disruptions to global supply chains for most basic raw materials. Price increases have been experienced in many commodities and materials utilized in construction projects, such as lumber, steel, copper, plastics, and metal products.

- Based on an actuarial analysis that was performed by an outside actuary to estimate the ultimate value of losses for which the County is liable, an increase of $1.64 million is included for accrued liability adjustments. 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 risks such as including Workers Compensation claims that are self-insured.

- Due to the continued impacts of the COVID-19 pandemic, increased costs of $0.94 million are anticipated in the Hypothermia Program.

- One-time funding in the amount of $0.38 million is required to support the opening of Unit A of the Morrisette Warehouse, one of two warehouse units located at the Morrisette Warehouse Complex in West Springfield that will support the needs of multiple County agencies.

- Funding of $0.30 million will support the implementation of the new Prevailing Wage Ordinance and the Project Labor Agreement (PLA) pilot project that are expected to be approved by the Board of Supervisors in 2022.

- Funding of $0.25 million is included for visioning and master planning efforts to support the long-term sustainable development planning for Lake Anne.

It should be noted that this package includes the addition of 32 new positions. Of these, 26 will support Phase 1 of the Co-Responder Model for responding to and de-escalating behavioral health crises, as discussed at the September 28, 2021, Public Safety Committee Meeting. These positions will initially be supported by American Recovery Plan Act (ARPA) funding in FY 2022, with full-year funding required in FY 2023. An increase of 5 positions in the Department of Tax Administration will support the anticipated expansion of the Tax Relief Program, which is expected to result in an increase of approximately 2,500 applications per year. Finally, 1 position is included to support the Office of the Police Civilian Review Panel, which is established as a new agency as part of this package.

As a result of these adjustments, a Mid-Year balance of $6.53 million is available for Board consideration.

Audit Adjustments

As a result of the FY 2021 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 $4,892,892 to the FY 2022 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 2021 Annual Comprehensive Financial Report (ACFR). 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 2022 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.

Warehouse Operations		**NON-RECURRING**
Agency 12, Department of Procurement and Material Management	FY 2022 Expenditure	$380,200
	Net Cost	**$380,200**

One-time funding in the amount of $380,200 is required to support the opening of Unit A of the Morrisette Warehouse in FY 2022. Of this amount, $270,500 is for storage and material handling equipment, $100,000 is for IT and security upgrades, and $9,700 is for safety and shop preparedness supplies.

The County recently entered into a lease agreement to acquire two warehouse units located at the Morrisette Warehouse Complex in West Springfield. The warehouse lease provides 41,881 square feet of storage and will support the needs of multiple County agencies.

Prevailing Wage Ordinance and PLA Project Development		**NON-RECURRING**
Agency 26, Capital Facilities	FY 2022 Expenditure	$300,000
	Net Cost	**$300,000**

Funding of $300,000 is included in Agency 26, Capital Facilities, to hire a consultant to support the implementation of the new Prevailing Wage Ordinance and the Project Labor Agreement (PLA) pilot project that are expected to be approved by the Board of Supervisors in 2022. The Ordinance is expected to impact all County construction projects over $250,000 and will require additional contract monitoring to ensure prevailing wage determinations made by the Virginia Department of Labor and Industry are adhered to. The consultant will help establish the program, develop compliance criteria, and assist in required contract language updates. Similar support from the consultant is also required to develop the PLA pilot project program and contract terms.

Hypothermia Program		**NON-RECURRING**
Agency 38, Housing and Community Development	FY 2022 Expenditure	$942,297
	Net Cost	**$942,297**

One-time funding in the amount of $942,297 is required to support the Hypothermia Program in FY 2022. Of this amount, $822,297 is included for non-profit support and $120,000 is included for cleaning and laundry services.

In previous fiscal years, the Hypothermia Program was run primarily through volunteers and donated space, requiring minimal paid staff support. As a result of the continued impacts of the COVID-19 pandemic, new and larger spaces are necessary to maintain social distancing requirements. Therefore, greater program oversight is needed requiring increased non-profit provider support.

Office of the Police Civilian Review Panel		**RECURRING**
Agency 43, Office of the Police Civilian Review Panel	FY 2022 Expenditure	$118,324
Agency 89, Employee Benefits	FY 2022 Expenditure	$48,258
	Net Cost	**$166,582**
Agency 43, Office of the Police Civilian Review Panel	FY 2023 Expenditure	$236,648
Agency 89, Employee Benefits	FY 2023 Expenditure	$96,516
	Net Cost	**$333,164**

Funding of $166,582, including $118,324 and 1/1.0 FTE new position in Agency 43, Office of the Police Civilian Review Panel, and $48,258 in Agency 89, Employee Benefits, is required to support the Executive Director of the Panel. This funding supports partial-year salary for the already established Executive Director position as well as a newly requested support position and operating costs for the new agency. The Office of the Police Civilian Review Panel was established based on the recommendation made by the Police Civilian Review Panel, Independent Police Auditor, and the Board of Supervisors to maintain impartiality of review and oversight.

