Response to Questions on the FY 2007 Advertised Budget Plan

Request By: Supervisor Kauffman

Question: Explain the use of the Revenue Stabilization Reserve including the problems which arose in New Orleans following Hurricane Katrina in the absence of sufficient reserves.

Response:
On September 13, 1999, the Board of Supervisors established a Revenue Stabilization Fund to provide a mechanism for maintaining a balanced budget without resorting to tax increases and expenditure reductions that aggravate the stresses imposed by the cyclical nature of the economy. Specifically a revenue stabilization reserve can provide an investment against unexpected economic adversity, the ability to smooth out the peaks and valleys of the budget process, a cushion against budget cuts or revenue enhancements, the means to alleviate the need for quick fix solutions, time to consider longer term revenue and expenditure adjustments and convincing proof of fiscal prudence for rating agencies.

The fund is not intended to be used as a method of addressing the demand for new or expanded services, it is solely to be used as a financial tool in the event of a significant economic downturn.

The fund may not be utilized unless the following criteria are met:
1) Projected revenues reflect a decrease greater than 1.5 percent from the current year estimate.
2) Withdrawal from the Fund shall not exceed one half of the fund balance in any fiscal year, and
3) Withdrawals from the Fund shall be used in combination with spending cuts or other measures.

The Revenue Stabilization Fund has a fully funded target balance of 3.0 percent of General Fund disbursements. The fund is separate and distinct from the County's 2.0 percent Managed Reserve which was established in FY 1983. However the aggregate balance of both reserves shall not exceed 5.0 percent of General Fund disbursements.The Revenue Stabilization Fund target balance of 3.0 percent of General Fund disbursements was to be accomplished by transferring funds from the General Fund over a multi-year period. The Board of Supervisors determined that a minimum of 40 percent of non-recurring balances identified at quarterly reviews would be transferred to the Revenue Stabilization Fund and the fund would retain the interest earnings on this balance, and retention of interest would continue until the Reserve was fully funded.

As part of the County Executive's recommended *FY 2006 Third Quarter Review* package a transfer of $30.2 million has been recommended to fully fund the County's Revenue Stabilization Fund (RSF), which after six years, is still less than 70 percent of the reserve target. Standard and Poor's, in a recent review of Triple AAA counties nationally, found that Fairfax County had one of the lowest general fund reserves of all AAA-rated counties in the nation.

The importance of having such a reserve was reinforced this past fall when we saw the devastating impact that Hurricanes Katrina and Rita had on the Gulf Coast, and particularly in the City of New Orleans area where over half of the municipal workforce and virtually all of the 7,000 school district employees were laid off, with most services suspended. A lack of adequate reserves made these draconian steps unavoidable. To restore its tax base, New Orleans must attract residents back to the city. However, with little existing tax base, the city cannot provide the basic services needed. The availability of a rainy day fund in Jefferson Parish's largest city of Kenner (population 70,000) has been credited with helping that city recover from the disaster since it was able to meet its payroll and provide essential services more quickly than other surrounding communities. In times of crisis, residents look to government – at the federal, state and local levels – to meet their needs. By fully funding the County's RSF as part of the *FY 2006 Third Quarter Review*, we are fortifying the foundation for future County services should a catastrophe of similar proportion befall our region.