

DEBT SERVICE

The FY 2014 proposed budget includes outstanding and proposed new money debt service on the County's General Obligation (G.O.) bonds, Industrial Development Authority (IDA) bonds issued for County projects, and expenses associated with bond program administration. Total General Fund debt service is projected at \$62,686,820, which includes approximately \$2.1 million for debt service on Buckingham Village 3 (to be refinanced in Spring 2013). The Buckingham debt service has been budgeted in Non-Departmental and will be paid for from the Affordable Housing Investment Fund (AHIF). The FY 2014 proposed General Fund debt service budget to be supported by non-AHIF revenues totals \$60,600,000.

Payment of School bonded indebtedness is provided for in the School Debt Service Fund and is supported by a transfer from the County's General Fund. Payment of Utility bonded indebtedness (which includes sewer, advanced wastewater and water bonds) is provided for in the Utilities Enterprise Fund and supported by user fees.

FY 2014 PRIORITIES

The FY 2014 priorities for debt management are:

- To preserve the County's credit ratings at Aaa/AAA/AAA from Moody's, Standard & Poor's, and Fitch Ratings, respectively.
- To continue adhering to the County's prudent debt management policies.
- To issue approximately \$70 million in general obligation new money bonds in CY 2013 approved in the referenda from CY's 2008, 2010 and 2012.
- To issue approximately \$53 million in subject-to-appropriation debt. \$20 million is new money for the new year-round shelter and office space at 2020 14th Street North, while \$33 million is to permanently refinance debt issued for Buckingham Village 3.

DEBT POLICY AND CREDIT RATINGS

The County's debt service budget reflects County fiscal policies regarding the prudent use of bond financing. As part of the FY 2009 Adopted Budget, the County Board adopted an updated set of policies addressing fiscal integrity and sustainability (see www.arlingtonva.us), building on previous policy statements adopted by the Board in 2002 and 2005. The revised policies, coupled with expanded policies regarding County reserves and planning and budgeting, help ensure maintenance of the County's triple-A ratings. The policies include the following ratios:

- Ratio of Tax supported Debt Service to General Expenditures (10%)
- Ratio of Tax supported General Obligation and Subject to Appropriation Financing to Market Value of County Taxable Real and Personal Property (4%)
- Ratio of Tax supported General Obligation Debt to Resident Per Capita Income (6%)
- Ratio of growth in debt service should be consistent with the projected growth of revenues and not exceed the average ten-year historical revenue growth

Charts A – E on the following pages demonstrate the County's historical and planned adherence to these debt management policies. This analysis is based on the Adopted FY 2013 – FY 2022 Capital

Improvement Program (CIP) with updates for revised project cashflows where appropriate and the most recent bond issuance in June 2012.

The Board's policies also include guidelines regarding the use of variable-rate debt:

- Variable rate debt exposure should not exceed approximately 20 percent of total outstanding fixed rate debt,
- Debt service on variable rate bonds will be budgeted at a conservative rate,
- Before issuing variable rate bonds, the County will determine how potential spikes in the debt service will be funded, and
- Before issuing any variable rate bonds, the County will determine the impact of the bonds on the County's total debt capacity under various interest rate scenarios; evaluate the risks inherent in the County's capital structure, giving consideration to both the County's assets and its liabilities; and develop a method for budgeting for debt service.

In addition to the County Board debt policies, Arlington County must follow the requirements set out by Article VII of the Constitution of Virginia, the Public Finance Act and any local charter, resolution, or ordinance in order to incur debt. The issuance of Arlington County General Obligation bonds must also be approved by public referendum. Certain types of debt are excluded from the referendum requirement, including revenue and refunding bonds.

By continually observing these policies, the County has maintained its credit ratings of Aaa/AAA/AAA from Moody's Investors Services, Standard & Poor's Corporation, and Fitch Ratings. These ratings were reaffirmed recently during the issuance of the Series 2012C General Obligation bonds in June 2012, with Moody's maintaining a negative outlook on their rating due to concerns about the federal government's debt and budgetary issues. These are the highest credit ratings awarded and reflect the confidence that the rating agencies share in the County's prudent debt management, economic environment, sound financial position, and stable tax base. These ratings have also allowed the County to receive lower interest rates than it would otherwise have achieved.

PROPOSED NEW MONEY BONDS

The proposed debt service budget was developed assuming a general obligation bond sale of \$69 million in the spring of 2013. The initial debt service payment on the new money bonds will be due in FY 2014 and is projected at approximately \$4.8 million in the General Fund, \$3.8 million in the School Debt Service Fund, and \$0.3 million in the Utilities Fund. Final issuance amounts will be determined closer to the bond sale date and will be based on project cash flow requirements.

