

**ATTACHMENT B:**

**MEMO AND ATTACHMENTS I – VII  
TRANSMITTING THE COUNTY'S  
FY 2012 CARRYOVER REVIEW  
WITH APPROPRIATE RESOLUTIONS**



**Attachment B**

County of Fairfax, Virginia

**MEMORANDUM**

**DATE:** July 31, 2012

**TO:** BOARD OF SUPERVISORS

**FROM:** Edward L. Long Jr.  
County Executive

**SUBJECT:** FY 2012 Actual Revenues, Expenditures and Carryover Supplemental Appropriation

Attached for your review and consideration is the FY 2012 Carryover Package, including Supplemental Appropriation Resolution AS 12146, AS 13022 and Amendment to the Fiscal Planning Resolution AS 13900. The document includes the following attachments for your information:

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|----------------|--|
| Attachment I   | A General Fund Statement including revenue and expenditures, as well as a summary reflecting expenditures by fund  |
| Attachment II  | A summary of General Fund receipt variances by category  |
| Attachment III | A summary of significant General Fund expenditure variances by agency  |
| Attachment IV  | An explanation of General Fund Unencumbered Carryover  |
| Attachment V   | A detailed description of new and unexpended federal/state grants, as well as anticipated revenues associated with those grants that are recommended for appropriation in FY 2013  |
| Attachment VI  | A detailed description of significant changes in Other Funds   |
| Attachment VII | Supplemental Appropriation Resolution AS 12146, AS 13022 and Fiscal Planning Resolution AS 13900 for FY 2013 providing for the appropriation of outstanding encumbrances and unspent balances for federal/state grants, as well as prior commitments of the Board of Supervisors, such as unspent capital project balances |

As the Board is aware, the Code of Virginia requires that the Board of Supervisors hold a public hearing prior to the adoption of amendments to the current year budget when potential appropriation increases are greater than 1.0 percent of expenditures. In addition, the Code requires that the Board advertise a synopsis of the proposed changes. Since the *FY 2012 Carryover Review* recommends changes to the FY 2013 Adopted Budget Plan over this limit, Board action on the Carryover Review has been scheduled at the same time as the public hearing on September 11, 2012.

**FY 2012 End of Year Summary**

A brief summary of the General Fund follows, comparing unaudited actual receipts and disbursements as of June 30, 2012 to the final estimates of the *FY 2012 Revised Budget Plan*.

**GENERAL FUND STATEMENT AND BALANCE AVAILABLE**  
(in millions of dollars)

	<b>FY 2012 Revised <u>Budget Plan</u></b>	<b>FY 2012 <u>Actual</u></b>	<b><u>Variance</u></b>
Beginning Balance, July 1	\$236.24	\$236.24	\$0.00
Receipts and Transfers In	\$3,361.42	\$3,384.55	\$23.13
<b>Total Available</b>	<b>\$3,597.66</b>	<b>\$3,620.79</b>	<b>\$23.13</b>
Expenditures	\$1,295.93	\$1,241.76	(\$54.17)
Transfers Out	\$2,171.10	\$2,171.10	\$0.00
<b>Total Disbursements</b>	<b>\$3,467.03</b>	<b>\$3,412.86</b>	<b>(\$54.17)</b>
<b>Ending Balance, June 30</b>	<b>\$130.62</b>	<b>\$207.93</b>	<b>\$77.30</b>
Managed Reserve	\$69.34	\$69.34	\$0.00
Balance used in FY 2013 Adopted	\$61.28	\$62.78	\$1.50
<b>Balance</b>	<b>\$0.00</b>	<b>\$75.80</b>	<b>\$75.80</b>
<b>FY 2012 Commitments (\$35.17)</b>			
Outstanding Encumbered Obligations			(\$28.44)
Outstanding Unencumbered Commitments			(\$6.04)
Managed Reserve Adjustment			(\$0.69)
<b>Balance after FY 2012 Commitments</b>			<b>\$40.63</b>
<b>FY 2013 Adjustments (\$27.15)</b>			
Revenue Stabilization			(\$1.68)
Administrative Adjustments			(\$24.93)
Managed Reserve Adjustment			(\$0.54)
<b>Balance after FY 2013 Adjustments</b>			<b>\$13.48</b>
Federal/State Reserve			(\$7.00)
Litigation Reserve			(\$5.00)
Transportation Reserve			(\$0.74)
Reserve for FY 2014			(\$0.74)
<b>Net Balance</b>			<b>\$0.00</b>

NOTE: Carryover is defined as the re-appropriation in FY 2013 of previously approved items such as outstanding encumbered obligations, unencumbered commitments and unexpended FY 2012 capital project and grant balances.

### ***Year-end Summary***

FY 2012 General Fund Revenues and Transfers In were \$3.38 billion, an increase of only \$23.13 million, or 0.69 percent, over the *FY 2012 Revised Budget Plan* estimate. Much of this increase occurred in the latter portion of the fiscal year and is primarily the result of increases in Personal Property Tax receipts, Other Local Taxes including Bank Franchise Taxes and Local Sales Taxes, Charges for Services, and Revenue from the Commonwealth and Federal Governments, partially offset by a decrease in Revenue from the Use of Money and Property. More detail on FY 2012 Revenue Variances may be found in Attachment II.

