

Reserves Resolution

Whereas the County's operating reserve was \$74,593,507 as of the close of FY 2019*;

Whereas the County's operating reserve has increased by \$21,988,020 or 41.7% (from \$52,605,487) since FY 2013;

Whereas the County's total reserves available as of the close of FY 2019 amounted to \$345.7 million*;

Whereas Arlington Public Schools maintains a reserve of \$52.8 million which is in addition to the \$345.7 million in County reserves referred to above*;

Whereas as of the close of FY 2019, the County had 'unassigned reserves' of \$14.2 million*;

Whereas as of the close of FY 2019, total reserves (\$345.7 million) was equal to 37% of the County's entire \$1.276 billion General Fund budget for FY 2019;

Whereas the County Manager in his 9/19/19 'Closeout' Report to the Board noted 'The County will need to adopt a longer-term approach towards gradually increasing the Reserves...'

Whereas the County maintains an operating reserve level of 5.5%, which anecdotally may be necessary for the County to maintain its AAA bond rating, up from a level of 3% in 2013;

Whereas other anecdotal information indicates that the bond ratings agencies rely more on a jurisdiction's taxing capacity (as reflected by the average income of residents) to calculate the agencies' risk ratings for each jurisdiction;

Whereas R&E has previously expressed concern that the County maintains reserves in excess of its needs, thereby reducing the County's ability to fund other priorities, such as infrastructure maintenance, flood-risk mitigation, school enrollment increases, etc.

Therefore, be it resolved that the Arlington County Civic Federation requests that the County Board Auditor, or other qualified, independent authority be engaged to analyze the County's reserve balances, including the School funds, in order to determine:

- The amount and type of reserves necessary for the County to maintain its AAA bond rating
- The amount and type of reserves necessary to meet any legal or contractual obligations.
- Any amounts above what is necessary that may be used for other community funding priorities.

Be it further resolved that the County should make available sufficient resources for the County Board Auditor to conduct such analysis or to engage a qualified, independent contractor to do so.

Be it further resolved that the County should fully engage the Fiscal Affairs Advisory Committee (FAAC), the Arlington County Civic Federation (ACCF) and other relevant community organizations before adding to reserve balances that are not legally required.

*Exhibit 1: Extracts from FY 2019 CAFR, Reserves and Contingencies, p. 267, Table C

Report: Reserves Resolution

R&E has been monitoring the growth and use of reserve and contingency funds for several years. As we noted in last year's report accompanying our tax rate resolution "R&E has frequently questioned the need for the County's levels of reserves and contingencies, both for the general fund and other programs. It is virtually impossible to determine the aggregate total of all these items, let alone whether they are actually needed or being utilized or replenished annually."

These questions are amplified by extracts from the 2019 CAFR (Exhibit 1) showing total reserves and contingencies of \$345.7 million, plus APS reserves of \$52.8 million. In addition, the County Manager proposes to create another permanent reserve (the "Stabilization Reserve") equal to 1% of the General Fund Budget (approximately \$14.7 million). Added to that is an annual "General Fund General Contingent" of \$2 million for FY2021.

R&E fully supports the concept of reserves, both as a matter of fiscal prudence, as well as support for the County's AAA bond rating. However, we believe the time has come for an in-depth review of all the County's reserves and contingency funds, especially in light of other high-priority demands (e.g., flood control, infrastructure, school support) that are looming.

We further note that while the Manager and Board believe that an Operating Reserve of 5.5-6.5% is necessary to support the County's AAA bond rating, we have seen no statements from the bond ratings agencies to support that contention. Given that the County's AAA rating was deemed sufficient with an operating reserve of 3.5% in FY 2016, we are given to wonder what has changed so dramatically as to require the additional reserves. We should also note that the ratings agencies compete among themselves to provide ratings analyses, and they charge the County substantial fees to provide them.

Now that the County has substantially reduced commercial vacancy rates, has attracted Amazon-related investment, and enjoys a very healthy tax base, the County should find very little difficulty in attracting bond underwriting bids at extremely low rates from any number of investment banks. Given historically low current interest rates, this should reduce the County's debt service burden, as well as open the opportunity for savings from the refinancing of existing outstanding bonds.

Respectfully submitted,

Burt Bostwick
Revenues & Expenditure Committee
Arlington County Civic Federation