

DEBT SERVICE

The FY 2015 adopted budget includes outstanding and 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 \$62,534,246, which includes \$1.8 million for debt service on Buckingham Village 3. The Buckingham debt service has been budgeted in Non-Departmental and will be paid for from the Affordable Housing Investment Fund (AHIF). The FY 2015 Adopted General Fund debt service budget to be supported by non-AHIF revenues totals \$60,745,567.

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 2015 PRIORITIES

The FY 2015 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 \$78.0 million in general obligation new money bonds in CY 2014 approved in the referenda from CY's 2008, 2010, and 2012.

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 CY 2002 and CY 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 Debt 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 planned adherence to these debt management policies. This analysis is based on the Proposed FY 2015–FY 2024 Capital Improvement Program (CIP) with updates for revised project cashflows where appropriate and the most recent bond issuance in May 2013.

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 2014 General Obligation bonds in May 2014. 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.

ADOPTED NEW MONEY BONDS

The adopted debt service budget was developed assuming a general obligation bond sale of \$78.0 million in the spring of 2014. The initial debt service payment on the new money bonds will be due in FY 2015 and is projected at approximately \$2.8 million in the General Fund, \$3.6 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 2014 NEW MONEY BOND ISSUANCE AND REMAINING AUTHORIZED BUT
UNISSUED BONDS**

	Amount Issued	Remaining Authorized But Unissued
County General Obligation Bonds		
Local Parks and Recreation	\$3.6	\$32.0
Transportation - Paving Program, Transportation Match	7.4	0.0
Metro	14.6	0.0
Community Infrastructure – Neighborhood Conservation & ConnectArlington	12.7	14.1
County General Obligation Bonds	38.4	46.1
School General Obligation Bonds – Capacity Projects	36.5	5.4
Utility General Obligation Bonds - Water Pollution Control Plant	3.1	5.8
Total General Obligation Bonds	\$78.0	\$57.3

In millions, numbers may not add due to rounding

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 2015.

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 2015 Adopted General Fund debt service budget is \$60,745,567, a less than one percent increase over the FY 2014 adopted budget, excluding the impact of bonds issued for Buckingham Village 3 debt and paid for from AHIF funds (and budgeted accordingly in Non-Departmental).

	FY 2013 Actual	FY 2014 Adopted	FY 2015 Adopted	% Change '14 to '15
Principal	\$35,526,687	\$39,140,753	\$41,837,431	7%
Interest	19,552,335	23,394,040	20,661,815	(12%)
Other (1)	21,951	200,000	35,000	(83%)
Total Expenditures (2)	55,100,973	62,734,793	62,534,246	--%
Less: Debt Service Supported by AHIF	(875,881)	(2,134,793)	(1,788,679)	(16%)
Total Non-AHIF Supported Debt Service	\$54,225,092	\$60,600,000	\$60,745,567	--%

(1) Includes cost of issuance for proposed bond transactions

(2) Includes the debt service for IDA Lease Revenue Bonds (2004) and IDA Revenue Bonds (2009/2011/2013)