In addition, County agencies realized modest expenditure balances as a result of close management of agency spending. Expenditures were below *FY 2012 Revised Budget Plan* projections by \$54.17 million. More detailed information on FY 2012 General Fund Expenditure Variances is included in Attachment III. Encumbered carryover includes legally obligated funding for items/services for which final financial processing has not been completed. Unencumbered carryover includes funding for items previously approved by the Board but not purchased based on timing or other issues. It should also be noted that \$1.5 million of this variance was assumed to be available in the Child Care Assistance and Referral Program Reserve and anticipated in the beginning balance as part of the adoption of the FY 2013 budget. Netting out outstanding encumbrances and unencumbered commitments, as well as the required Managed Reserve adjustment totaling \$35.17 million, and the \$1.50 million assumed in the FY 2013 beginning balance, the FY 2012 available disbursement balance is \$17.50 million.

As a result, the combined revenue and disbursement balance, after funding obligations and Managed Reserve adjustments is \$40.63 million. It should be noted that this balance is two-thirds the size of the Carryover balance last year.

### ***Carryover Actions***

Allocation of this balance is important given a number of critical FY 2013 funding requirements. I believe the recommendations in this package reflect the appropriate allocation of funding and include \$27.15 million for required administrative and corresponding managed reserve adjustments. It should be noted that because of very low investment earnings and the projected FY 2013 disbursements, an increase in the Revenue Stabilization Reserve is also required. As the Board is aware, the Revenue Stabilization Reserve is set at 3 percent of General Fund disbursements. Based on very modest increases in County spending over the past several years, the interest earnings from the Fund have been enough to support increases in the reserve necessitated by actual disbursement levels. Based on the current investment market, these investment proceeds are not anticipated to be large enough to fund the increased reserve and as such, an increase of \$1.68 million is necessary to fully fund the reserve to the required level. As a result of this and other administrative adjustments, a Carryover balance of \$13.48 million is available.

Details of the adjustments included in the *FY 2012 Carryover Review* which have a General Fund impact are noted below in the Administrative Adjustments section of this letter. In summary, the critical requirements funded at Carryover are largely one-time and include capital needs, such as funding to address Americans with Disabilities Act improvements identified during the Department of Justice audit. In addition, several necessary technology projects are funded including funding to support final milestone payments related to the Fairfax County Unified System (FOCUS) implementation contract award, and to provide funding (via alternative means) for the development and implementation of key project functionality including support training and ancillary obligations. There are also a number of recurring requirements which need to be addressed, such as funding rising health insurance costs which will be a continuing challenge for us in upcoming budget years and which I discuss in more detail below.

### ***Community Services Board***

One of the largest recurring Carryover administrative adjustments includes the transfer of \$3.5 million to the Fairfax-Falls Church Community Services Board (CSB) based on staff review of fringe benefit requirements for the CSB. The countywide planning factors for fringe benefits have increased

### ***FY 2012 Carryover Review***

significantly since FY 2010, primarily due to continuing increases in retirement and health insurance costs. The CSB's actual fringe benefit costs began to exceed the budgeted fringe benefit rates in FY 2011 based on filled positions at that time, but the department was able to find flexibility through cost savings in other areas to cover the fringe benefit shortfall. In FY 2012, the CSB had an actual fringe benefit shortfall of \$3.0 million, which was covered in part by a \$4.0 million adjustment that was made as part of the *FY 2012 Third Quarter Review*. This increase of \$3.5 million in the General Fund transfer will cover the CSB's projected shortfall in fringe benefit requirements in FY 2013. I have not made any other adjustments for the CSB pending the review by the Board of Supervisors of the Human Services Council recommendations presented on July 24, 2012. I anticipate that any additional adjustments to be made by the Board to the CSB budget would be made from the "Reserve to Address State / Federal Reductions" established during the FY 2013 Adopted process and containing \$4,178,357.

It should also be noted that as a result of the FY 2012 actual year-end shortfall for the CSB, the General Fund transfer to Fund 40040, Fairfax-Falls Church Community Services Board is increased by \$2,601,339. The CSB was provided a \$4.0 million increase as part of the *FY 2012 Third Quarter Review*, and several cost savings actions were implemented by the CSB including the imposition of a hiring freeze, elimination of all but essential overtime, and creation of wait lists for specific services. In spite of the funding adjustment and actions taken, the unanticipated significant increase in service demands primarily in the Employment and Day Support Services and Infant and Toddler Connection programs, coupled with lower than anticipated revenues, resulted in a \$2,601,339 year-end shortfall for the CSB. As a result of these two adjustments, the FY 2013 transfer to CSB is increased by \$6.1 million.

