Arlington County
Fund Balance and Reserves
Discussion

April 2017

Prudent Financial Management is Important

- Sound financial management ensures:
  - High credit ratings
  - Market access for: capital financing, key economic development, or other high priority initiatives
- For Rating Agencies, County financial strengths are:
  - Sound reserve levels
  - Fully funded pension plan
  - Funding plans in place for retiree health care
  - Conservative financial forecasting
  - Moderate debt levels
  - Adoption of structurally balanced budgets
  - Formal adoption & adherence to written financial policies
- Triple – Aaa Ratings
  - All three agencies have given County the highest rating possible

Fund Balances and Reserves

- Typically, fund balances and reserves are generated from:
  - Positive or surplus annual operating results of entity
- Results can be undesignated, or available, as a resource for the next fiscal year
- Results can also be:
  - Legislatively appropriated for specific expenditures in the next fiscal year, which reflects prior legislative decisions (*committed*), or
  - Designated as a resource for future expenditures in subsequent fiscal years (*assigned or "reserved")* by policy on annual basis, or
  - Unallocated for unexpected expenditures or revenue declines in the immediately succeeding fiscal year (e.g., *contingent or stabilization reserves*), or
  - Unallocated <u>and</u> unavailable for future use except under extreme duress or hardship to address unexpected challenges (e.g., operating reserves)
- Rating agencies' criteria identify operating results of 5% or better as AAA quality

Other Reserves

- Governments also designate contingent reserves for:
  - *Unforeseen extraordinary program expenditures*, like snow removal, storm mitigation, or unexpected infrastructure failures
  - *Surprise declines in revenues* during the fiscal year due to economic events or changes, like the recent financial crisis
  - *Unanticipated service delivery costs*, like program expansion, maintenance costs, or land purchases
  - For *self-insurance* to pay claims against the entity since traditional insurance policies may be unavailable or prohibitively expensive
- Such reserves provide for funding unanticipated expenses or revenue drops without relying on the general operating reserve

Fund Balances and Reserves

- Arlington County uses close-out process in October to:
  - Commit, assign, and designate operating results and prior unexpended commitments, assignments or reserves
  - Re-commit unallocated reserves equal to 5% of County General Fund
- County Fund Balances are:
  - Committed to future expenditures for APS, AHIF, Capital, AIRE Program and others
  - Assigned to future expenditures for APS, AHIF, Capital, AIRE Program and others
  - Designated for Stabilization, Self-Insurance, and General Operating Reserves

