Lines of Business

LOB #349:

REVENUE STABILIZATION RESERVE

Purpose

The Revenue Stabilization Reserve provides 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. The reserve was established under the directive that it not 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.

Description

The Revenue Stabilization Reserve is held in Fund 10010, Revenue Stabilization. The reserve was established by the Board of Supervisors during deliberations on the *FY 1999 Carryover Review* with a target level of three percent of General Fund disbursements, and fully funded status was achieved in FY 2006. In FY 2016, the target level of this reserve was increased from three to five percent of General Fund disbursements. There are three specific criteria that must be met in order to make a withdrawal from the fund:

- Projected revenues reflect a decrease greater than 1.5 percent from the current year estimate;
- Withdrawals from the fund shall not exceed one-half of the fund balance in any fiscal year; and
- Withdrawals from the reserve shall be used in combination with spending cuts or other measures.

Benefits

The Revenue Stabilization Reserve mitigates the impact of revenue decreases on County programs and tax rates, providing stability to revenues and expenditures during economic downturns. The reserve has been utilized one time since its creation, when a revenue shortfall led to the withdrawal of $18.7 million to stabilize the FY 2009 budget. It should be noted that the County restored funding to the reserve at year-end FY 2009.

Another important benefit of the Revenue Stabilization Reserve is its contribution to the County's triple-A bond rating. The bond rating agencies give significant weight in their ratings to the maintenance of adequate reserve funds. The County's exceptional triple-A bond rating gives its bonds an unusually high level of marketability and results in the County being able to borrow for needed capital improvements at low interest rates, thus realizing significant savings for the residents of Fairfax County now and in the future.

Mandates

This Line of Business is not mandated.

Trends and Challenges

The bond rating agencies have contended that the County's reserve levels are not sufficient, especially when compared to other triple-A rated jurisdictions. In response to these concerns, the County has committed to increasing its reserve levels, with the target level of the Revenue Stabilization Reserve increasing from three to five percent of General Fund disbursements. In order to fund this target and the increased target of the Managed Reserve, any budgeted increase in General Fund disbursements is accompanied by a 10 percent commitment to reserves and, as part of the Carryover Review, an amount equal to 40 percent of General Fund balances not necessary to fund critical requirements is transferred to the reserves.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
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FUNDING			
Beginning Balance	$107,549,693	$110,575,008	$121,570,436
Interest Earnings	256,138	220,227	650,000
Transfer in from General Fund	2,769,177	10,345,428	536,848
Ending Balance	$110,575,008	$121,140,663	$122,757,284

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Revenue Stabilization Reserve as a percentage of General Fund disbursements	3.05%	3.04%	3.24%	3.41%	NA

The balance of the Revenue Stabilization Reserve is increasing as progress is made toward funding the reserve at its new target level of five percent of General Fund disbursements. It should be noted that the FY 2016 Estimate is based on the balance of the reserve as of the *FY 2015 Carryover Review*.