SPRING 2013 NEW MONEY BOND ISSUANCE AND REMAINING AUTHORIZED BUT UNISSUED BONDS

	Amount (Millions)	Remaining Authorized But Unissued
County General Obligation Bonds		
Local Parks and Recreation – Arlington Mill & Long Bridge	\$26.2	\$24.9
Transportation - Paving Program, Transportation Match	11.2	7.4
Metro	10.0	14.6
Community Infrastructure – Neighborhood Conservation & ConnectArlington	21.7	20.5
County General Obligation Bonds	69.0	67.4
School General Obligation Bonds – Wakefield HS, Capacity Projects	38.4	38.5
Utility General Obligation Bonds - Water Pollution Control Plant	3.6	8.9
Total General Obligation Bonds	\$111.0	\$114.8
Subject to Appropriation Bonds – 2020 Building / Buckingham Village 3	\$52.9	N/A

INTEREST EARNINGS

Interest earned on unexpended bond proceeds is used to pay debt service. The cash balances that produce interest earnings are based on the timing of bond sales and the cash demand of the construction schedules. Due to the current low interest rate environment, interest earned on unexpended bond proceeds has decreased substantially over the past few years. No change in rates is forecasted for FY 2014.

SUBJECT TO APPROPRIATION OBLIGATIONS

A “subject to appropriation” pledge represents a promise by the County to seek future appropriation, if needed, for debt service payments on certain financing. The County utilized this type of pledge for a variety of projects, as shown on Chart C. In the majority of cases, the County’s support pledge has been used as credit enhancement, thereby allowing the project to be financed at a lower cost. In these cases, actual debt repayment will be made from project revenues and should not require General Fund support.

SIGNIFICANT BUDGET CHANGES

The FY 2014 proposed General Fund debt service budget is \$60,600,000, a six percent increase over the FY 2013 adopted budget, excluding the impact of bonds issued for the refinancing of Buckingham Village 3 debt which is paid for from AHIF funds (and budgeted accordingly in Non-Departmental). This increase is due primarily to new debt associated with the year-round shelter and office space, estimated at \$1.5 million.

	FY 2012 Actual	FY 2013 Adopted	FY 2014 Proposed	% Change '13 to '14
Principal	\$35,851,815	\$36,658,487	\$39,140,753	7%
Interest	18,843,450	22,256,004	23,394,040	5%
Other (1)	10,032	200,000	200,000	0%
Total Expenditures (2)	54,705,297	59,114,491	62,734,793	6%
Less: Debt Service Supported by AHIF	(919,274)	(1,795,595)	(2,134,793)	19%
Total Non-AHIF Supported Debt Service	\$53,786,024	\$57,318,896	\$60,600,000	6%

(1) Includes cost of issuance for proposed bond transactions

(2) Includes the debt service for the IDA Lease Revenue Bonds (2004) and the IDA Revenue Bonds (2009 & 2011)

Arlington County, Virginia
Debt Ratio Forecast
FY2014 Proposed Budget
Updated through June 30, 2012