### ***Critical Reserves***

A total of approximately \$12 million has been included to establish and fund two critical reserves. First, given the uncertainty surrounding federal budget decisions, a "Reserve for Pending Federal Sequestration Cuts" of \$7 million is included. While direct Revenue from the Federal Government is only 1 percent of General Fund revenue, there are also significant federal grant dollars in the County's budget and our residents receive important services that are funded by additional federal pass through dollars, particularly in the human services arena. Staff is working on identifying potential impacts on the County based on a number of scenarios which may result from federal budget reductions and information regarding these impacts will be provided to the Board as available. In the meantime I think it is critical that we have some amount, even if as small as \$7 million to give the Board the ability to address changes during FY 2013 that could dramatically impact services. I would also propose that any balance in the "Reserve to Address State / Federal Reductions" after the Board makes decisions about the CSB be added to this new Reserve. In addition, given the potential refunds from a number of significant tax appeals that we are currently addressing, I recommend the establishment of a "Litigation Reserve" of \$5 million. The Board has been briefed in Executive Session about the status of a number of these and staff will continue to monitor these and bring updates to the Board as new information is available.

### ***Remaining Balance***

As a result of the establishment of these two reserves, the remaining balance available for the Board is \$1.48 million. Consistent with Board Budget Guidelines, one-half of this balance, or \$0.74 million, is reserved for transportation projects. In addition, I recommend the remaining balance of \$0.74 be set aside for use in FY 2014 budget development. Balances from the Federal budget reserve noted above which are available once final federal adjustments are known is recommended to be added to the set-aside for the FY 2014 budget.

### ***FY 2014 Budget Development***

This FY 2014 set-aside is very small compared to the flexibility we have had in prior years at Carryover, particularly in light of our current forecast for FY 2014 of an approximate \$130 million shortfall included in the FY 2013 Adopted Budget Plan. As the Board is aware, national and local economists are all projecting a weak and inconsistent recovery and many are pessimistic about sustainable improvement in the economy. Local economic indicators for the first six months of calendar year 2012 point to much

### ***FY 2012 Carryover Review***

slower recovery in the County's largest revenue categories and as a result we believe that FY 2014 revenue growth will be less than FY 2013 projected level of 3.56 percent. As an example, preliminary estimates for real estate values for FY 2014 reflect a more modest increase than the growth we saw in FY 2013, especially in commercial properties. The Board will be provided with regular updates on the status of revenue projections throughout the year both for FY 2013 and FY 2014. These updates will take the form of memos or status briefings from me as appropriate. It is very easy for changes in the recovery to negatively impact our revenues and very challenging for our models to anticipate what will happen next. It is also important to recognize that, while the County continues to be fortunate that revenues came in slightly higher than anticipated, a 0.69 percent variation between FY 2012 revenue estimates and revenue actually realized is to close for a budget of our size.

As the Board is aware, I am implementing a multi-year budget process to provide more insight into how decisions in the budget year will impact the following year. This multi-year budget will serve as a planning tool to provide County decision-makers with broader perspective of issues and options by providing a more complete outline of prospective issues that need to be addressed as part of the budget process, concise analysis of the impact of decisions, and a broader array of options for balancing the FY 2014 budget while being cognizant of the FY 2015 budget impact. Based on current projections, budget shortfalls are projected in both FY 2014 and FY 2015. As one of the components of budget development for FY 2014 and FY 2015, agencies will identify spending reduction options totaling 5 percent which will be considered as staff develops the budget. I am also evaluating for FY 2014 and FY 2015 the County's options to fund employee compensation and rising benefit costs, particularly for health insurance. Our latest experience indicates that health claims expenditures are increasing at a higher rate than previously projected, particularly among individuals with total claims over \$50,000. For the second half of FY 2012 (January to June 2012), the number of individuals with large claims increased 32.4 percent over the same period in FY 2011 for the OAP (Open Access Plan) High Option alone. These large claims have also been experienced in our other health plans and are primarily related to cancer and muscular-skeletal issues. These costs comprise a significant portion of our anticipated growth in FY 2014 and FY 2015 and we are going to need to critically evaluate the balance between service delivery, compensation and benefits, and the tax burden on our residents.

### ***FY 2012 Audit Adjustments***

As the Board is aware, the financial audit of FY 2012 is currently being conducted. Necessary adjustments as a result of this work will be included in the FY 2012 Comprehensive Annual Financial Report (CAFR) and in the audit package that is presented for the Board's approval as part of the *FY 2013 Third Quarter Review*.

### ***Other Funds Adjustments***

Attachment VI of the *FY 2012 Carryover Review* details changes in other funds which do not have a General Fund impact. This attachment includes a review of the FY 2012 fund expenditure and revenue variances and notes changes in FY 2013 expenditures.

As a final note, all materials included in the Carryover package reflect the new numbering schema and funding categories adopted as part of the conversion from the County's legacy financial system. Department and Fund names have not been changed; however, the names of some funding categories have been updated, and, in some cases, new categories have been added. Additionally, the grant and project structure within funds has been changed. As a result, the spread of funding across funding categories and grant/projects may be different from that shown at the FY 2013 Adopted Budget Plan, although bottom-line revenues and expenditures have not been changed.

