Maintaining the County's AAA Bond Rating

County AAA Bond Rating

- Critical for debt service affordability and access to funds in support of critical capital projects
- Since 1978 the AAA has saved the County $684 million
- Only 9 states, 37 counties and 32 cities in the nation have the AAA rating from all three rating agencies
- Strong financial management and the AAA rating are the foundation of the County's reputation in the financial markets and business community

County AAA Bond Rating

- Preservation of the AAA rating will require continued action by the Board of Supervisors
  - Continued budget discipline: No one-time funds for recurring requirements
  - Pension Funds: Decrease unfunded liability levels
  - Reserves: Increase reserves closer to the median of other peer AAA jurisdictions

Importance of Reserves (Working Capital)

- Reserves are an essential part of strong financial management for municipal governments
- The size of reserves and controls over them are dependent on many factors including:
  - Volatility and diversity of the revenue base
  - Flexibility and willingness to reduce expenditures or increase revenues
  - External risks that may threaten the financial stability of a region
- Reserves are a significant factor in evaluating a jurisdiction's credit worthiness by the rating agencies

Current County Policies

- Managed Reserve – 2% of GF disbursements
  - Temporary financing of critical unforeseen expenditures of a catastrophic nature
- Revenue Stabilization – 3% of GF disbursements
  - Permits orderly adjustment to revenue reduction during significant and rapid deterioration of the local economy
  - Conditions for withdrawal
    - Projected revenues must reflect decrease greater than 1.5% from the current year estimate ($56 million)
    - Must be used in combination with spending cuts
    - Withdrawals must not exceed one-half of fund balance
    - Withdrawals must be replenished

Reserves and Fund Balances Recognized by the Rating Agencies

General Fund Balances

Fund Balances as of June 30, 2014	$ in Millions
Committed Fund Balance (Primarily Managed Reserve and Revenue Stabilization)	**$220.6**
Assigned Fund Balance *(Encumbrances)*	**$29.4**
Unassigned Fund Balance *(Sequestration Reserve, Other Reserves, Revenue Surpluses and Expenditure Savings)*	**$52.2**
Total General Fund Available Fund Balance	**$302.2**
GF Available Fund Balance as a Percentage of Revenue and Transfers In	**8.4%**

Reserves and Fund Balances Recognized by the Rating Agencies

Other Available Balances

Fund Balances as of June 30, 2014	$ in Millions
Total General Fund Available Fund Balance	**$302.2**
Community Services Board Reserves	*$12.2*
Elderly Housing Fund Reserves	*2.7*
Helicopter, Ambulance, Police Specialty, Large Apparatus and Vehicle Replacement Reserves in Vehicle Services Internal Service Fund	*34.9*
Technology Hardware Reserve in Technology Infrastructure Internal Service Fund	*10.0*
Outstanding Liability Reserve in Self Insurance Service Fund	*47.2*
Catastrophic Reserve in Self Insurance Service Fund	*12.6*
Litigation Reserve in Self Insurance Service Fund	*30.0*
Total Non-General Fund Available Fund Balance	**$149.6**
Total Available Fund Balance	**$451.8**
Total Available Fund Balance as a Percentage of GF Revenue and Transfers In	**12.5%**

Government Finance Officers Association (GFOA) Recommendations

- Recommends adopting a formal fund balance policy
- Recommends a GF Unrestricted Fund Balance of no less than 2 months (16.7 percent) of GF operating revenues or expenditures
- Appropriate level should take into consideration:
  - Predictability of revenues
  - Volatility of expenditures
  - Exposure to one-time outlays
  - Requirements of other funds
  - Availability of resources in other funds
  - Liquidity
  - Commitments and assignments

Fitch

- Amount considered satisfactory varies based on:
  - Economic or tax base concentration
  - Revenue and expenditure volatility
  - Flexibility to adjust revenues and expenditures
- Review trends in reserves and fund balance
- Strongest features of reserves are automatic funding mechanisms and clear restrictions on use

