



County of Fairfax, Virginia

MEMORANDUM

DATE: April 8, 2016

TO: Board of Supervisors

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

SUBJECT: Adjustments to FY 2017 Advertised Budget Plan (Add-On Package) and Impacts on the FY 2018 Budget

This package has been prepared to present the revenue and expenditure adjustments that have been identified since the preparation of the FY 2017 Advertised Budget Plan and the FY 2018 Budget Proposal. Based on the adjustments detailed in the FY 2017 Add-On package, the available FY 2017 General Fund balance is \$23.57 million and there is a projected shortfall of \$76.53 million in FY 2018.

Staff has reviewed General Fund revenue estimates based on the most up-to-date information. In addition to the revenue adjustments associated with FY 2017 administrative adjustments, a net increase of \$1.28 million to FY 2017 revenues and a net decrease of \$1.01 million to FY 2018 revenues is recommended as part of the Add-on Process. The revenue adjustments are based on State budget amendments approved during the 2016 Session of the General Assembly. The General Assembly approved an increase to the state-supported employee compensation of Constitutional Officers and their employees and an increase to State Aid to Localities with Police Departments (HB 599). These adjustments result in an additional \$1.28 million to the County in Revenue from the Commonwealth in FY 2017 and \$1.58 million in FY 2018. In addition, FY 2018 Real Estate Tax revenues are expected to be \$2.59 million lower compared to the Forecast based on slower than projected growth in residential real estate values. Staff will continue to monitor revenue collections monthly and will report to the Board with any necessary changes based on economic conditions. More details regarding the FY 2017 and FY 2018 recommended revenue adjustments can be found in Attachment I, Summary of General Fund Receipts.

Given the current revenue status, only a limited number of administrative expenditure adjustments are included in the package. The package includes a recurring adjustment of \$1.52 million to address the full-year cost of the *FY 2016 Third Quarter Review* adjustment associated with 16/16.0 FTE Public Assistance eligibility workers. This expenditure adjustment is entirely offset with a corresponding increase in revenues, resulting in no net cost to the General Fund. In addition, the package also includes a recurring expenditure increase of \$45,733 to support the

Office of the County Executive

12000 Government Center Parkway, Suite 552

Fairfax, VA 22035-0066

703-324-2531, TTY 703-222-5494, Fax 703-324-3956

www.fairfaxcounty.gov

Adjustments to FY 2017 Advertised Budget Plan (Add-On Package) and Impacts on the FY 2018 Budget

full-year cost of the *FY 2016 Third Quarter Review* adjustment associated with the School Health position for City of Falls Church. This expenditure adjustment is also entirely offset with a corresponding increase in revenues and results in no net cost to the General Fund. Finally, an expenditure increase of \$97,000 is necessary to fund the increase in custodial overtime hourly rates charged by Fairfax County Public Schools (FCPS) to the Department of Neighborhood and Community Services and the Fairfax County Park Authority for the community use of FCPS facilities. Details regarding the FY 2017 recommended expenditure adjustments and their impact on FY 2018 can be found in Attachment II, Administrative Adjustments.

As a result of the recommended revenue and expenditure adjustments for FY 2017 and FY 2018, including associated reserve adjustments, a balance of \$23.57 million is available in FY 2017 and a shortfall of \$76.53 million is projected for FY 2018.

Multi-Year Budget: FY 2017 and FY 2018

Summary of Add-On	FY 2017	FY 2018
Balance / (Shortfall) from Advertised Budget	\$22,526,094	(\$74,384,895)
Additional State Revenue	\$1,280,000 R	\$300,000
Adjustment of FY 2018 Residential Equalization	\$0	(\$2,591,405)
Public Assistance Eligibility Workers	\$0 R	\$0
School Health Position	\$0 R	\$0
Community Use Fees	(\$97,000) R	\$0
<u>Revenue Stabilization and Managed Reserve</u>	<u>(\$143,531)</u>	<u>\$146,490</u>
Subtotal:	\$1,039,469	(\$2,144,915)
Balance/ (Shortfall) as of Add-On*	\$23,565,563	(\$76,529,810)

* Note: Recurring (R) FY 2017 adjustments do not impact FY 2018 as it is assumed that the balance remaining in FY 2017 will be used for recurring expenses.

There is one Consideration Item as of April 8, 2016, which totals a non-recurring savings of \$1 million, and is included in Attachment III. The FY 2018 impact of the Consideration Item is \$0.