## Administrative Adjustments

The *FY 2012 Carryover Review* includes General Fund administrative adjustments and associated managed reserve adjustments totaling \$27.15 million. This includes the detailed adjustments below and, as noted above, the \$2,601,339 requirement for a General Fund transfer to Fund 40040, Fairfax-Falls Church Community Services Board (CSB) to cover the CSB's FY 2012 actual year-end shortfall.

	<b>NON-RECURRING</b>	
	Revenue	\$10,000
<b>Agency 67, Department of Family Services</b>	Expenditure	<u>\$10,000</u>
<b>John Hudson Summer Intern Program</b>	<b>Net Cost</b>	<b>\$0</b>

Funding of \$10,000 is required to appropriate additional FY 2013 state revenue for the John Hudson Internship Program. The overall objective of the program is to address unemployment and underemployment of people with disabilities in the Fairfax area by providing work experience and training opportunities which will enhance participants' competitiveness in the job market. This expenditure is fully offset by an increase in state funding with no net impact to the General Fund.

	<b>NON-RECURRING</b>	
	Revenue	\$21,594
<b>Agency 67, Department of Family Services</b>	Expenditure	<u>\$21,594</u>
<b>Supplemental Nutrition Assistance Program – Employment &amp; Training</b>	<b>Net Cost</b>	<b>\$0</b>

Funding of \$21,594 is required to appropriate additional FY 2013 state revenue for the Supplemental Nutrition Assistance Program – Employment and Training (SNAPET). Virginia SNAPET is a multi-component employment and training program for food stamp recipients who do not receive public cash assistance to gain employment and become self-sufficient. This expenditure is fully offset by an increase in state funding with no net impact to the General Fund.

	<b>NON-RECURRING</b>	
	Revenue	\$201,547
<b>Agency 67, Department of Family Services</b>	Expenditure	<u>\$201,547</u>
<b>Virginia Initiative for Employment, not Welfare (VIEW)</b>	<b>Net Cost</b>	<b>\$0</b>

Funding of \$201,547 is required to appropriate additional FY 2013 state revenue for the Virginia Initiative for Employment, not Welfare (VIEW) program. The VIEW program provides employment and training services to Temporary Assistance for Needy Families (TANF) recipients who are required to participate in the program as a condition of eligibility, and to TANF recipients who volunteer to participate. Funding is provided to localities in support of proven service approaches and strategies that help current and former TANF clients prepare to enter, succeed, and advance in the workplace. This expenditure is fully offset by an increase in state funding with no net impact to the General Fund.

	<b>RECURRING</b>	
<b>Agency 70, DIT; Charged Through Fund 60030 Tech. Infr. Services</b>	Expenditure	<u>\$930,000</u>
<b>Independent Validation and Verification / Disaster Recovery</b>	<b>Net Cost</b>	<b>\$930,000</b>

As recommended by the FOCUS Steering Committee, funding of \$400,000 is included for an assessment of the current state of the FOCUS system including Phase 1 financial and logistics/procurement functionality and Phase 2 human capital management functionality. This assessment is sometimes referred to as an 'IV&V' (independent validation and verification). The IV&V is an audit and assessment report, focusing on business process functionality and technical architecture that is used for guiding solution implementations at key milestones, and/or for post implementation modifications and fine-tuning that may be necessary in the system to meet evolving business needs. IV&Vs are a common part of the

normal system lifecycle process for large-scale IT projects. The process uses an independent third party company with specialized expertise in IT system solutions (in this case SAP ERP), and has experience in the auditing and/or implementation of public sector functionality.

The key objectives for the system assessment are to: verify that the business functionality is meeting the business requirements as expected through its capabilities, the solution components, development objects and configurations; validate that business scenarios and business processes as implemented are meeting the needs and intentions for the new system; verify overall solution architecture and confirm that enhancements to standard functionality and key custom developed objects are accurately represented in the as-built architecture; and help inform the SAP software version upgrade and service pack strategy required to support upgrades of modules, alignment of components, business use and system performance optimization.

The remaining increase of \$530,000 is included to provide disaster recovery (DR) capability for the FOCUS system. The County/schools mainframe legacy system programs have been covered by a commercial off-site disaster recovery (DR) contract for over twenty years. DR is usually activated when the main production system suffers substantial incapacitation and/or total damage of the system environment or data center host. Having and exercising an off-site system recovery capability is a financial services industry best practice, and internal and external audit requirement. This funding will allow a transition from the current mainframe DR process to a solution and remote site that has the required experience and knowledge of the SAP system, components, architecture and operations. The annual cost for DR for the current scope is estimated \$530,000 annually, which includes:

- Hot-site replicated system including all hardware, software builds, network, facilities, monitoring and administration (will not include business intelligence warehouse, Solution Manager or bolt-ons);
- Dedicated commercial teleco high-speed network connection to the remote site DR data center facility;
- FOCUS recovery (including payroll) within 24 hours – Recovery Time Objective (RTO) and Recovery Point Objective (RPO) both 24 hours;
- Accommodates 1,000 named users and 500 concurrent users while active.

