

Recommendation:

Adopt the following comprehensive set of Policies for Fiscal Integrity and Sustainability.

PLANNING & BUDGETING

Balanced Budget:

Arlington County will adopt an annual General Fund budget in which the budgeted revenues and expenditures are equal (a balanced budget). Any one-time revenues will be used for one-time, non-recurring expenses such as capital, equipment, special studies, debt reduction, and reserve contributions.

Long-Term Financial Planning:

The County will annually develop a six-year forecast of General Fund revenues and expenditures and will maintain a biennially updated, six-year Capital Improvement Program (CIP).

General Fund Operating Reserve:

An Operating Reserve will be maintained at no less than three percent of the County's General Fund budget, with a goal of increasing the reserve or reserve-equivalent to five percent of the General Fund budget. Appropriations from the Operating Reserve may only be made by a vote of the County Board to meet a critical, unpredictable financial need. A "reserve equivalent" may consist of discretionary funds which have been designated by the County for a non-essential purpose and which the County Board could reallocate for the same purposes as the General Fund Operating Reserve.

Self-Insurance Reserve:

The County will maintain a self-insurance reserve equivalent to approximately one to two months' claim payments based on a five year rolling average.

General Fund General Contingent:

Each year's budget will include a General Fund General Contingent appropriation to cover unforeseen expense items or new projects initiated after a fiscal year has begun. Funding may be allocated from this contingent only with County Board approval.

Retirement System Funding:

The County will use an actuarially-accepted method of funding its pension system to maintain a fully-funded position. The County's contribution to employee retirement costs will be adjusted annually as necessary to maintain full funding. If the County reaches its actuarially-required contribution (defined as County and employee contributions that when expressed as a percent of annual covered payroll are sufficient to accumulate assets to pay benefits when due), the County may reduce its contribution provided that the amount reduced from the annual actuarial requirement will only be used for one-time non-recurring expenses in order to provide the ability to increase contributions as may be required by future market conditions.

Other Post-Employment Benefits (OPEB) Funding:

The County will use an actuarially-accepted method of funding its other post-employment benefits to maintain a fully-funded position. The extent of the County's post-employment benefits and its contribution to them will be adjusted annually as necessary to maintain full funding. If the County reaches its actuarially-required contribution (defined as County and employee contributions that when expressed as a percent of annual covered payroll are sufficient to accumulate assets to pay benefits when due), the County may reduce its contribution provided that the amount reduced from the annual actuarial requirement will only be used for one-time non-recurring expenses in order to provide the ability to increase contributions as may be required by future market conditions.

Investment Policy:

By State statute, the County Treasurer is responsible for the investment of the County's operating and bond funds consistent with the Code of Virginia. The Treasurer operates under a written investment policy that provides policy guidance on the placement of investments. The Arlington County Finance Board, established pursuant to State Code, provides independent advisory oversight on the County's investment holdings, banking relationships, and the legality and probity of investment activities.

DEBT MANAGEMENT

Debt Management:

The County will prudently use debt instruments, including General Obligation Bonds, Revenue Bonds, Industrial Revenue Bonds, and Master Lease contracts in order to provide re-investment in public infrastructure and other public purposes, including inter-generational tax equity in capital investment. The County will adhere to the following debt affordability criteria (excluding overlapping and self-supporting debt).

1. The ratio of Net Tax-Supported Debt Service to General Expenditures should not exceed ten percent, within the six-year projection.
2. The ratio of Net Tax-Supported Debt Service to Market Value should not exceed four percent, within the six-year projection.
3. The ratio of Net Tax-Supported Debt Service to Income should not exceed six percent, within the six-year projection.
4. Growth in debt service should be sustainable consistent with the projected growth of revenues. Debt should not exceed the average ten year historical revenue growth.
5. The County will refund debt when it is in the best financial interest of the County to do so. When a refunding is undertaken to generate interest rate cost savings, the minimum aggregate present value savings will be three percent of the refunded bond principal amount.

Variable Rate Debt:

The County may use unhedged variable rate debt not to exceed approximately twenty percent of total outstanding fixed rate debt.

Derivatives:

Interest rate swaps and options (Swaps or Derivatives) may be used upon approval of the County Board when a full assessment of benefits and risks indicate that such instruments will best meet the financial objectives of the County.

Special Revenue / Enterprise Funds:

It is the general policy of the County to avoid designation of discretionary funds in order to maintain maximum financial flexibility. The County may, however, create dedicated funding sources when there are compelling reasons based on state law or policy objectives. Policies will be developed for the use of each fund.

OVERSIGHT

Independent Audit:

The County will be audited annually by an independent external auditing firm that specializes in independent financial and compliance auditing services. The audit will comply fully with the Code of Virginia, Generally Accepted Accounting Principles ("GAAP"), and federal requirements for "Single Audit."

Internal Audit:

The County maintains an internal audit unit that performs regular operational audits and reviews of County departments and programs and conducts special investigations and reviews upon request.

Committee on Program Performance:

A Committee for Program Performance will select and provide oversight of program, management, or financial audits as it may determine necessary to ensure the efficient and effective implementation of County programs. The Committee for Program Performance membership consists of two County Board members, the County Manager, a Constitutional Officer, and a member of the Fiscal Affairs Advisory Commission.

Fiscal Affairs Advisory Commission:

A citizen commission appointed by the County Board shall provide independent review of the County Manager's Recommended Budget and other financial issues of the County and provide advice to the County Board. Other commissions appointed by the County Board and other citizen groups shall also provide independent advice to the County Board.