The nine-member Fairfax County Police Civilian Review Panel was established by the Board of Supervisors on December 6, 2016, in response to recommendations from the Ad-Hoc Police Practices Review Commission. The Panel reviews completed Fairfax County Police Department investigations into complaints containing allegations of abuse of authority or serious misconduct to ensure accuracy, completeness, thoroughness, objectivity, and impartiality. The Panel is appointed by, and reports directly to, the Board of Supervisors and is governed both by the bylaws approved by the Board of Supervisors and a code of ethics adopted by the Panel.

Based on the recommended FY 2022 adjustments, funding of $333,164, including $236,648 in Agency 43, Office of the Police Civilian Review Panel, and $96,516 in Agency 89, Employee Benefits, will be required in FY 2023 to support the full-year costs. Any additional costs will be included in a future budget process.

Additional Positions for Tax Relief Program		**RECURRING**
Agency 57, Tax Administration	FY 2022 Expenditure	$180,048
Agency 89, Employee Benefits	FY 2022 Expenditure	$93,085
	Net Cost	**$273,133**
	FY 2023 Expenditure	$360,096
	FY 2023 Expenditure	$186,170
	Net Cost	**$546,266**

Funding of $273,133, including $180,048 and 5/5.0 FTE new positions in Agency 57, Tax Administration, and $93,085 in Agency 89, Employee Benefits, is required to address workload requirements associated with an expansion of the Tax Relief Program. The funding supports partial-year salary and operating costs for the new positions.

The Board of Supervisors is expected to pass an ordinance modifying the requirements for tax relief and adding a deferral option. The initial changes are expected to be effective as of January 1, 2022. As a result, the annual volume of applications is expected to increase by approximately 2,500. The additional staff includes a Management Analyst II (S24) to coordinate the increased workload and also manage high growth in the disabled veterans' tax relief program; a Communication Specialist II (S24) to support DTA's communication outreach for Tax Relief and to coordinate other departmental communication needs, and three Tax Specialist I (S20) positions to cover the additional workload.

Based on the recommended FY 2022 adjustments, funding of $546,266, including $360,096 in Agency 57, Tax Administration, and $186,170 in Agency 89, Employee Benefits, will be used to support the full-year costs in FY 2023.

Response to Behavioral Health Crisis Calls - Co-Responder Model		**RECURRING**
Agency 90, Police Department	FY 2022 Expenditure	$0
Fund 40040, Fairfax-Falls Church Community Services Board	FY 2022 General Fund Transfer	$0
Agency 89, Employee Benefits	FY 2022 Expenditure	$0
	Net Cost	**$0**
Agency 90, Police Department	FY 2023 Expenditure	$1,219,129
Fund 40040, Fairfax-Falls Church Community Services Board	FY 2023 General Fund Transfer	$1,458,314
Agency 89, Employee Benefits	FY 2023 Expenditure	$1,098,578
	Net Cost	**$3,776,021**

An increase of 26/26.0 FTE new positions is required to support Phase 1 of the Co-Responder Model, including 9/9.0 FTE positions in Agency 90, Police Department (PD), and 17/17.0 FTE positions in Fund 40040, Fairfax-Falls Church Community Services Board (CSB). The program will be supported by American Recovery Plan Act (ARPA) funding in FY 2022, and full-year funding of $3,776,021 will be required in FY 2023.

In the spring of 2021, the CSB, PD and the Department of Public Safety Communications (DPSC) collaborated to implement an exploratory "micropilot" to learn about logistical and operational considerations for launching a primary response Co-Responder program in Fairfax County. During this micropilot, a CSB Crisis Intervention Specialist and Crisis Intervention Team (CIT) trained police officer were paired to respond to 911 calls that were related to behavioral health issues. In addition to the co-responder team, a CSB Crisis Intervention Specialist was deployed to DPSC to serve as a "Behavioral Health Liaison" (BHL). The BHL provided DPSC staff with behavioral health resources and researched calls to assist the Co-Response team.

This initial effort demonstrated that this approach was effective in responding to and de-escalating behavioral health crises. Approximately half of the calls were de-escalated in the field, and 40 percent were diverted from potential arrest or hospitalization. Most responses involved mental health and/or substance related issues, and a few responses involved domestic dispute, cognitive impairment, or intellectual/developmental disability. Sixty-three percent of responses were in residential locations and the remaining calls were in commercial or public spaces. While most responses involved adults, 10 percent were related to youth. The Fire and Rescue Department (FRD) was dispatched separately, as needed, and could also request the team as needed. Based on the success of the program, staff began exploring ways to resource a Co-Responder program beyond the initial micropilot.