	<b>NON-RECURRING</b>
<b>Agency 71, Health Department</b>	Expenditure <u>\$300,000</u>
<b>Support Relocation of Health Care Clinic in Herndon</b>	<b>Net Cost \$300,000</b>

Funding of \$300,000 is required for County support of the relocation and build-out costs for a new federally funded health care facility in Herndon and associated proposed relocation of Connections for Hope nonprofit center. This funding, in combination with \$300,000 identified within the Health Department as a result of operational efficiencies generated as a result of the relocation and the new integrated service delivery described below, will leverage federal grant dollars to provide health care services to the residents of Fairfax County. As outlined in the County Executive’s July 25, 2012 memo to the Board, in June 2012, the Loudoun Community Health Center (LCHC) was awarded funding for a New Access Point (NAP) facility to provide comprehensive health care services in the western portion of the County. LCHC partnered with the Jeanie Schmidt Free Clinic (JSFC), Fairfax County Department of Health, Fairfax-Falls Church Community Services Board, Department of Family Services, Inova, and other community partners to submit a grant application in December 2010 to the U.S. Health Resources Services Administration, HRSA, to secure funding for the NAP. LCHC has been awarded prorated first-year funding of \$489,250 and \$650,000 each subsequent year (for operating expenses only). The LCHC will provide, but is not limited to, comprehensive adult and pediatric primary health care, mental health and substance abuse counseling, oral health, laboratory services, and prescription assistance. The JSFC, currently located at the Connections for Hope nonprofit center located in the Dulles Corridor, will merge services and operations with the LCHC to establish the NAP and move to a more central location in Herndon. Connections for Hope may also relocate to be proximate to the new clinic, the Herndon



Neighborhood Resource center and the clients which it serves. The County would contribute to this relocation as well as part of this funding.

The NAP will be a vital health care resource, particularly given the continued need for health care services for people who are low-income, uninsured, underinsured or covered by Medicaid and Medicare. An indicator of the need for services in this area of the County is the current waiting list that totals 2,009 people for the Community Health Care Network-North site in Reston. Furthermore, the NAP will alleviate some of the projected “crowd out” projected to affect current health care providers in the County. Crowd out of existing health care providers is projected given an estimated 40,000 people in Fairfax County who are currently uninsured but projected to receive coverage under the Patient Protection and Affordable Care Act’s healthcare exchange or expanded Medicaid. There is no new ongoing support from the County required as part of this adjustment.

	<b>RECURRING</b>
<b>Language Skills Proficiency Pay</b>	
<b>Agency 89, Employee Benefits</b>	Expenditure (\$483,915)
<b>Agency 13, Office of Public Affairs</b>	Expenditure 1,227
<b>Agency 67, Department of Family Services</b>	Expenditure 230,639
<b>Agency 68, Department of Administration for Human Services</b>	Expenditure 5,097
<b>Agency 71, Health Department</b>	Expenditure 34,308
<b>Agency 80, Circuit Court and Records</b>	Expenditure 11,373
<b>Agency 81, Juvenile and Domestic Relations District Court</b>	Expenditure 14,629
<b>Agency 90, Police Department</b>	Expenditure 82,066
<b>Agency 91, Office of the Sheriff</b>	Expenditure 35,252
<b>Fund 40040, Fairfax-Falls Church Community Services Board General Fund Transfer</b>	<u>69,324</u>
	<b>Net Cost \$0</b>

Funding of \$483,915 is reallocated from Agency 89, Employee Benefits, to better align costs related to the Language Skills Proficiency Pay program. The Language Skills Proficiency Pay program was created in FY 2007 to attract and retain employees with bilingual language skills. Employees that provide direct service to Limited English Proficiency customers for at least 35 percent of their work time are eligible for the language skills stipend. These stipends, which were previously charged to Agency 89, will now be charged directly to participating agencies.

	<b>RECURRING</b>
<b>Agency 91, Office of the Sheriff</b>	Expenditure <u>\$150,000</u>
<b>Sign Removal – Community Labor Force</b>	<b>Net Cost \$150,000</b>

Pending consideration by the Board, funding of \$150,000 is included for planning purposes for the Office of the Sheriff to utilize the Community Labor Force (CLF) to remove signage from grass medians including VDOT right-of-ways (ROW). The CLF provides offender work teams to support community improvement projects such as landscaping, litter removal, construction, painting, snow removal, and graffiti abatement. In addition, the CLF is responsible for mowing grass and removing trash on various County facility sites, including bus shelters. It is anticipated that this work will be conducted in the form of “periodic sweeps” to remove signs. The funding will provide for Deputy Sheriff Overtime to oversee the CLF as it performs the work, a truck to assist in sign removal, as well as miscellaneous operating equipment.

It should be noted that a memo to the Board on this topic is anticipated for the August timeframe that will provide options as well as discuss State-related issues that will need to be considered before a final decision is made on whether to move forward. The County has not as yet even started negotiations with the state on this issue, thus it is not known at this time what kind of requirements the state may insist upon in an agreement allowing the County to remove signs in the ROW, or what they may require from the County to carry this out. Depending upon those requirements, cost estimates could change.