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	FY2013 Adopted	FY2014 Proposed	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
GENERAL OBLIGATION BOND ISSUANCE FY 13-22 CIP - COUNTY (1)	69,007,000	51,928,000	93,579,000	45,633,000	76,896,000	67,244,000	97,840,000	56,748,000	87,626,000	71,524,000
GENERAL OBLIGATION BOND ISSUANCE FY 13-22 CIP - SCHOOLS	38,380,000	36,460,000	47,800,000	33,200,000	69,000,000	34,000,000	55,000,000	35,000,000	51,000,000	45,000,000
GENERAL OBLIGATION BONDS RETIRED	52,151,155	59,817,165	61,437,388	64,259,605	72,326,352	75,307,843	78,299,425	80,812,224	85,986,933	88,523,472
NET TAX-SUPPORTED GENERAL OBLIGATION BONDS AT END OF FISCAL YEAR (2)	785,768,254	814,339,089	894,280,701	908,854,096	982,423,744	1,008,359,901	1,090,778,476	1,109,592,252	1,170,589,319	1,206,946,847
SUBJECT-TO-APPROPRIATION BOND ISSUANCE(3)	52,941,999	-	-	-	-	-	-	-	-	-
SUBJECT-TO-APPROPRIATION BONDS RETIRED	7,135,155	8,304,983	9,115,566	4,455,856	4,505,147	4,559,477	4,627,527	4,687,425	4,753,898	4,825,735
NET TAX-SUPPORTED BONDS AT END OF FISCAL YEAR (4)	903,067,217	923,333,069	994,159,114	1,004,276,654	1,073,341,155	1,094,717,835	1,172,508,883	1,186,635,234	1,242,878,403	1,274,410,195
SCHOOLS DEBT SERVICE	42,200,088	45,183,508	45,937,712	48,232,971	50,013,386	54,435,488	55,878,125	57,291,941	58,839,212	60,389,240
COUNTY DEBT SERVICE (5)(6)	59,114,491	62,734,793	67,275,634	67,168,181	74,163,474	76,104,385	79,340,119	83,475,695	87,731,866	91,554,081
TOTAL TAX SUPPORTED DEBT SERVICE	101,314,579	107,918,301	113,213,346	115,401,152	124,176,859	130,539,873	135,218,245	140,767,637	146,571,078	151,943,321
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY SIX-YEAR AND TEN-YEAR AVERAGES	4.0%	6.1%	7.2%	-0.2%	10.4%	2.6%	4.3%	5.2%	5.1%	4.4%
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY/SCHOOLS SIX-YEAR AND TEN-YEAR AVERAGES	6.5%	6.5%	4.9%	1.9%	7.6%	5.1%	3.6%	4.1%	4.1%	6.1%
GENERAL GOVERNMENT EXPENDITURES (7)	1,159,254,104	1,191,722,061	1,209,597,892	1,245,885,828	1,283,262,403	1,321,760,275	1,368,021,885	1,422,742,760	1,479,652,471	1,538,838,570
DEBT SERVICE AS % OF EXPENDITURES (NOT TO EXCEED 10%)	8.7%	9.1%	9.4%	9.3%	9.7%	9.9%	9.9%	9.9%	9.9%	9.9%
MARKET VALUATION OF TAXABLE PROPERTY (8)	61,958,584,807	62,576,589,230	63,515,238,068	64,785,542,830	66,729,109,115	68,730,982,388	70,792,911,860	72,916,699,216	75,104,200,192	77,357,326,198
NET TAX SUPPORTED DEBT AS % OF MARKET VALUATION	1.46%	1.48%	1.57%	1.55%	1.61%	1.59%	1.66%	1.63%	1.65%	1.65%
POPULATION (9)	214,613	217,525	220,438	223,350	226,263	229,175	232,088	235,000	236,180	237,360
DEBT PER CAPITA	\$4,208	\$4,245	\$4,510	\$4,496	\$4,744	\$4,777	\$5,052	\$5,050	\$5,262	\$5,369
INCOME PER CAPITA (10)	\$78,000	\$80,340	\$82,750	\$85,233	\$87,790	\$90,423	\$93,136	\$95,930	\$98,808	\$101,772
NET TAX-SUPPORTED GENERAL OBLIGATION DEBT TO INCOME (NOT TO EXCEED 6%)	5.4%	5.3%	5.5%	5.3%	5.4%	5.3%	5.4%	5.3%	5.3%	5.3%

- (1) 5% interest rate assumed on all bond issuances
- (2) Excludes Utilities, Transportation Capital Fund and Crystal City TIF bonds
- (3) FY2013 includes \$33 million Buckingham Village 3 refinancing and \$20 million issuance for 2020 acquisition
- (4) Excludes credit support commitments on revenue bonds or lease-backed bond financings, includes IDA Bonds supported by the County's General Fund. For Subject to Appropriation debts, see Chart C
- (5) Includes both General Obligation and Subject to Appropriation debt, including debt for Buckingham Village 3 and 2020. Excludes costs of issuance.
- (6) Includes debt service on \$20 million interim financing for Long Bridge Park in years FY2015 - FY2020
- (7) Includes expenditures of General Fund and certain Special Revenue Funds of the County and School Board. 2 percent growth in FY 2015 , 3% in FY 2016. 4% beyond
- (8) Includes real and personal property. Assumes 2 percent growth in FY 2015 , 3% in FY 2016, 4% beyond
- (9) Population growth as estimated by the Arlington County Planning Division.
- (10) Source: Arlington County planning division 2011 estimates. Assumes 3% growth

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Summary of Tax-Supported General Obligation Bonds & Subject To Appropriation-Type Financings⁽¹⁾
Ratio of Outstanding Debt to Market Value
As of June 30

