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Financial Management – Arlington's Best Practices & Reserves

March 2015

Core Financial Strengths

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- Strong reserve levels
- Fully funded pension plan
- Funding plans in place for retiree health care
- Conservative financial forecasting on both revenues and expenses
  - Performance is within best practices & rating agency expectations
- Moderate debt levels & demonstrated reinvestment in infrastructure
- Triple-Aaa bond ratings

Why Is Prudent Financial Management Important?

- Triple-Aaa bond ratings result in the lowest interest rates possible on County bonds, saving taxpayer money
- Triple-Aaa bond ratings ensure:
  - Market access during volatile financial market conditions
  - Facilitate County's ability to provide credit support for key economic development or other high profile projects if appropriate
- Provides foundation for innovation & service delivery expansion
- Ensures the County meets its long-standing commitment to retirees and current employees
  - National headlines in Rhode Island & California
- Strong balance sheet & moderate levels allow for capital investment & reinvestment

Revenue Forecasts

Revenue – Budget Vs. Actual

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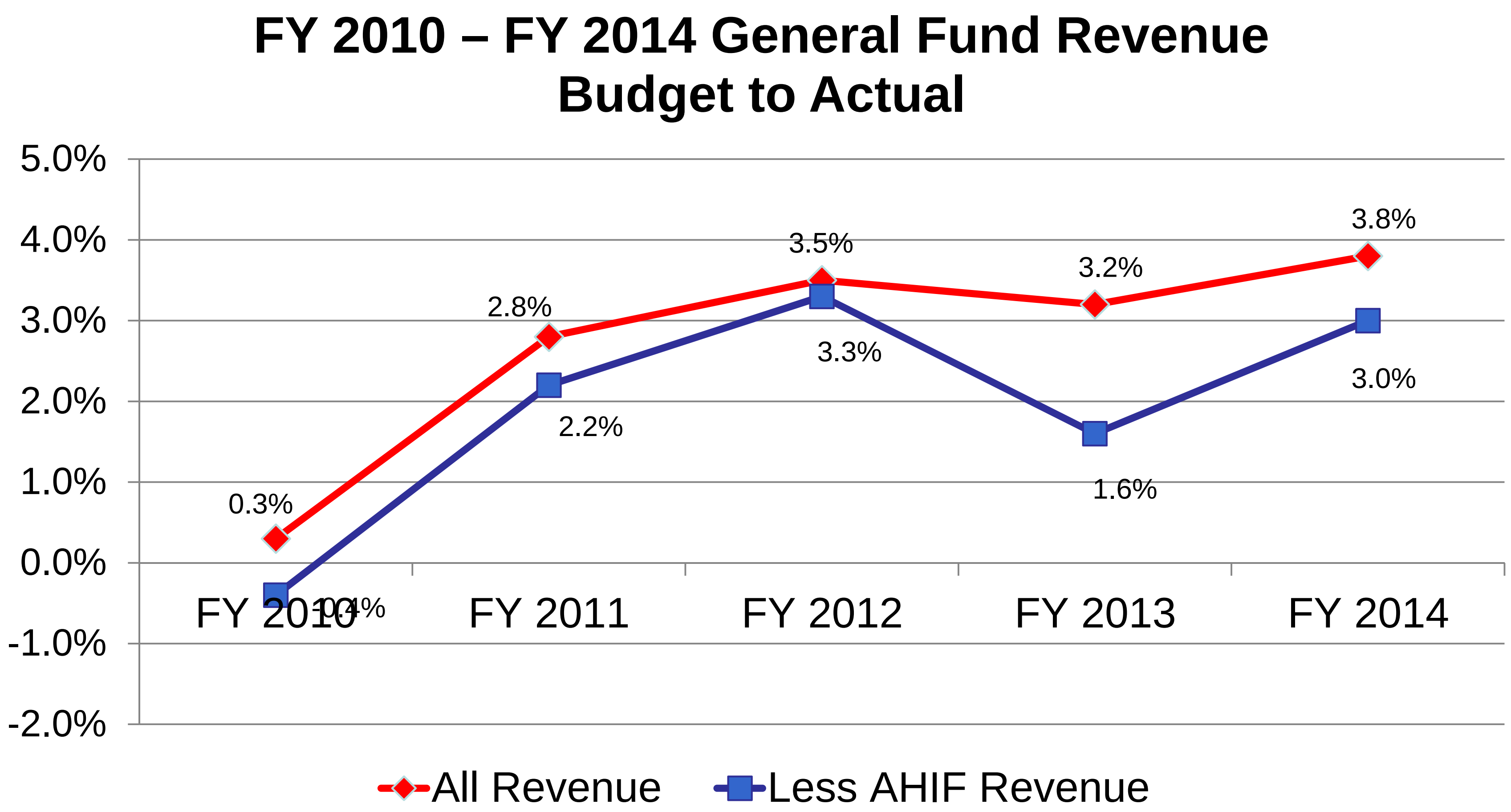
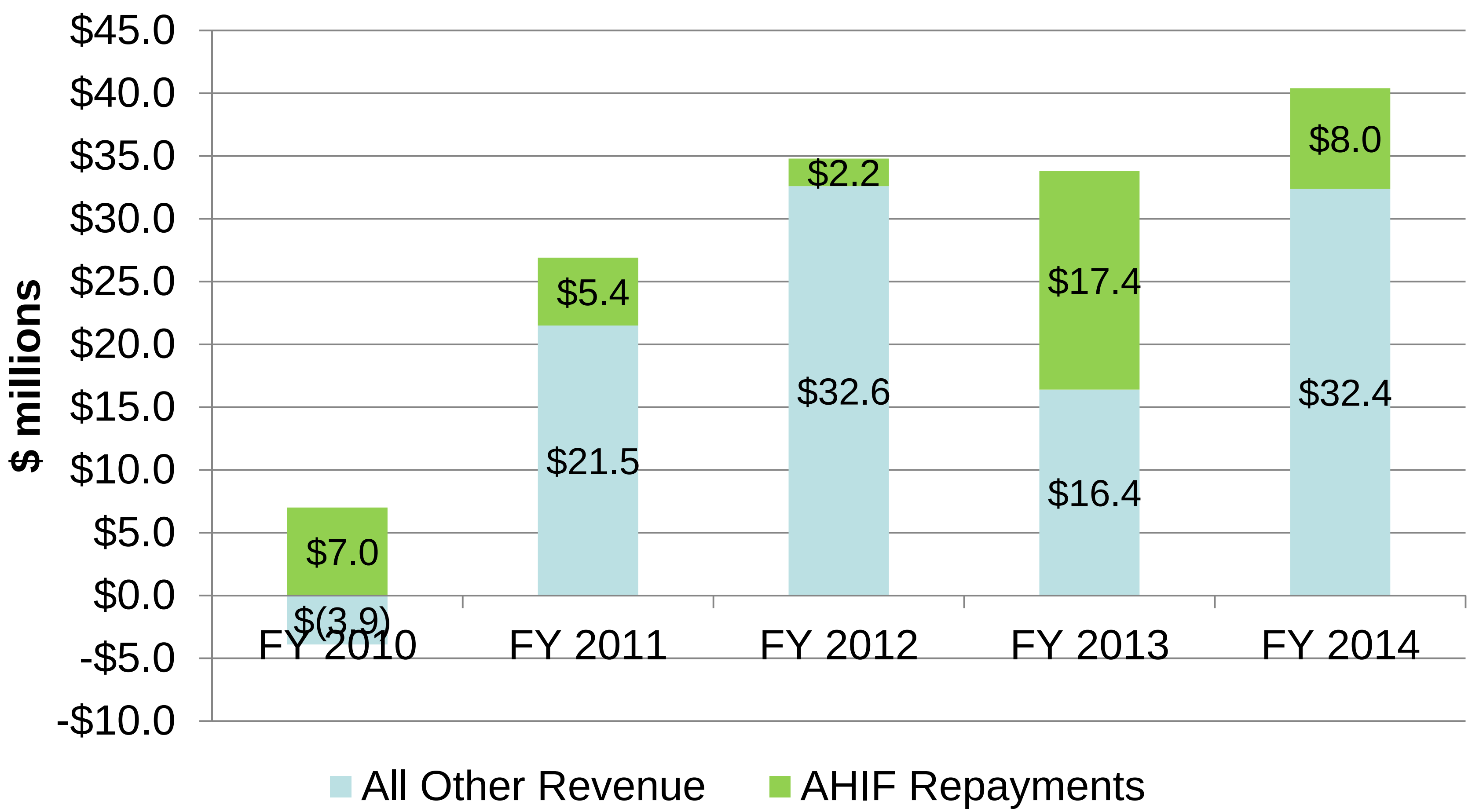
- Conservative projections during volatile economic times
- Other factors in budget vs. actual results – June payment; tax rate changes
- Certain revenue sources are highly variable and difficult to project:
  - Affordable housing developer site plan contributions / loan repayments
  - State & federal grants
    - County does not lose money; gets carried over to future year

