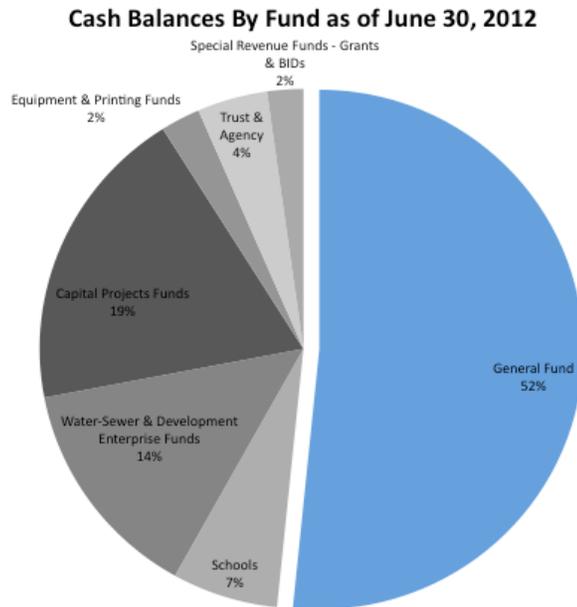


ARLINGTON'S FY 2012 YEAR-END CASH & INVESTMENTS

Based on the County's most recent audited financial statements (as of June 30, 2012 – statements for June 30, 2013, will be presented in November as per our usual practice), the County's cash & investments totaled \$465 million. This excludes amounts legally restricted in use (totaling \$322 million) - primarily bond proceeds that will be spent on capital projects and for certain funds that are held by trustees due to legal requirements.

Approximately 52% of the \$465 million, or \$240 million, is attributable to General Fund operations, including the following major components:



- **Reserves –\$61 million -** the County maintains three reserves:
 - Operating reserve equal to 5% of the operating budget or \$53 million which is a significant factor in maintaining the County's triple-Aaa bond ratings; other highly rated jurisdictions maintain operating reserves ranging from 5 – 10% of budget. The County increased its operating reserve from 2% to 5% in recent years based on rating agency feedback.
 - Self-insurance reserve of \$5 million to address any unforeseen claims or legal settlements.
 - Economic stabilization fund of \$3 million to provide short-term financial flexibility in case of economic displacements such as BRAC or sequestration (historically the amount of this stabilization fund has varied depending on economic conditions.)

- **Schools - \$54 million** – this amount represents Schools' budget savings and additional revenue that has been allocated by the School Board for various priorities to occur in future fiscal years. These have been primarily

set aside for new capital projects related to growth in school enrollment as well as other budgetary and personnel reserves.

- **Affordable housing – \$21 million** – this amount reflects balances in the County’s Affordable Housing Investment Fund (AHIF) and for the Housing Grants program. AHIF cash balances are built up intentionally from year to year (similar to a savings account or home down payment) to provide low interest loans for affordable housing projects. The timing of these projects can be unpredictable as they depend on many factors including real estate market conditions and redevelopment opportunities.

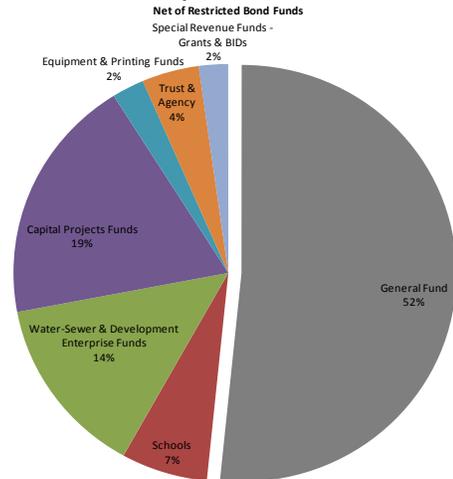
- **Other designations made by the County Board –\$33 million** - at budget adoption and close-out of the fiscal year, the County Board allocates available funding for a range of priorities to occur in future fiscal years. These are reflected in cash balances at year-end; examples include:
 - Compensation reserves – to fund one-time costs related to new public safety recruit classes; to fund initial impacts of pay studies for job classes that may be lagging the regional pay market; and to provide contingency funding for pay adjustments to be considered by the County Board during the budget process.
 - One-time technology projects – examples technology security audits and support; improvements to technology systems (e.g., electronic development plan review and systems in the Circuit Court)
 - Consulting studies

- **Capital projects - \$22 million** - A significant portion of budget savings are allocated by the County Board to one-time capital projects that will be transferred out of the General Fund into Capital Projects Funds and will be spent in future years as projects are completed. Examples include play structures at Long Bridge Park; build-out of the new comprehensive homeless shelter and office space in the Courthouse metro area; and

The remaining cash balance (\$48 million) is attributable to working capital & seasonal cash flows. The County’s cash balances peak in June and October due to the semi-annual real estate tax payment dates, which account for close to 60% of the County’s total revenues. Cash balances at year-end are higher than other times during the year because of the tax payment schedule.