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	FY2013 Adopted	FY2014 Proposed	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Tax-Supported General Obligation Debt	\$785,768,254	\$814,339,089	\$894,280,701	\$908,854,096	\$982,423,744	\$1,008,359,901	\$1,090,778,476	\$1,109,592,252	\$1,170,589,319	\$1,206,946,847
Tax-Supported Subject to Appropriation ("STA") Debt										
Capital Equipment Leases (2)	20,145,997	20,787,904	23,480,321	23,489,562	20,963,348	18,021,251	20,372,090	20,791,505	23,544,657	23,432,334
Industrial Development Authority (IDA) Bonds (3)	94,280,000	86,147,500	77,222,500	72,976,528	68,700,556	64,389,583	60,038,611	55,647,639	51,211,667	46,725,694
Buckingham Village 3 Notes/Bonds (4)	32,816,999	32,279,078	31,716,950	31,129,527	30,515,669	29,874,188	29,203,840	28,503,327	27,771,290	27,006,312
Peumansend Creek Regional Jail	601,937	481,938	361,938	241,938	121,938	-	-	-	-	-
No. Va. Criminal Justice Academy	256,389	256,883	257,130	256,947	266,324	-	-	-	-	-
Subtotal	\$148,101,322	\$139,953,303	\$133,038,839	\$128,094,501	\$120,567,834	\$112,285,023	\$109,614,542	\$104,942,471	\$102,527,614	\$97,164,340
Project-Supported Subject to Appropriation ("STA") Debt (5)										
Ballston Public Parking Garage	9,900,000	9,400,000	8,900,000	8,400,000	7,900,000	7,400,000	6,900,000	6,400,000	5,900,000	5,400,000
IDA Lease Revenue Bonds (Ballston Skating Facility) (6)	28,245,000	27,275,000	26,280,000	25,255,000	24,195,000	23,095,000	21,945,000	20,740,000	19,480,000	18,155,000
Gates of Ballston (7)	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000
Subtotal	61,145,000	59,675,000	58,180,000	56,655,000	55,095,000	53,495,000	51,845,000	50,140,000	48,380,000	46,555,000
LESS: State Regional Jail Reimbursement (8)	(1,126,000)	-	-	-	-	-	-	-	-	-
Total Tax-Supported General Obligation (GO) & ALL STA Financings	\$993,888,576	\$1,013,967,392	\$1,085,499,540	\$1,093,603,597	\$1,158,086,578	\$1,174,139,924	\$1,252,238,018	\$1,264,674,723	\$1,321,496,933	\$1,350,666,187
Total <u>Tax-Supported</u> GO and <u>Tax-Supported</u> STA Financings	\$932,743,576	\$954,292,392	\$1,027,319,540	\$1,036,948,597	\$1,102,991,578	\$1,120,644,924	\$1,200,393,018	\$1,214,534,723	\$1,273,116,933	\$1,304,111,187
Total <u>Project-Supported</u> STA Financings	\$61,145,000	\$59,675,000	\$58,180,000	\$56,655,000	\$55,095,000	\$53,495,000	\$51,845,000	\$50,140,000	\$48,380,000	\$46,555,000
Market Value of Taxable Property	\$61,958,584,807	\$62,576,589,230	\$63,515,238,068	\$64,785,542,830	\$66,729,109,115	\$68,730,982,388	\$70,792,911,860	\$72,916,699,216	\$75,104,200,192	\$77,357,326,198
Total <u>Tax-Supported</u> GO & ALL STA Financings										
as Percent of Market Value (Not to Exceed 4%)	1.60%	1.62%	1.71%	1.69%	1.74%	1.71%	1.77%	1.73%	1.76%	1.75%
Total <u>Tax-Supported</u> GO & <u>Tax-Supported</u> STA Financings										
as Percent of Market Value	1.51%	1.52%	1.62%	1.60%	1.65%	1.63%	1.70%	1.67%	1.70%	1.69%
Total <u>Project-Supported</u> STA Financings (Credit Enhancement)										
as Percent of Market Value (2)	0.10%	0.10%	0.09%	0.09%	0.08%	0.08%	0.07%	0.07%	0.06%	0.06%

(1) Excludes Self-supporting debt in the Utility and Transportation Capital Funds.

(2) Includes capital equipment leases in the General Fund, Auto Fund, Utilities Fund and Schools Fund

(3) Includes the Series 2004 IDA Lease Revenue Bonds, Series 2009, 2011 and 2013 IDA Revenue Bonds

(4) Buckingham Village 3 bank notes expire in July 2013. 30 year fixed rate bonds will be issued in Spring 2013