Revenue – Budget vs. Actual



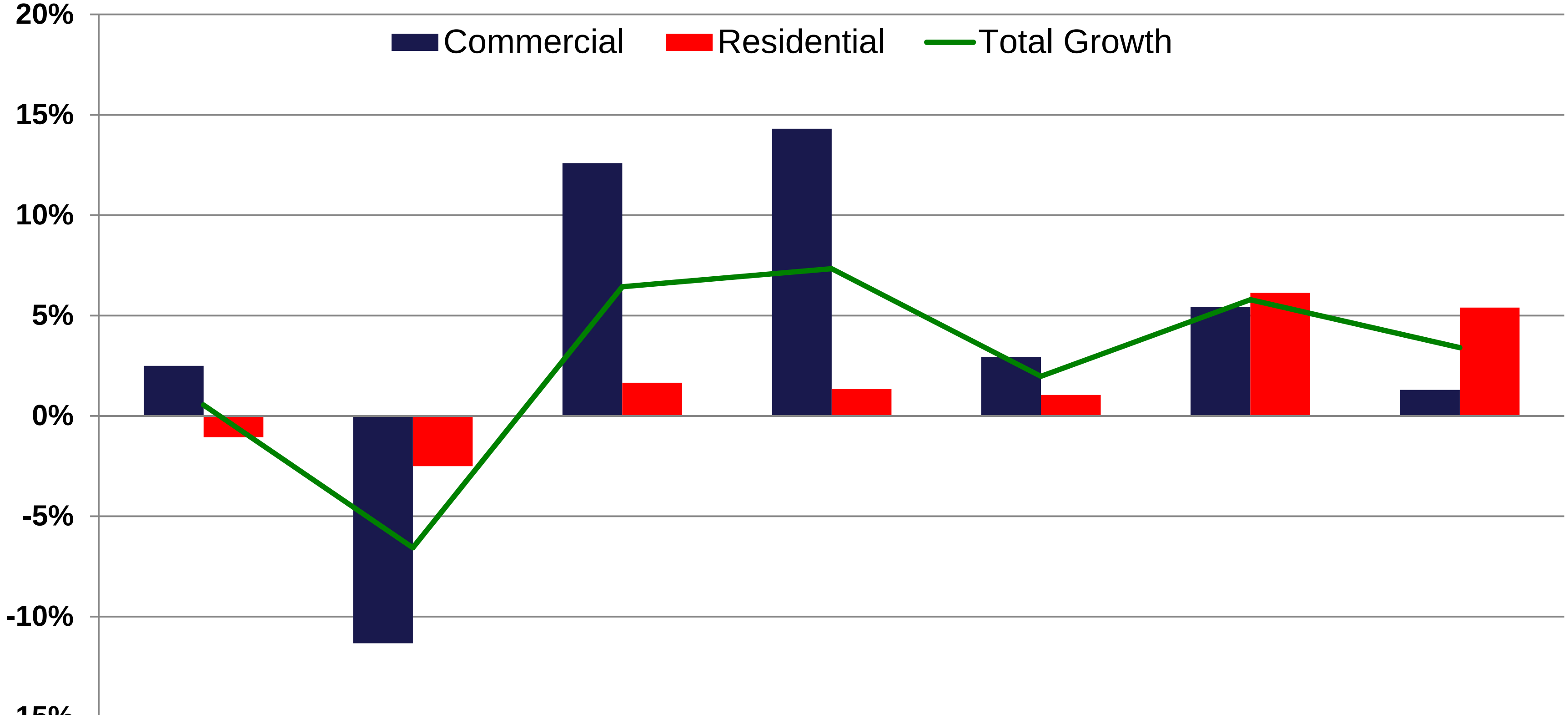
Five Year Average less AHIF Repayments = 1.9%