Based on discussion at the September 28, 2021, Public Safety Committee Meeting, the County will move forward with establishing a permanent response model. Phase 1 of the Co-Responder model, to be implemented in January of FY 2022, will initially be funded using ARPA dollars. Phase I will allow Co-Responder response 7 days a week for 14-16 hours of coverage per day. Future phases are currently being explored in order to provide 24-hour coverage.

Construction Escalation Reserve		**NON-RECURRING**
Fund 30010, General Construction and Contributions	FY 2022 General Fund Transfer	$2,500,000
Fund 30070, Public Safety Construction	FY 2022 General Fund Transfer	$2,500,000
	Net Cost	**$5,000,000**

The General Fund transfers to Fund 30010, General Construction and Contributions, and Fund 30070, Public Safety Construction, are increased $2,500,000 each for a total of $5,000,000 to support current experience with construction project cost escalation. Project costs have been increasing recently due to disruptions to global supply chains for most basic raw materials. Price increases have been experienced in many commodities and materials utilized in construction projects, such as lumber, steel, copper, plastics, and metal products. These increased material costs and delays in receiving supplies have also resulted in contractor backlogs. Funding may also be required to adjust previously approved budgets to achieve the Board of Supervisors' updated requirements of the Sustainable Development Policy and the Operational Energy Strategy. In addition, there may be impacts associated with the potential passage of a local ordinance requiring payment of prevailing wages on projects over $250,000.

Lake Anne Studies		**NON-RECURRING**
Fund 30010, General Construction and Contributions	FY 2022 General Fund Transfer	$250,000
	Net Cost	**$250,000**

The General Fund transfer to Fund 30010, General Construction and Contributions, is increased by $250,000 to support studies associated with potential development for Lake Anne. Funding was previously approved to support a structural engineer to survey Lake Anne Village Center and complete an assessment of condominium buildings. Additional funding is required for the visioning and master planning efforts to support the long-term sustainable development planning for Lake Anne.

Bicycle and Pedestrian Access		**NON-RECURRING**
Fund 30050, Transportation Improvements	FY 2022 General Fund Transfer	$5,000,000
	Net Cost	**$5,000,000**

The General Fund transfer to Fund 30050, Transportation Improvements, is increased by $5,000,000 to begin to support additional bicycle and pedestrian access throughout the County. The Board of Supervisors has consistently emphasized the importance of providing safe access for pedestrians and bicycles, especially near schools, parks, activity centers, transit station areas, and revitalization areas. During the COVID-19 pandemic, pedestrian and bicycle activity increased throughout the County and this increased usage highlighted the inadequacies of the existing infrastructure. This funding will help expedite efforts to make one-time investments in pedestrian and bicycle infrastructure that will have long-term, meaningful impacts on accessibility and safety in the community. Staff is currently working to compile a list of previously identified and currently unfunded pedestrian and bicycle projects, recommend criteria for immediate evaluation of projects, and identify additional potential funding options for implementation. Per the Board's directive, new funding for this program is targeted at $100 million over approximately six years through FY 2027. This initial funding will provide a "down payment" towards meeting the County's active transportation needs.

Accrued Liability Adjustment		**NON-RECURRING**
Fund 60000, County Insurance	FY 2022 General Fund Transfer	$1,642,000
	Net Cost	**$1,642,000**

The General Fund transfer to Fund 60000, County Insurance, is increased by $1,642,000 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.

CARES Coronavirus Relief Fund		**NON-RECURRING**
Agency 87, Unclassified Administrative Expenses	FY 2022 Expenditure	$3,390,981
	Net Cost	**$3,390,981**

An increase of $3,390,981 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 October, FY 2022 expenditures totaling $8,549,550 million had been identified to be charged against the CRF funds, and the appropriation of the balance of $10,818,727 was included in the *FY 2021 Carryover Review*. As a result of County staff reviewing FY 2021 expenses to maximize all available federal funding streams, an additional $3.4 million was shifted from the CRF funds. As a result, the carryforward amount is increased by a commensurate amount. As this adjustment reflects only the carryforward treatment of FY 2021 balances, there is no net impact to the General Fund.

Reserve Adjustments		**NON-RECURRING**
Fund 10010, Revenue Stabilization	FY 2022 General Fund Transfer	$1,089,808
Fund 10015, Economic Opportunity Reserve	FY 2022 General Fund Transfer	$217,960
	Net Cost	**$1,307,768**

The transfers from the General Fund to Fund 10010, Revenue Stabilization, and Fund 10015, Economic Opportunity Reserve, are increased by a total of $1,307,768 based on revised FY 2022 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 a General Fund Available Balance of $6.53 million and an increase of $12.89 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 2022 Mid-Year Review* package (Attachment VII).
    - Supplemental Appropriation Resolution AS 22200
    - Amendment to Fiscal Planning Resolution AS 22902
- Board appropriation of Federal/State grant adjustments in Fund 50000, Federal/State Grants, totaling an increase of $35.87 million.