	<b>RECURRING</b>
<b>Agency 97, Department of Code Compliance</b>	Expenditure <u>\$300,000</u>
<b>Special Investigation Unit and Related Personnel Adjustment</b>	Net Cost <b>\$300,000</b>

Funding of \$300,000 is required for the Department of Code Compliance (DCC) to meet current Board-directed Special Investigation Unit (SIU) requirements, fill staff vacancies, and improve the ability of staff to meet Board of Supervisors' expectations consistent with the County Executive's memo to the Board of Supervisors dated June 28, 2012.

Since its inception as part of the FY 2011 Adopted Budget Plan, DCC has sought to create an adaptable, accountable, multi-code enforcement organization within a unified leadership/management structure that responds effectively and efficiently toward building and sustaining neighborhoods and communities. Currently, administration of compliance programs pertaining to Zoning, Building, Property Maintenance, Health, and Fire Codes, as well as the Blight and Grass Ordinances are now centralized in DCC, a collaborative multi-functional environment that investigates and resolves violations and concerns in the residential and commercial communities. In addition to this core work, DCC has recently been tasked by the Board to support SIU activities, which typically occur after-hours and on weekend evenings, and to date have primarily been supported by use of overtime. This work includes enforcement and compliance activities pertaining to entertainment establishments that transform into "dance/night club" type uses. In order to maintain current levels of support for SIU-related activities while continuing to meet its core functions, additional Personnel Services funding is required.

	<b>NON-RECURRING</b>
<b>Fund 10010, Revenue Stabilization Fund</b>	General Fund Transfer <u>\$1,680,445</u>
<b>Maintaining Reserve of 3.0 percent of General Fund Disbursements</b>	Net Cost <b>\$1,680,445</b>

Funding of \$1,680,445 is transferred from the General Fund to Fund 10010, Revenue Stabilization Fund to maintain the reserve at 3.0 percent of General Fund disbursements. On September 13, 1999, the Board of Supervisors established a Revenue Stabilization Fund to provide a mechanism for maintaining a balanced budget without resorting to tax increases and expenditure reductions that aggravate the stresses imposed by the cyclical nature of the economy. The Revenue Stabilization Fund is based on a balance of 3.0 percent of General Fund disbursements. Based on the projected earnings on the balance in the fund and depending on the average yield for the portfolio, it is anticipated that each year the fund will remain fully funded by retaining its interest earnings as General Fund disbursements grow. However, based on the *FY 2013 Revised Budget Plan* disbursement level as well as the projected low interest earnings for FY 2013, a transfer from the General Fund is required to maintain the 3.0 percent of disbursements fully funded target level.

	<b>NON-RECURRING</b>
<b>Fund 10040, Information Technology</b>	General Fund Transfer <u>\$2,500,000</u>
<b>Additional Funding for Child Care Technology Systems Project</b>	Net Cost <b>\$2,500,000</b>

The General Fund transfer to Fund 10040, Information Technology is increased by \$2,500,000. Funding will support the replacement of the Child Care Management System in the Child Care Division in the Department of Family Services. The increase to the General Fund Transfer is fully offset by additional General Fund revenue received from the state in FY 2012 for the Child Care Assistance and Referral (CCAR) program resulting in no net impact to the County.

The Child Care Management System determines client eligibility, tracks child enrollments, and processes approximately \$3.0 million per month in provider payments for the CCAR program. This application processes over 2,500 home child care facility permits for Provider Services and connects families with child care providers participating in the CCAR system. The application tracks current market rates for providers and interfaces with the County's financial system. The current Child Care Management System software runs on a server and technology platform, which are no longer supported by the vendors and **FY 2012 Carryover Review**

have outlived its useful life. Additionally, the state just implemented a new system and has changed the way child care services for the mandated population will be processed. As a result, significant changes needed to be made to the County’s system in order to accommodate the state changes. Staff determined it was more cost effective to replace the existing antiquated system than try to modify a system that was no longer supported by the vendors. The Request for Proposal (RFP) has been released and staff is in the process of determining the Total Project Estimate. After this adjustment total funding available for the project is \$4,558,441.

	<b>NON-RECURRING</b>	
<b>Fund 10040, Information Technology</b>	General Fund Transfer	<u>\$6,500,000</u>
<b>Additional Funding for FOCUS-Related Needs</b>	<b>Net Cost</b>	<b>\$6,500,000</b>

The General Fund transfer to Fund 10040, Information Technology, is increased by \$6.5 million. This amount will provide funding to support final milestone payments related to the Fairfax County Unified System (FOCUS) implementation contract award and provide via alternative means for the development and implementation of key project functionality that is currently in suspended mode with the contracted system implementer and will support training and ancillary obligations. FOCUS is the Fairfax County government and schools system multi-year, joint initiative that will modernize the portfolio of enterprise systems that support finance, human resources, budget, procurement and replace administration applications with an integrated approach that has the flexibility to meet current and future business requirements. This funding recommendation is consistent with the original funding plan developed for FOCUS.