Revenue – Budget vs. Actual



Assessment Base Percent Change
Residential vs. Commercial
2009-2014

(year-over-year percent change)



	CY '09	CY '10	CY '11	CY '12	CY'13	CY'14	CY'15
Commercial	2.5%	-11.3%	12.6%	14.3%	2.9%	5.4%	1.3%
Residential	-1.1%	-2.5%	1.7%	1.3%	1.0%	6.1%	5.4%
Total Growth	0.5%	-6.6%	6.4%	7.3%	2.0%	5.8%	3.4%

Revenues – Budget vs. Actuals

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Taxes

- Five year average of tax revenue budget vs. actual = 2.9%

- Contributing factors:
  - Regional economy
  - Arlington specific factors like BRAC
  - Federal government budget decisions – shutdown / sequestration in FY 2014
  - Court cases / refunds / appeals
  - Real estate tax rate adjustments impact current fiscal year tax revenue
  - Budget / tax rate timing & impact on June payment

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FY 2014 Budget Process

- October 2012 – budget planning & guidance
- January 2013 – real estate assessments released
- February 2013 – County Manager proposes budget
- April 2013 – County Board adopts FY 2014 budget

- July 1, 2013 – FY 2014 begins

- Fall 2013 – federal government shutdown & sequestration
- January 2014 – real estate assessments known – IMPACTS JUNE 2014 PAYMENT / JUNE REVENUES
- April 2014 – County Board adopts FY 2015 budget & SETS TAX RATE WHICH IMPACTS JUNE PAYMENT & 2014 REVENUES

- June 2014 – real property tax payment due
- June 30, 2014 – FY 2014 ends

Revenue – Budget Vs. Actual

Tax Revenue

- FY 2014 - Stronger than expected real property assessments
  - FY 2014 budget that was adopted in April 2013 assumed 2% growth on January 1, 2014; actuals were 5.8% - generated $25 million for June 14 payment – <u>did not revise budget</u>
  - Appropriated by Board into FY 2015 for capital investments (paving, parks) and AHIF
  - Experienced losses in other taxes due to federal government shutdown
- FY 2013 - Real estate tax rate adjusted during fiscal year & strong unexpected vehicle personal property
  - Change in real estate tax rate generated $10 million in unbudgeted tax revenue in the fiscal year
  - Vehicle personal property assessments and the resulting tax revenue were higher than expected
- FY 2012 – Real estate tax rate adjusted during fiscal year & higher tax revenues as economy experienced modest recovery
  - Change in real estate tax rate generated $4 million in unbudgeted tax revenue in the fiscal year
  - Most other taxes higher than budgeted