In addition to the General Fund, balances in other County funds total \$225 million:

Cash Balances By Fund as of June 30, 2012



- **Utilities & Development Enterprise Funds - \$65 million** – Enterprise funds are fully supported by user fees paid by residents and businesses. Cash balances reflect a combination of reserve requirements (similar to the General Fund Operating Reserve); balances for multi-year capital & technology projects which are financed on a pay-as-you-go basis rather than bonds; and working capital. Total assets (including physical assets such as water and sewer pipes) of the Utilities Fund are close to \$1 billion, requiring a significant amount of reinvestment. The Development Fund is supported by fees from developers and residents for permit processing and construction services.
- **Schools Operating Fund – \$30 million** - Reserves held by Schools include general operating reserves; contingents for Virginia Retirement System changes; and reserves for future capital projects related to enrollment increases.
- **Capital Funds - \$89 million** – Capital funds include dedicated funding for:
 - Transportation Capital Fund – \$66 million - Funded by a 12.5 cent real estate tax on commercial properties (not residential properties), this funding is dedicated to new investment and reinvestment in the County’s transportation infrastructure. These projects are multi-year in nature, and cash balances fund projects approved by the County Board as part of the CIP process, including the Rosslyn Metro station entrance project, the Columbia Pike and Crystal City streetcar projects, ART transit projects and other transportation projects.
 - Stormwater Fund - \$14 million – This fund is dedicated funding to address operating and capital requirements related to the County’s

separate stormwater system. Cash balances are being set aside to fund future capital projects required by the County's stormwater permit.

- Crystal City –Potomac Yard – Pentagon City Tax Increment Fund – Established by the Board in 2010, this fund provides a portion of the funding for certain future capital projects in support of the Crystal City Sector Plan.

This amount excludes bond proceeds held in a special state investment pool.

- **Equipment & Printing Funds - \$11 million** – These internal service funds provide fleet management and printing services to County departments. Cash balances reflect contributions for pay-as-you-go purchases of future fleet and rolling stock and will be spent in future years as fleet is acquired.
- **Trust & Agency Funds - \$20 million** – These funds are held in trust by the County for contributions or grants restricted in use. Examples include certain federal grants; proceeds of legal settlements; and certain site plan contributions from developers.
- **Special Revenue Funds for Grants & BIDs – \$10 million** - These funds account for federal grants legally restricted in use (Section 8 housing grants & Community Development grants) and real estate tax revenues for the County's three business improvement districts paid by commercial property owners to reinvest in these geographic areas.

Increase in Cash Since FY 2004

The County's cash position at the end of FY 2004 (net of bond proceeds and trustee-held funds) totaled \$188 million. The County's comparable cash position at the end of FY 2012 was \$465 million, an increase of \$277 million. Major reasons for this increase are:

- Increase in reserves - \$43 million increase – The County increased the operating reserve from 2% to 5% of budget based on rating agency feedback and a review of other jurisdictions' reserve policies. Additionally, the County increased its self-insurance reserve by \$1.5 million to reflect the increased operating budget and established an economic stabilization fund as noted earlier.
- New capital & dedicated funds – \$100 million increase- the County has established several new funds that are dedicated to long-term infrastructure projects or specific service areas – see above for descriptions of each fund and why it has cash balances:

- Transportation capital (funded by commercial property owners) - \$66 million
- Stormwater - \$14 million
- Crystal City – Potomac Yard – Pentagon City TIF - \$1.5 million
- Business Improvement Districts (funded by commercial property owners) - \$3.5 million
- Development Fund - \$15 million
- Growth in County & Schools budgets – the cost of County operations has grown since FY 2004 resulting in higher amounts of cash at year-end due to increased tax revenues. Similarly, Schools has an increased operating budget and has been holding cash balances to pay for projects related to anticipated enrollment growth. The Utilities Fund also has increased cash balances due to higher minimum reserve levels (established by Board financial policies) and an increased number of multi-year capital projects.