The FOCUS project is being implemented in major phases: financials and procurement functionality for the County government and school system went live in November 2011; the core elements of Human Capital Management for the County government went live in June 2012; the fiscal year-end processing system for the County government and school system began implementation in July 2012; and the core elements of Human Capital Management for the school system and the non-core elements of Human Capital Management and budgeting systems for both the County government and school system for which final implementation timing has not been determined. In addition, advanced procurement functions such as vendor and supplier self-service registration, and the combined budgeting system have yet to be implemented. In April 2012, the County suspended a portion of the contract with the current implementer for Phase 3 of the project which included the human resources system for the school system, the joint budget system and some non-core human resource functionality (such as eRecruiting and performance management) for the County government. This suspension was based on extraordinary additional cost requests by the system implementer for Phase 3 requirements beyond the base contract. The suspension has and will continue to allow the County the opportunity to validate and stabilize those phases currently or scheduled for implementation and to evaluate cost and implementation alternatives for the remaining portions of the project.

Of the \$6.5 million, approximately \$1.2 million will support the remaining costs associated with those phases implemented per the current contract and as proposed in the original funding plan; \$2.6 million will support costs associated with the development and implementation of the budgeting systems for the County government and school system; and the remaining \$2.7 million is necessary for County government non-core human resource functionality and other miscellaneous components, as well as to stabilize the existing school human resources system until recommendations are finalized for system replacement or enhancement.

	<b>NON-RECURRING</b>
<b>Fund 30010, County Construction</b>	General Fund Transfer <u>\$500,000</u>
<b>Prevention Fund</b>	<b>Net Cost                      \$500,000</b>

The General Fund transfer to Fund 30010, County Construction, is increased by \$500,000 to replenish the Prevention Fund created in FY 2007 to provide incentive funding for the development of programs to prevent youth violence and gang involvement. This replenishment is consistent with the Human Services Council recommendation and the Board Budget Guideline approved on April 24, 2012. The Prevention Fund is a funding pool from which competitive awards are made to community-based organizations to implement evidence-based prevention programs that have demonstrated effectiveness in reducing gang involvement. The County's community partners are supported by a multi-agency Implementation Support Team that works in partnership with them to deliver the programs reliably and to support the programs' evaluation. Evaluation of the programs, processes, and outcomes will be conducted in partnership with the Center for Advancement of Public Health at George Mason University. Funding for the Prevention Fund has been made available through FY 2012 balances from all Human Services agencies.

	<b>NON-RECURRING</b>
<b>Fund 30010, County Construction</b>	General Fund Transfer <u>\$800,000</u>
<b>Americans with Disabilities Act (ADA) Compliance</b>	<b>Net Cost                      \$800,000</b>

The General Fund transfer to Fund 30010, County Construction, is increased by \$800,000 to continue to address requirements associated with Park Authority ADA compliance. On January 28, 2011, the Board of Supervisors entered into an agreement with the Department of Justice (DOJ) to address ADA improvements identified during the DOJ audit. Required improvements ranged from updating emergency management procedures, web-based services, and general communication procedures, to improving access to buildings, parking garages, restrooms and elevators. The County is required to address all improvements within 7.5 years of the signed agreement (July 2018). Staff has categorized DOJ identified improvements by color: easy, inexpensive (green); more timely and costly (yellow); and difficult, time consuming, and/or expensive (red). To date, funding provided to the Park Authority will complete all green and yellow category projects. Funding of \$800,000 will address the top priority red category project which includes retrofitting the bathrooms at Burke Lake Park. Parks continue to work on the DOJ identified red category projects and are identifying additional reds through the required self-assessment process. It should be noted that future funding will be required to address additional projects once the assessment survey has been completed.

	<b>NON-RECURRING</b>
<b>Fund 30080, Commercial Revitalization Program</b>	General Fund Transfer <u>\$950,000</u>
<b>McLean Utility Undergrounding</b>	<b>Net Cost                      \$950,000</b>

The General Fund transfer to Fund 30080, Commercial Revitalization Program, is increased by \$950,000 to complete the undergrounding of utilities in the McLean Central Business District. The construction contract for digging the trenches and placing the conduits associated with the infrastructure for the undergrounding of the utilities and the utility company estimate to bury the electrical wires were both higher than anticipated. Additional funding is required in order to complete the project. This funding will provide for utility relocation along the intersection of Chain Bridge Road and Old Dominion Drive to improve the reliability of utility services. The total project is funded with a combination of General Obligation bonds from the 1988 Commercial Revitalization Bond, \$1.3 million from the McLean Revitalization Corporation (MRC), and \$950,000 from the General Fund.

	<b>RECURRING</b>
<b>Fund 40040, Fairfax-Falls Church Community Services Board</b>	General Fund Transfer <u>\$3,500,000</u>
<b>Net Fringe Benefits Support</b>	<b>Net Cost \$3,500,000</b>

The General Fund transfer to Fund 40040, Fairfax-Falls Church Community Services Board (CSB) is increased by \$3,500,000 to provide support for increased fringe benefit requirements for the existing array of CSB positions. The countywide planning factors for fringe benefits have increased significantly since FY 2010, primarily due to continuing increases in retirement and health insurance costs. The CSB's actual fringe benefit costs began to exceed the budgeted fringe benefit rates in FY 2011 based on filled positions at that time, but the department was able to find flexibility through cost savings in other areas to cover the fringe benefit shortfall. In FY 2012, the CSB had an actual fringe benefit shortfall of \$3.0 million, which was covered in part by the \$4.0 million adjustment that was made as part of the *FY 2012 Third Quarter Review*. This increase of \$3,500,000 in the General Fund transfer will cover the CSB's projected shortfall in fringe benefit requirements in FY 2013. In addition, as noted above, the General Fund transfer to Fund 40040, Fairfax-Falls Church Community Services Board (CSB) is increased by \$2,601,339 to cover the CSB's FY 2012 actual year-end shortfall resulting in a total FY 2013 increase in the General Fund transfer of \$6.1 million.