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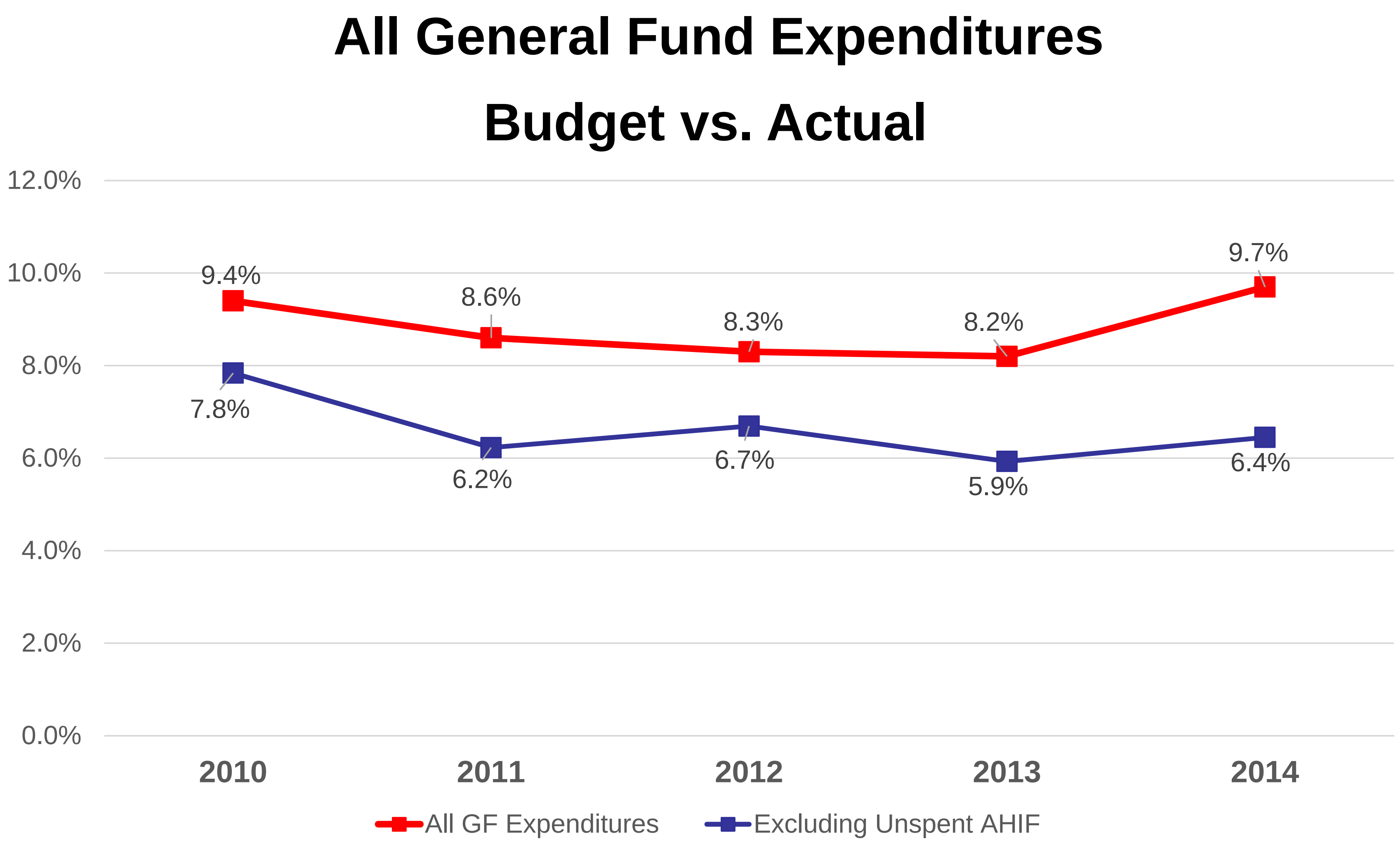
Non-Tax Revenue

- Non-Tax Revenue – Wide range of fees, charges for services, state and federal funding, fine and interest revenue sources
  - Revenue sources impacted by:
    - Macro economic forces (interest rates)
    - State legislation
    - Federal funding levels for grants
    - Demand for services (Parks programs, parking meter usage, DHS client services)
    - Court fines and sale of land/easements
    - AHIF loan repayments
  - Since FY 2010, budget to actual in this category has ranged from negative $6 million to +$15.5 6 million