GF Revenues Performed Above Budget Since 2012

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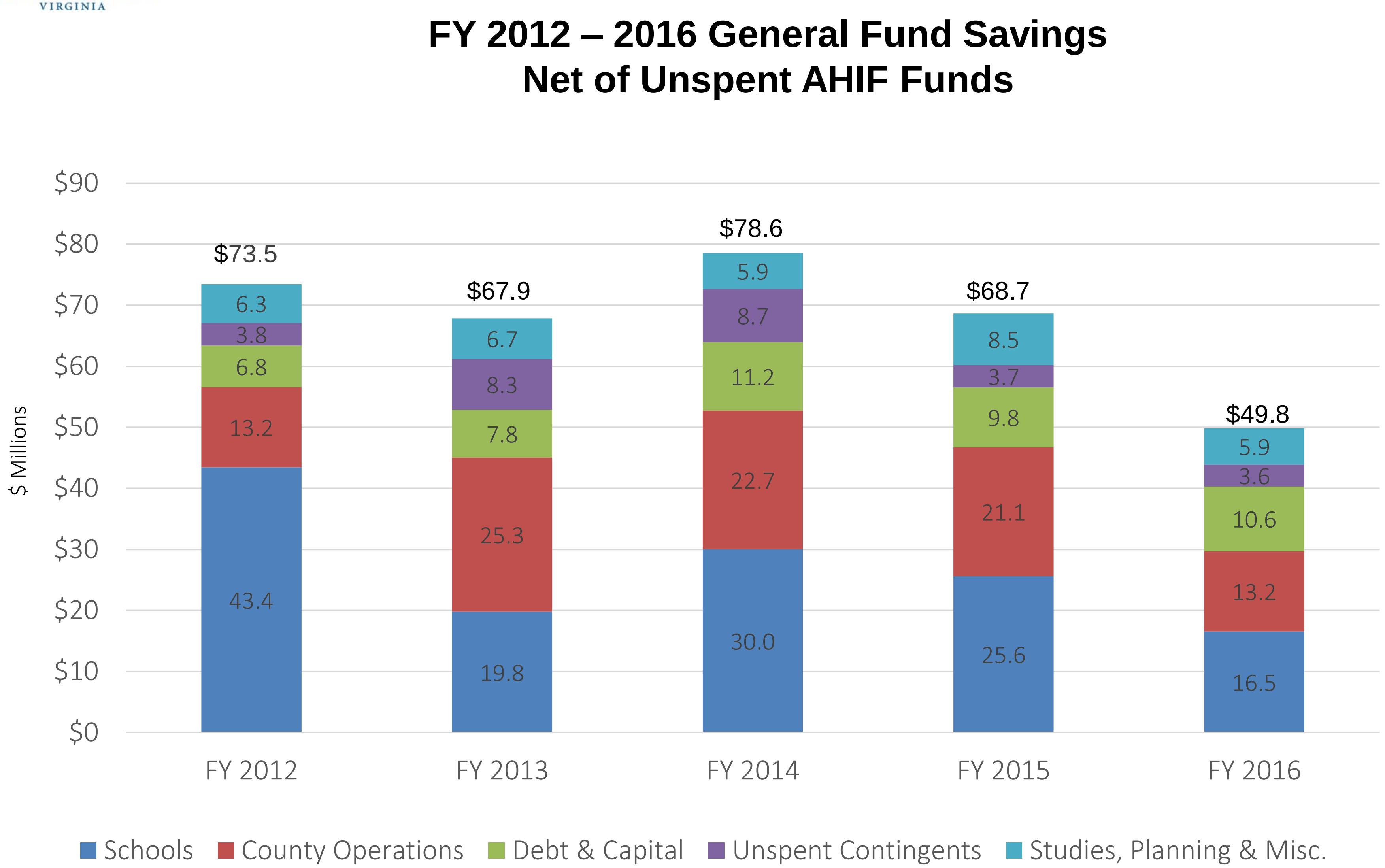
- Five year average tax revenues have been 2.9% above budget
  - Regional economy remains strong
  - Higher real estate assessments, budget / tax rate decisions
  - Non-tax revenues performed 2.2% better than budget

- FY 2017 - Higher than budgeted BPOL, personal property tax revenues
  - BPOL growth resulted in $4.5 million of additional revenues through 3rd quarter
  - Personal property ($1.9M) and other taxes ($1.1M), provided additional $3.0 million
  - Net total of $3.8 million (after schools share) in additional funding identified through 3rd Quarter FY 2017