	<b>NON-RECURRING / RECURRING</b>
<b>Fund 60040, Health Benefits Fund</b>	General Fund Transfer \$4,000,000
<b>Agency 89, Employee Benefits</b>	Expenditure <u>1,900,000</u>
<b>Health Insurance</b>	<b>Net Cost \$5,900,000</b>

Funding of \$4,000,000 is transferred from the General Fund to Fund 60040, Health Benefits Fund, in support of the County's self-insured health plans. In addition, funding of \$1,900,000 is required in Agency 89, Employee Benefits, for increases in employer premium contributions associated with projected average premium increases of 13.4 percent in January 2013 for the County's self-insured health plans. Updated experience indicates that claims expenditures are increasing at a higher rate than previously projected, particularly among individuals with total claims over \$50,000. For the second half of FY 2012 (January to June 2012), the number of individuals with large claims increased 32.4 percent over the same period in FY 2011 for the OAP (Open Access Plan) High Option alone, with the total cost of these large claims increasing from \$5.6 million to \$8.9 million, or 58.9 percent, between the two six-month periods. These large claims are primarily related to cancer and muscular-skeletal issues, and based on this trends are projected to increase \$7.7 million in FY 2013 for the OAP High Option. Large claims are also increasing in the POS (Point of Service) plan for similar reasons. In the County's two largest (OAP High Option and POS) health plans, claims also continue to outpace premium revenue for pre-Medicare retirees, and the deficit between expenditures and revenues for this group has been increasing.

These increases in claims caused expenditures to exceed revenues in FY 2012, requiring the use of the full balance of the premium stabilization reserve and a portion of the unreserved ending balance. It is projected that an imbalance between revenues and expenditures will also exist in FY 2013. In order to close this funding gap, average premium increases, previously estimated at 8 percent, are now estimated at 13.4 percent for January 2013. It should be noted that these premium increases are budgetary projections only, and final premium decisions will be made in the fall of 2012. In addition, a General Fund transfer of \$4.0 million is required to support claims expenditures. With these changes, the FY 2013 unreserved ending balance is projected to be \$17,782,178. The County practice has been to maintain a reserve equal to 2 months of claims; however, this level is slightly lower at approximately 1.5 months of claims. In addition to the measures discussed above, cost-saving plan design changes will be considered for implementation in January 2013, and the new vendor selection process for all of the County's health insurance products is expected to result in a new selection of health plans effective January 2014.

### ***Consideration Items***

No consideration items are included as part of the *FY 2012 Carryover Review*.

### ***Additional Adjustments in Other Funds***

Total FY 2013 expenditures in Appropriated Other Funds are requested to increase \$1.668 billion over the FY 2013 Adopted Budget Plan. In addition to the adjustments in Appropriated Funds, there are adjustments totaling \$30.49 million in Non-Appropriated Other Funds. Details of Fund 50000, Federal/State Grant Fund, are discussed in Attachment V, while details of FY 2013 adjustments in Appropriated and Non-Appropriated Other Funds other than Federal and State Grants are found in Attachment VI. School Board adjustments total \$497.74 million, excluding debt service, over the FY 2013 Adopted Budget Plan. Details of School Board actions are available in Attachment C.

### ***Summary of Recommended Actions***

*In summary, I am recommending that the Board take the following actions:*

Approve Supplemental Appropriation Resolutions AS 12146 and AS 13022 as well as Fiscal Planning Resolution AS 13900 to provide expenditure authorization for FY 2012 Carryover encumbrances, unexpended balances, administrative adjustments and the associated adjustments to the Managed Reserve, including the following:

- Board appropriation of \$28.44 million in General Fund encumbrances related to Direct Expenditures from FY 2012 as noted in the General Fund Statement and in Attachment III.
- Board appropriation of General Fund unencumbered Board commitments totaling \$6.04 million as detailed in Attachment IV.
- Board appropriation of General Fund Board and administrative adjustments as detailed earlier in this memorandum.
- Board appropriation of Federal/State grants in Fund 50000, Federal/State Grant Fund, totaling \$217.03 million or an increase of \$130.22 million as detailed in Attachment V.
- Board appropriation of remaining Other Funds Carryover. Details are available in Attachment I, Carryover Expenditures by Fund; in Attachment VI, Other Funds Detail; and in Attachment C, Fairfax County School Board's FY 2011 Final Budget Review and Appropriation Resolutions.
- Board approval of adjustments to the Managed Reserve to reflect all carryover adjustments.