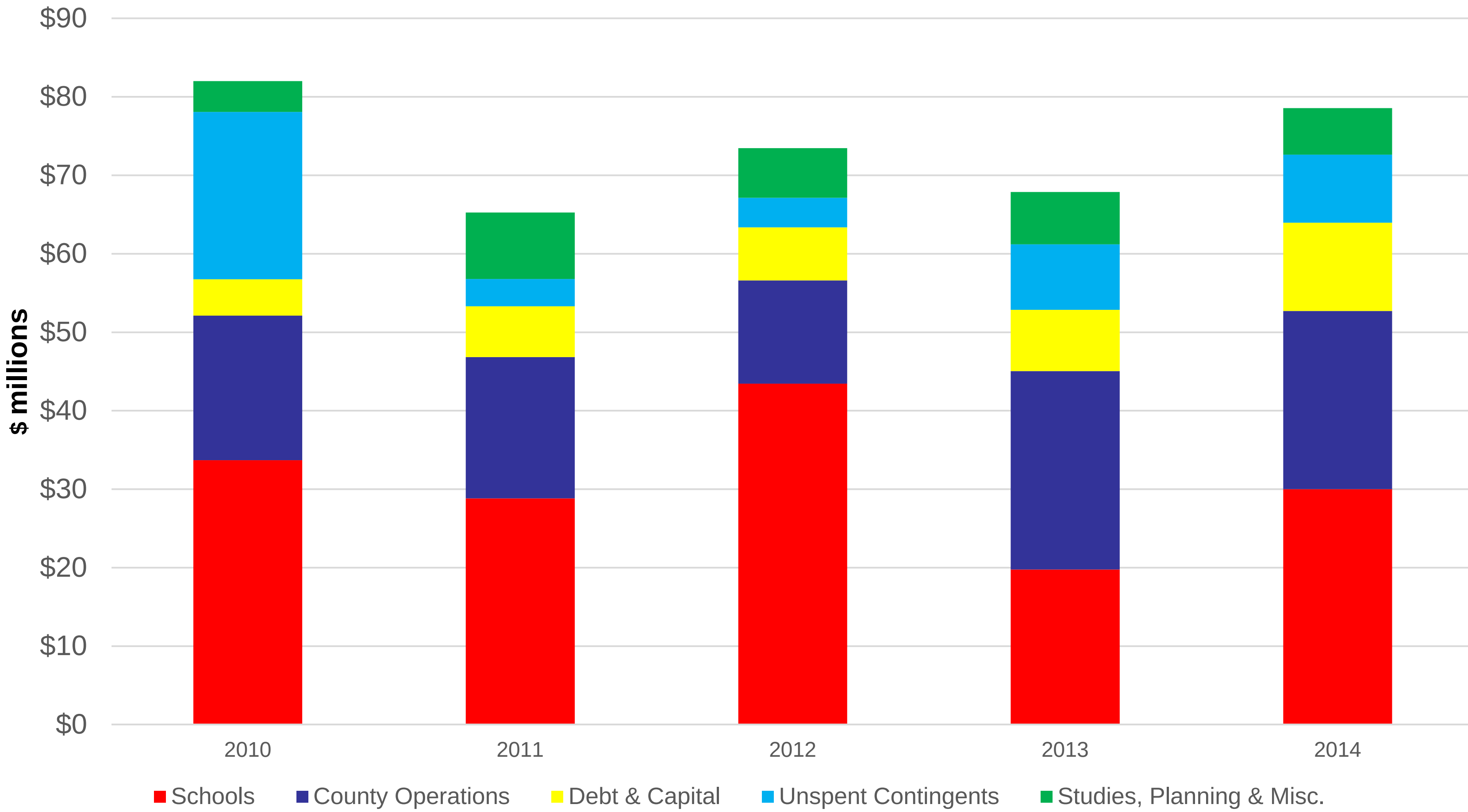
Expenditure Forecasts

Expenditures



Where Do Expenditure Savings Come From?

FY 2010 – 2014 General Fund Budget to Actual Expenditures Net of Unspent AHIF Funds



Where Do Expenditure Savings Come From?