Moody's

	Fund Balance as % of Revenues
Aaa	>30%
Aa	15-30%
A	5-15%

- Fund and cash balances account for 30% of Moody's score
- Larger balances may be required based on exposure to various risks
- Substantial revenue-raising flexibility may offset smaller balances
- Moody's also measures whether financial reserves are increasing in step with budgetary growth

Standard & Poor's

	Available Fund Balance as % of Expenditures
1 (Very Strong)	>15%
2 (Strong)	8-15%
3 (Adequate)	4-8%
4 (Weak)	1-4%
5 (Very Weak)	<1%

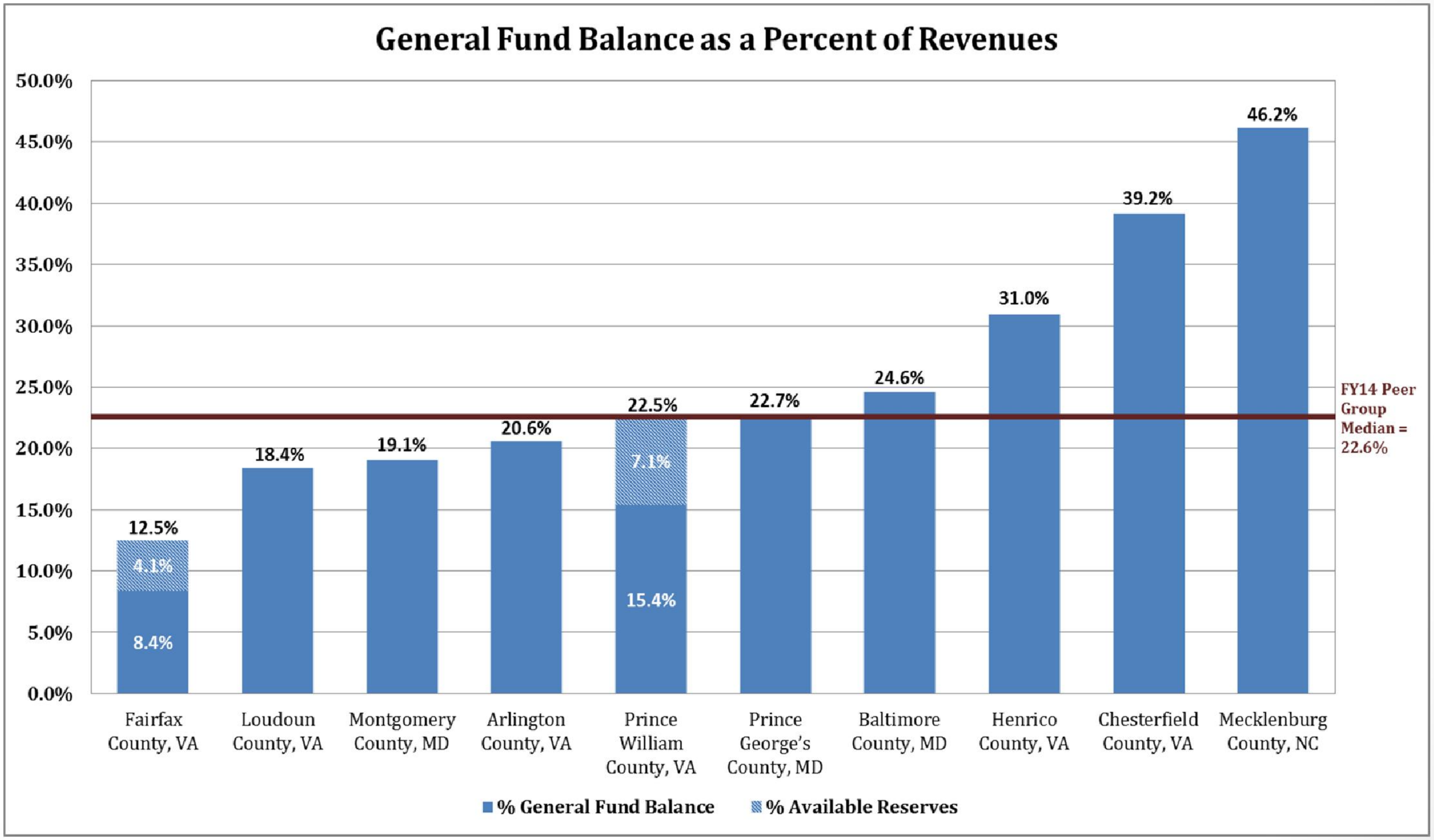
- Fund and cash balances account for 20% of S&P's score
- The fund balance score can be increased by qualitative factors
  - Projections for the current and following years
  - Capacity and willingness to cut spending and raise taxes