Additional information regarding Add-On adjustments is included in the following attachments:

Attachment I – Summary of General Fund Receipts

Attachment II – Administrative Adjustments

Attachment III – Consideration Items

ATTACHMENT I
SUMMARY OF GENERAL FUND RECEIPTS

In addition to the revenue adjustments associated with FY 2017 administrative adjustments, a net increase of \$1.28 million to FY 2017 revenues and a net decrease of \$1.01 million to FY 2018 revenues is recommended as part of the Add-on Process. These revenue adjustments reflect information received subsequent to the development of the FY 2017 Advertised Budget Plan.

Revenue categories that are sensitive to economic change may require further adjustments during FY 2017. Staff will continue to monitor revenue collections monthly and will report to the Board with any necessary changes based on economic conditions.

REVENUE FROM THE COMMONWEALTH¹

FY 2016 Revised	FY 2017 Advertised	FY 2017 Revised	FY 2017 Increase/ (Decrease)	Percent Change	FY 2018 Additional Revenue
\$96,908,824	\$97,336,374	\$98,616,374	\$1,280,000	1.32%	\$1,580,000

¹ Excludes Personal Property Taxes that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998.

The FY 2017 revised estimate for Revenue from the Commonwealth is \$98,616,374, an increase of \$1.28 million, or 1.32 percent, over the FY 2017 Advertised Budget Plan estimate. The revenue adjustments are based on State budget amendments approved during the 2016 Session of the General Assembly. The General Assembly approved an increase to the state-supported employee compensation of Constitutional Officers and their employees and an increase to State Aid to Localities with Police Departments (HB 599). These adjustments result in an additional \$1.28 million to the County in FY 2017 and \$1.58 million in FY 2018.

REAL ESTATE TAX - CURRENT

FY 2016 Revised	FY 2017 Advertised	FY 2018 In Multi-Year Budget	FY 2018 as of Add-on	FY 2018 Increase/ (Decrease)	Percent Change
\$2,425,254,804	\$2,591,405,466	\$2,671,739,035	\$2,669,147,630	(\$2,591,405)	-0.1%

The FY 2018 Forecast assumed a total Real Estate Tax base growth of 3.10 percent. This rate of increase was based on a projected 1.80 percent growth in residential values, a projected 3.00 percent growth in non-residential values, and a projected increase of 1.00 percent in normal growth. Based on information from the Metropolitan Regional Information System (MRIS) for the first two months of 2016, the average sales price of homes sold in Fairfax County decreased 1.41 percent. MRIS also reported that through February the number of active listings of homes available for sale in the County was up 7.10 percent. Due to the slower than anticipated market activity and because home sales throughout 2016 will impact the FY 2018 real estate assessment base, staff currently projects a slightly lower 1.64 percent growth in residential values for FY 2018, resulting in a revenue loss of \$2,591,405 compared to the Multi-Year Forecast. The total Real Estate Tax base is projected to grow 3.00 percent in FY 2018.

ATTACHMENT II ADMINISTRATIVE ADJUSTMENTS

General Fund Impact

Public Assistance Eligibility Workers	RECURRING	
Agency 67, Department of Family Services	FY 2017 Revenue	\$1,522,154
Agency 89, Fringe Benefits	FY 2017 Expenditure	\$1,042,857
	FY 2017 Expenditure	<u>\$479,297</u>
	Net Cost	\$0
	FY 2018 Revenue	\$1,522,154
	FY 2018 Expenditure	\$1,042,857
	FY 2018 Expenditure	<u>\$479,297</u>
	Net Cost	\$0

Funding of \$1,522,154 is required to appropriate additional FY 2016 revenue from the state to support the full-year impact of 16/16.0 FTE positions. The positions and partial-year funding is included in the *FY 2016 Third Quarter Review*. These positions will continue to address the increase in public assistance caseloads in the Self-Sufficiency Division of the Department of Family Services (DFS). It should be noted that an increase of \$479,297 in Fringe Benefits funding is included in Agency 89, Employee Benefits. The expenditure increase is fully offset by an increase in federal and state funding for no net impact to the General Fund.