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- Schools ($19.8 million – $43.4 million)
  - Savings driven by personnel, health care, debt service, utilities, etc.
  - Unique situations like VRS holiday
  - Savings are directed by School Board to budget and / or enrollment contingents and one-time expenditures like capital projects, technology
- Contingents ($3.5 million - $21.3 million)
  - Using one-time $, County has funded variety of budget stabilization and compensation contingents
  - Substantial reserves set-aside in FY 2010 following the sharp economic downturn at the end of CY 2009
  - If not used, CB allocates to other priorities at close-out
- Debt & Capital ($4.6 million - $11.2 million)
  - Refunding of bonds – driven by interest rate environment
  - Multi-year capital projects – primarily technology
- Studies, Planning & Miscellaneous ($3.9 million - $8.5 million)
  - Metro, one-time studies

County Operation Savings

FY 2010 – FY 2014

- Departmental savings range from $13 to $25 million, or 4% of County operations budget
- Only includes County operations
  - Excludes Metro, debt service, PAYG, Schools
- Portion of “savings” reflects unspent grants and seized asset funds
  - Ranges from $6-8 million
  - Unspent grant or seized asset funds are carried over to next year if unspent

County Operation Savings

Personnel service savings

Fiscal Year	$ Savings	% of Total Personnel Budget
2010	4.4 million	1%
2011	9.4 million	3%
2012	5.2 million	2%
2013	7.8 million	2%
2014	6.1 million	2%

- Personnel saving realized for a variety of reasons
  - Hiring freezes and slowdowns
  - Certain jobs difficult to fill based on market competition
  - Positions held vacant for departmental reorganizations
  - Positions held in anticipation of budget cuts affecting positions
- Largest savings in personnel are in Police, DHS, & DES
- Would require specific service reductions to achieve savings

County Operation Savings

- Non-personnel savings range from $7 to $17 million
  - Less unspent seized assets & grants, totals $4-13 million
- Sources of savings vary significantly each year

Where has the County Board Allocated Excess One-time Funds?

- **Board policies / dedicated funding:**
  - Schools – revenue sharing
  - AHIF
  - Seized assets – legally restricted
  - Capital
  - AIRE – residential utility tax
  - Increases to the General Fund Operating Reserve to maintain the County triple AAA rating
- **Other one-time appropriations made at close-out:**
  - Compensation contingents & market studies
  - Technology projects (e.g. ConnectArlington)
  - Planning & housing studies
  - Additional AHIF and Housing grant funding
  - Capital investments – paving, parks land acquisition
  - Economic stabilization contingents

Summary

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- Year-end available savings come from many sources and can be difficult to predict
  - Utilizing in future budgets would require identifying specific program savings
- County's historical budget practices are intentionally conservative
- Budget & close-out process 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
  - **Fairfax County is on negative outlook in part due to reserve levels and structural balance – County Executive has recommended to Board of Supervisors that reserve be raised from 5% to 10% of GF expenditures**

