ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of April 19, 2008

DATE: April 15, 2008

SUBJECT: Financial & Debt Management Policies

C. M. RECOMMENDATION: Approve the attached Financial & Debt Management Policies.

ISSUES: What are the appropriate financial policies to ensure the County's financial integrity and sustainability and to maintain the County's triple-A bond ratings?

SUMMARY: The policies included in the FY 2009 proposed budget reflect a comprehensive update of the County's existing financial and debt management policies. The updated policies include increasing the targeted Operating Reserve level to five percent of the General Fund budget and adding a new debt capacity policy that assures sustainability in debt service growth. New policies are proposed for use of derivatives and for general financial management of new transportation and stormwater funds.

BACKGROUND: The debt capacity policies were last reviewed in 2002, and the County first adopted a variable rate debt policy in 2005.

DISCUSSION: The Department of Management and Finance, in conjunction with its financial advisors, conducted a comprehensive review of the County's existing financial and debt management policies. This review included comparisons with other triple-A rated jurisdictions, both regionally and nationally, and comparisons with general rating agency and industry guidance.

The review concluded that the County's existing fiscal policies are generally sound, but highlighted two areas: 1) the recent rate of growth in debt service is not sustainable into the future; and 2) the County's reserve levels are less than that of other triple-A rated jurisdictions. The attached revised policies address these areas by adding a debt capacity policy that limits future debt service growth to the average ten-year historical revenue growth and by increasing the County's Operating Reserve target to five percent of the General Fund budget. This revised target would be met over time (the County's Operating Reserve currently stands at three percent), and could be met by reserve-equivalents.

County Manager: ______________

County Attorney: ______________

Staff: Michelle Cowan, Assistant Chief Financial Officer
Mark Schwartz, Chief Financial Officer

In addition, the revised policies provide guidance regarding the County's potential use of swaps and other derivatives. New policies are included for enterprise, transportation and stormwater special revenue / enterprise funds, assuring that these funds are self-supporting.

FISCAL IMPACT: Comprehensive financial policies have been critical to maintaining the County's triple-A bond ratings, which in turn result in lower interest rates on County bond issues. On average, the County has saved $1.4 million per general obligation bond issue (when compared to double-A rated jurisdictions), with total estimated savings reaching $12.5 million over the last ten years.