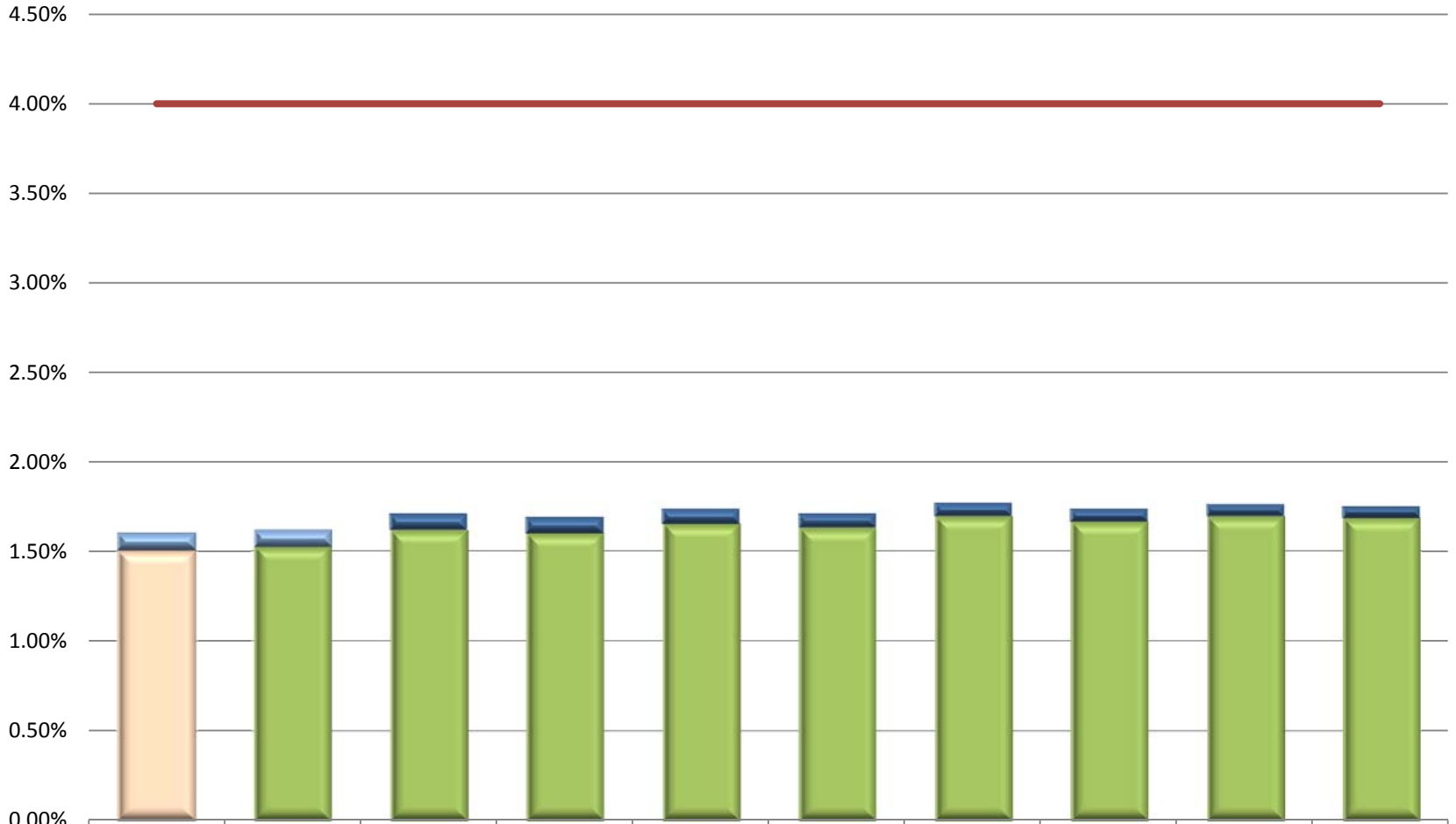
(5) Debt service on these financings is intended to be repaid by user fees or tenant rental income, not by County General Fund revenues.

(6) Includes the bonds issued by the IDA in 2010 to refinance the construction of two ice rinks, the office space, and the training facility on top of the 8th Level at the Ballston Parking Garage.

(7) The County Board approved the credit support for the long-term financing of the Gates of Ballston for an amount not to exceed \$23.0 million.

Chart D

**Ratio of Tax-Supported & Subject to Appropriation Financing
as a Percentage of Market Value
FY2014 Proposed Budget**



	Adopted	Proposed								
Project-Supported	0.10%	0.10%	0.09%	0.09%	0.08%	0.08%	0.07%	0.07%	0.06%	0.06%
Tax-Supported	1.51%	1.52%	1.62%	1.60%	1.65%	1.63%	1.70%	1.67%	1.70%	1.69%
Not to Exceed 4%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

■ Tax-Supported
 ■ Project-Supported
 — Not to Exceed 4%

Chart E

Ratio of Tax-Supported General Obligation Debt to Income

FY2014 Proposed Budget

Not to Exceed 6%