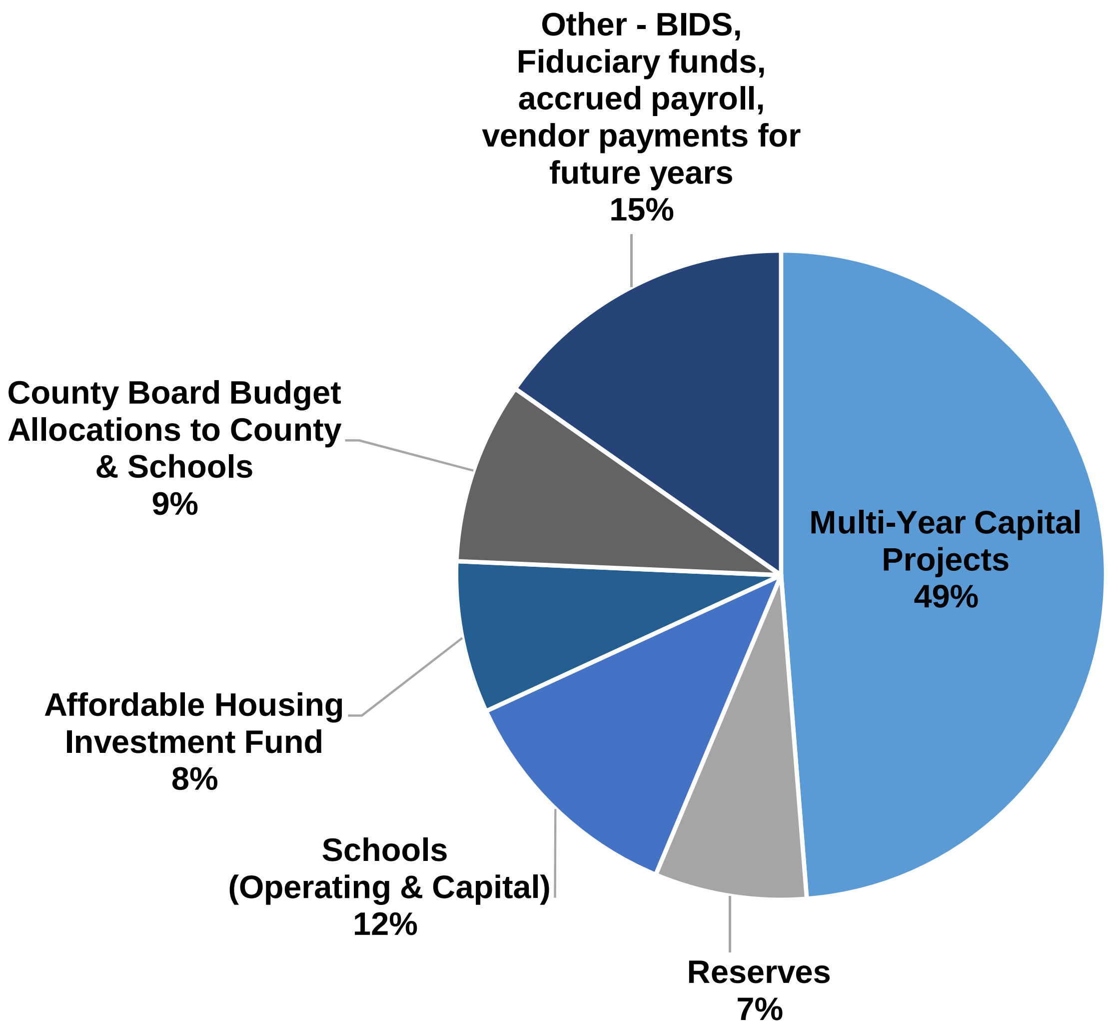
Cash Balances

Cash Balances

- <u>All</u> dollars are allocated to County Board-approved project, service or policy

- Cash balances vary significantly during the fiscal year due to tax payment schedules
  - No short-term borrowing required

Cash Balances as of June 30, 2014



Capital Projects

- Capital projects naturally cannot be executed in a single year
  - Depending on type of project, can be 2-5 years in length
- Majority of capital funds are legally restricted in use
- Transportation Capital - $122 million
  - NVTA local share (“30%”)
  - 12.5 cent dedicated commercial real estate tax
  - Must maintain dedicated tax or lose 30% funding
- Stormwater - $20 million
- Utilities - $62 million
- General capital (bonds & PAYG) - $176 million

Other Cash Balance Components

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- Schools - $103 million
  - Capital projects given enrollment pressures and operating reserves / future budget allocations
- AHIF - $66 million – intentional build-up of funds to address future projects
- Future years' budget allocations to County & Schools - $79 million
- Reserves - $66 million
  - Per Board policy and critical to maintaining Triple-AAA ratings
  - Operating reserve - $58 million
  - Economic & stabilization contingent - $3 million
  - Self insurance reserve - $5 million
- Other – BIDS, trust & agency, cash for vendor / payroll payments given peak June cashflows

Why have Cash Balances Grown?

- New dedicated, legally restricted funds
  - Transportation – local and regional
  - Stormwater
  - BIDs
- Growth in reserves from 2% to 5% to meet rating agency feedback
- Larger capital program – Schools and County

Key Takeaways

- Prudent financial management has resulted in Triple-Aaa bond ratings
  - Low interest rates on debt
- County's strong pension & balance sheet have provided flexibility for service delivery and investments during good and bad economic times
  - All dollars are allocated to specific programs or projects
- Financial practices and reserve levels are consistent with other Triple-Aaa's