Sources of General Fund Expenditure Savings



Sources of General Fund Savings FY2012 – FY2016

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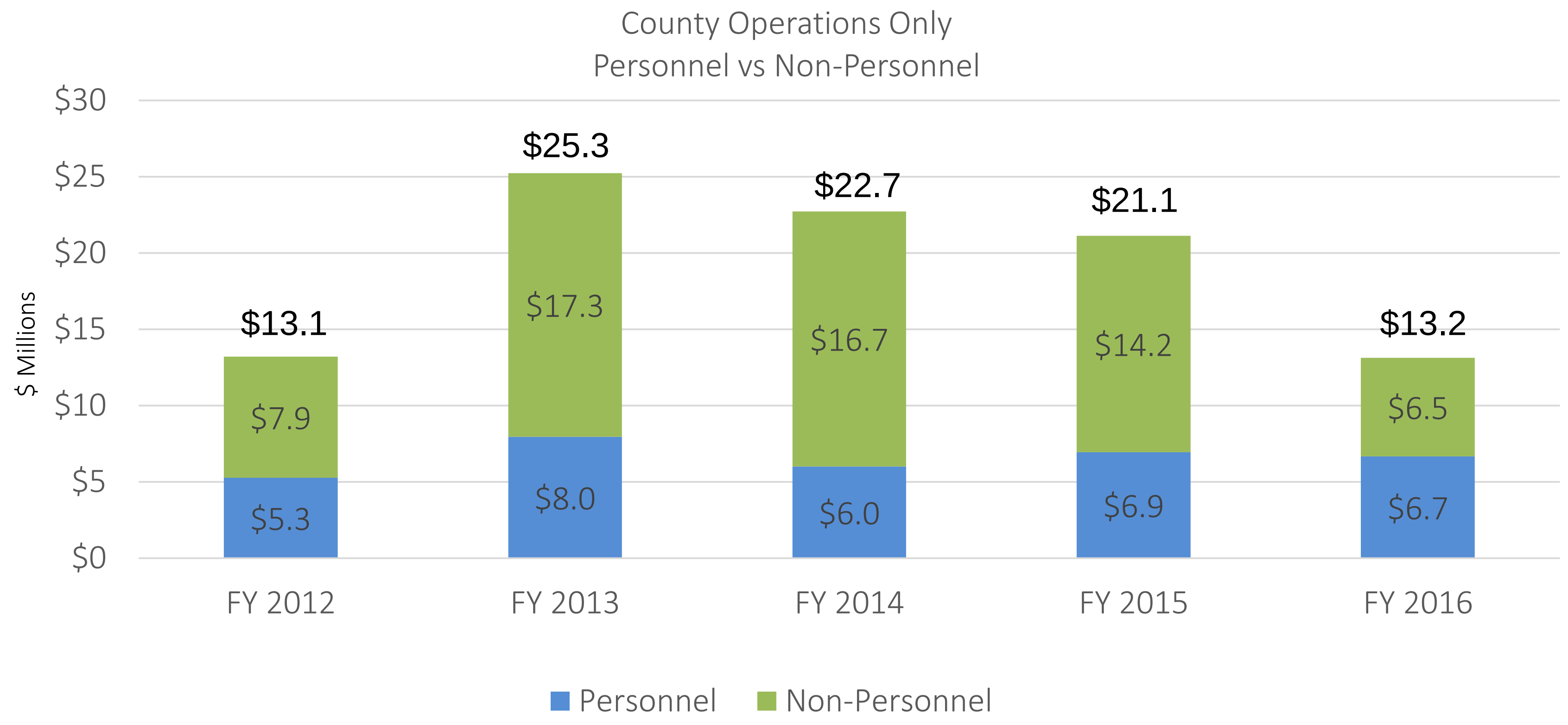
- Schools ($16.6 million – $43.4 million)
  - Savings driven by personnel, health care, debt service, utilities, etc.
  - Savings are directed by School Board to budget and / or enrollment contingents and one-time expenditures like capital projects or technology
- Contingents ($3.6 million - $8.7 million)
  - Using one-time $, County has funded variety of budget stabilization and compensation contingents
  - Contingency for BPOL released in FY 2016
- Debt & Capital ($6.8 million - $11.2 million)
  - Refunding of bonds – driven by low interest rate environment
  - Multi-year capital projects – primarily technology
- Studies, Planning & Miscellaneous ($5.9 million - $8.5 million)