In accordance with federal and state policy, the County is required to determine eligibility for public assistance and enroll clients in benefits programs within a certain timeframe. Current monthly caseloads are more than 95,000, which is an 84 percent increase from 2008. Federal and state policies require that 100 percent of cases for each program are processed within the mandated timeframes with 100 percent accuracy. The County is not currently meeting these mandates. This leaves the County vulnerable to both internal and external audit findings. In fact, the KPMG audit for the year ending June 30, 2015 found significant noncompliance in both the Temporary Assistance for Needy Families (TANF) and Medicaid programs for the second consecutive year. KPMG also cited the County for having weaknesses in internal controls over eligibility determination and redetermination.

DFS has taken many steps to narrow performance gaps, including adding positions to address backlogs and overly burdensome caseloads; establishing a more robust management structure to focus on case review and increased monitoring; providing intensive staff training to strengthen knowledge of policies and procedures and reduce casework errors; and implementing new work-management processes to improve efficiency. Although there is an improvement over the previous year's audit findings, even with the additional resources added to address the rising caseloads, based on the current status of the program, it is anticipated that there will be additional audit findings for FY 2016.

In addition to the processing of new applications and ongoing cases, staff workloads include assessment of client status changes to determine continued eligibility for benefits; handling of administrative appeals; responding to Quality Control reviews, auditing cases for timeliness/quality; and performing fraud investigations. Additionally, implementation of the Patient Protection and Affordability Care Act (PPACA) has increased the amount of time each application takes to process. The application form, which was originally two pages, has increased to 18 pages but may be as long as 27 pages depending on family size. Additionally, technology changes made by the state that include monthly updates require continuous retraining of staff and adaption to new system requirements. With more than 95,000 monthly

ongoing cases, there is no capacity to adequately address existing workloads and absorb additional cases. These positions are necessary in order to continue improving the County's response times.

School Health Position for City of Falls Church

	RECURRING
	FY 2017 Revenue \$45,733
Agency 71, Health Department	FY 2017 Expenditure \$18,805
Agency 89, Fringe Benefits	FY 2017 Expenditure <u>\$26,928</u>
	Net Cost \$0
	FY 2018 Revenue \$45,733
	FY 2018 Expenditure \$18,805
	FY 2018 Expenditure <u>\$26,928</u>
	Net Cost \$0

Funding of \$45,733 is required to support the full-year impact of 1/1.0 FTE Public Health Nurse II position, which will support the school health program for the City of Falls Church. This position and partial year funding is included in the *FY 2016 Third Quarter Review*. The County provides School Health services to the City of Falls Church through a contract and the County is fully reimbursed for the costs associated with these services. The County has previously provided these services using a benefits eligible position, but increased workload complexity and volume now require a merit position. This funding reflects only the increased costs associated with the conversion of the benefits eligible position to a merit position. It should be noted that an increase of \$26,928 in Fringe Benefits funding is included in Agency 89, Employee Benefits. The expenditure increase is completely offset by an increase in revenue for no net impact to the General Fund.

Community Use Fees

	RECURRING
Agency 79, Dept. of Neighborhood and Community Services	FY 2017 Expenditure \$89,500
Agency 51, Fairfax County Park Authority	FY 2017 Expenditure <u>\$7,500</u>
	Net Cost \$97,000
	FY 2018 Expenditure \$89,500
	FY 2018 Expenditure <u>\$7,500</u>
	Net Cost \$97,000

An increase of \$97,000 in Operating Expenses is necessary to fund the increase in custodial overtime hourly rates charged by Fairfax County Public Schools (FCPS) to the Department of Neighborhood and Community Services and the Fairfax County Park Authority for the community use of FCPS facilities. The custodial overtime rate will increase to \$34 per hour effective July 1, 2016. This is the first rate increase in the last five years.

**ATTACHMENT III
SUMMARY OF FY 2017 CONSIDERATION ITEMS
as of April 8, 2016**

#	Consideration Item	Requested By	Positions	Net Cost/(Savings)	
				Recurring	Non-Recurring
1.	Use the non-recurring funding of \$1 million allocated at the FY 2016 Third Quarter Review to the Board members' offices for small projects within each district to fund the non-recurring additional cost associated with the November 2016 presidential election included in the FY 2017 Advertised Budget. This would free up \$1 million in the FY 2017 budget.	Herrity	0 / 0.0	\$0	(\$1,000,000)
Subtotal FY 2017 Consideration Items as of April 8, 2016:			0 / 0.0	\$0	(\$1,000,000)

Total FY 2017 Consideration Items: 0/0.0 FTE Positions and Total Funding of (\$1,000,000)

The FY 2018 Impact of the Consideration Item list as of April 8, 2016 is \$0