Triple AAA-Rated Peers

	Fund Balance Policy	Available General Fund Balance
Mecklenburg County, North Carolina[1]	8.0%	46.2%
Chesterfield County, Virginia	8.0%	39.2%
Henrico County, Virginia	15.0%	31.0%
Baltimore County, Maryland	7.0%	24.6%
Prince George's County, Maryland	5.0%	22.7%
Prince William County, Virginia[2]	8.5%	22.5%
Arlington County, Virginia	5.0%	20.6%
Montgomery County, Maryland[1]	10.0%	19.1%
Loudoun County, Virginia	10.0%	18.4%
Fairfax County, Virginia[2]	5.0%	12.5%

- [1] Fund balance policy for Mecklenburg County, NC, requires that total fund balance be maintained at 28% of actual revenue, and that unassigned fund balance be maintained at 8% of actual revenue. Fund balance policy for Montgomery County, MD, applies to unrestricted fund balance. Fund balance policies for all other jurisdictions listed apply to the unassigned fund balance or to a named reserve such as a revenue stabilization reserve or contingency reserve.
- [2] Available Balances for Fairfax County and Prince William County include General Fund Available Balance and Non-General Fund balances that have been identified as being available for General Fund use. Available Balance for all other jurisdictions is based on total General Fund balance, excluding nonspendable balances, as published in most recent available CAFR documents.

Triple AAA-Rated Peers



Recommendations

1. Ensure that FY 2015 CAFR balances are consistent with FY 2014 levels
   - Year-end balance <u>cannot</u> fall below the FY 2014 level
   - Replenish Litigation Reserve
   - Action must be taken as part of the *FY 2015 Third Quarter Review*

Recommendations

2. Increase existing reserves
   - Increase the Managed Reserve from 2% to 4% of General Fund disbursements
   - Increase the Revenue Stabilization Fund from 3% to 5% of General Fund disbursements
3. Establish a new reserve
   - One percent of General Fund disbursements to allow strategic investment in economic development opportunities that are identified as priorities of the Board
   - Act as a revolving reserve
   - Criteria would be developed for the utilization of this reserve
   - Would be funded after the Managed Reserve and Revenue Stabilization Fund are fully funded at their new levels

Recommendations

4. Adjust and reaffirm the County's Ten Principles of Sound Financial Management
   - Board action when the budget is adopted in April
   - Reflect policy changes to reserves
   - Sends a clear message to the rating agencies of the County's commitment to sound financial management and the resolve to make difficult financial decisions

Implementation

- Funding of increased reserves to be provided by:
  - One-time revenues or one-time balances not required for critical one-time expenditures
  - Allocate 40% of year-end balances not required for critical items
  - Allocate savings from bond refundings
  - Consolidation of existing balances
  - Budget funds for reserves when available

Implementation

- Demonstrate the Board’s commitment to reserves by an immediate deposit into the Managed Reserve or Revenue Stabilization Fund as part of the *FY 2015 Third Quarter Review*
- Review allocation and presentation of available balances in the CAFR to maximize reserve calculations and methodologies used by rating agencies

Summary

- The work of identifying, funding, and accumulating reserves will be ongoing and take time
- A prudent plan is essential to preserving the County's AAA rating
- The AAA rating provides significant benefit to County priorities, both tangible and intangible
- Maintaining the AAA rating is critical to the County's financial foundation and economic success