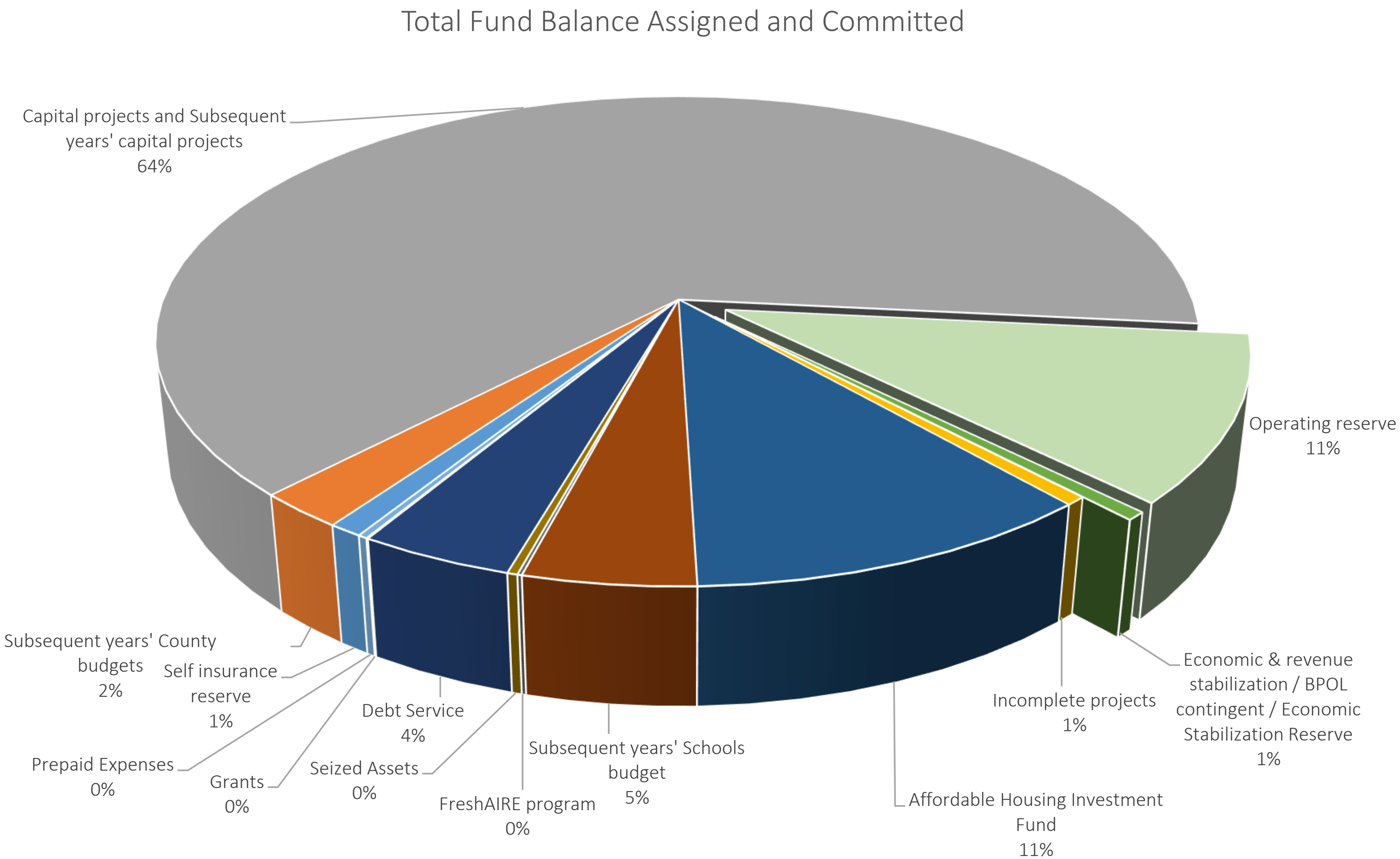
GF County Operations Savings Sources

FY 2012 – 2016 General Fund Savings
County Operations Only



County Fund Balances FY2013-FY2016

Total Governmental Fund Balance - $549.8 Million



All Sources Fund Balance: Capital

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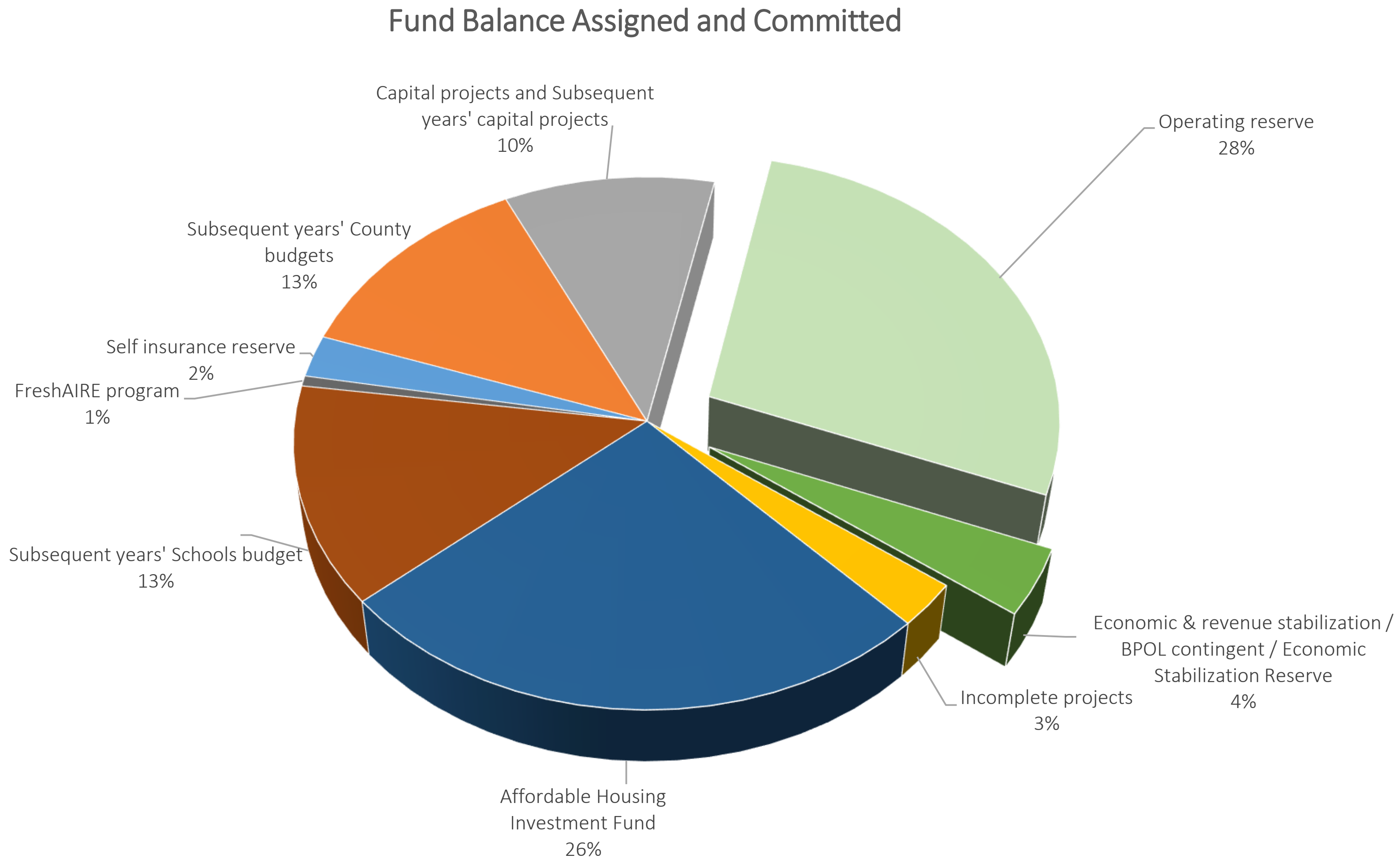
- Capital projects typically extend beyond one fiscal year
  - Depending on type of project, can be 2-5 years in length
- Majority of capital funds are legally restricted in use
- Transportation Capital - $158 million
  - NVTA local ("30%") funds
  - 12.5 cent dedicated commercial real estate "C&I" tax
  - Must maintain maximum C&I tax rate or NVTA 30% & 70% regional funding is reduced
- Stormwater - $22 million
- Crystal City and Columbia Pike TIFs - $13 million
- Other restricted bond funds - $78 million
- General capital projects (bonds & PAYG) - $88 million
- General fund - $19 million

Fund Balance – General Fund as of June 30, 2016

<u>All</u> general fund dollars are allocated to County Board-approved projects, services or by policy



General Fund Balance - $191.2 Million

County Commits and Assigns GF Fund Balance

- **Board has *committed* funding to:**
  - Schools
  - AHIF
  - Capital projects
  - Economic and Revenue Stabilization
  - Subsequent year's county budget
  - Self-insurance reserve
  - Incomplete projects
  - Operating Reserve

- **Board has *assigned* funding to:**
  - Schools
  - AHIF
  - Capital projects
  - Economic and Revenue Stabilization
  - Subsequent year's county budget
  - FreshAIRE
  - Incomplete projects
  - Increases to the General Fund Operating Reserve to maintain it at 5% of the total General Fund; this supports the County's triple-AAA rating

GF Fund Balance Components

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- Schools - $25 million
  - Capital projects given enrollment growth and operating reserves / future budget allocations
- AHIF - $61 million – intentional build-up of funds to address future projects
- Future years' County capital and operating budget allocations - $32 million

- Unallocated Reserves - $68 million
  - Per Board policy and critical to maintaining Triple-AAA ratings
  - Operating reserve - $60 million
  - Economic & stabilization contingent - $3 million
  - Self insurance reserve - $5 million

Summary

- Year-end available savings come from many sources and can be difficult to predict
- County's historical budget practices are intentionally conservative
- Budget & close-out processes are intended to be fully transparent with Board approval of all dollars
- AAA ratings & related considerations
  - Conservative forecasting is considered a credit and management strength
  - Using one-time funds for one-time expenditures is considered sound financial practice – avoids structural imbalance