Chart A

**Arlington County, Virginia
Debt Ratio Forecast
Adopted FY 2015 Budget**

	FY 2015 Adopted	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GENERAL OBLIGATION BOND ISSUANCE PROPOSED FY 15-24 CIP - COUNTY	97,611,000	61,940,000	59,550,000	71,810,000	65,050,000	47,920,000	48,820,000	50,890,000	66,230,000	65,230,000
GENERAL OBLIGATION BOND ISSUANCE ADOPTED FY 13-22 CIP - SCHOOLS	47,800,000	33,200,000	69,000,000	34,000,000	55,000,000	35,000,000	51,000,000	45,000,000	40,000,000	40,000,000
GENERAL OBLIGATION BONDS RETIRED	62,446,548	68,415,963	72,345,729	75,134,176	77,833,807	79,241,518	83,343,481	84,300,397	130,211,277	132,662,379
NET TAX-SUPPORTED GENERAL OBLIGATION BONDS AT END OF FISCAL YEAR (2)	873,191,330	899,915,367	956,119,638	986,795,461	1,029,011,654	1,032,690,136	1,049,166,655	1,060,756,258	1,036,774,981	1,009,342,602
SUBJECT-TO-APPROPRIATION BOND ISSUANCE	-	-	-	-	-	-	-	-	-	-
SUBJECT-TO-APPROPRIATION BONDS RETIRED	9,316,926	4,595,311	4,602,374	4,608,114	4,651,145	4,689,522	4,732,899	4,779,984	4,832,070	4,877,864
NET TAX-SUPPORTED BONDS AT END OF FISCAL YEAR (3)	980,695,865	1,002,824,591	1,054,426,487	1,080,494,197	1,118,059,245	1,117,048,205	1,128,791,825	1,135,601,444	1,106,788,098	1,074,477,855
SCHOOLS DEBT SERVICE	45,237,778	47,155,694	48,976,656	53,535,852	54,927,569	56,336,261	57,880,440	59,466,258	61,090,645	63,099,460
COUNTY DEBT SERVICE (4)	62,534,246	65,148,196	69,209,167	70,339,558	73,989,232	76,891,696	80,141,904	80,891,885	82,478,850	84,758,542
TOTAL TAX SUPPORTED DEBT SERVICE	107,772,024	112,303,890	118,185,823	123,875,410	128,916,801	133,227,958	138,022,344	140,358,143	143,569,496	147,858,002
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY TEN-YEAR AVERAGE (No Greater than 5.22%)	-0.3%	4.2%	6.2%	1.6%	5.2%	3.9%	4.2%	0.9%	2.0%	2.8%
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY/SCHOOLS TEN-YEAR AVERAGE (No Greater than 5.22%)	0.3%	4.2%	5.2%	4.8%	4.1%	3.3%	3.6%	1.7%	2.3%	3.0%
GENERAL GOVERNMENT EXPENDITURES (5)	1,271,677,593	1,297,111,145	1,323,053,368	1,349,514,435	1,389,999,868	1,431,699,864	1,474,650,860	1,518,890,386	1,564,457,098	1,611,390,810
DEBT SERVICE AS % OF EXPENDITURES (NOT TO EXCEED 10%)	8.47%	8.66%	8.93%	9.18%	9.27%	9.31%	9.36%	9.24%	9.18%	9.18%
MARKET VALUATION OF TAXABLE PROPERTY (6)	66,683,398,835	68,017,066,812	69,377,408,148	70,764,956,311	72,887,905,000	75,074,542,150	77,326,778,415	79,646,581,767	82,035,979,220	84,497,058,597
NET TAX SUPPORTED DEBT AS % OF MARKET VALUATION (3%)¹⁰	1.47%	1.47%	1.52%	1.53%	1.53%	1.49%	1.46%	1.43%	1.35%	1.27%
POPULATION (7)	222,900	225,540	228,180	230,820	233,460	236,100	238,370	240,640	242,910	245,180
DEBT PER CAPITA	\$4,400	\$4,446	\$4,621	\$4,681	\$4,789	\$4,731	\$4,735	\$4,719	\$4,556	\$4,382
INCOME PER CAPITA (8)	\$86,300	\$88,026	\$89,787	\$91,582	\$93,414	\$95,282	\$97,188	\$99,132	\$101,114	\$103,136
NET TAX-SUPPORTED GENERAL OBLIGATION DEBT TO INCOME (NOT TO EXCEED 6%)	5.1%	5.1%	5.1%	5.1%	5.1%	5.0%	4.9%	4.8%	4.5%	4.2%

(1) Assumes 4.5% interest on CY 2014 and CY 2015 Bonds. 5% interest rate assumed on all other bond issuance

(2) Excludes Utilities, Transportation Capital Fund and Crystal City TIF bonds

(3) 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.

(4) Includes both General Obligation and Subject to Appropriation debt. Excludes Transportation Capital Fund Debt Service

(5) Includes expenditures of General Fund and certain Special Revenue Funds of the County and School Board. Assumes 2% in FY 2016 - 2018, 3% in FY2019 and beyond

(6) Includes real and personal property. Assumes 2% in FY 2016 - 2018, 3% in FY2019 and beyond

(7) Population growth as estimated by the Arlington County Planning Division and MWCOG Round 8.2 Forecasts.

(8) Source: Arlington County planning division 2014 estimates. Assumes 2% growth

(9) Based on Schools Adopted 13-22 CIP. Assumes an \$80 million issuance in 2022 Referenda for planning purposes only

Chart C

Summary of Tax-Supported General Obligation Bonds & Subject To Appropriation-Type Financings ⁽¹⁾
Ratio of Outstanding Debt to Market Value
Adopted FY 2015 Budget
As of June 30

	FY 2015 Adopted	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Tax-Supported General Obligation Debt	\$873,191,330	\$899,915,367	\$956,119,638	\$986,795,461	\$1,029,011,654	\$1,032,690,136	\$1,049,166,655	\$1,060,756,258	\$1,036,774,981	\$1,009,342,602
Tax-Supported Subject to Appropriation ("STA") Debt										
Capital Equipment Leases (2)	18,020,726	14,839,815	12,230,150	9,802,218	9,699,798	11,838,568	14,378,270	15,249,831	19,349,648	13,435,591
Industrial Development Authority (IDA) Bonds (3)	106,855,000	101,925,000	96,980,000	92,020,000	87,015,000	81,960,000	76,850,000	71,680,000	66,445,000	61,150,000
Peumansend Creek Regional Jail	361,938	241,938	121,938	-	-	-	-	-	-	-
No. Va. Criminal Justice Academy	257,130	256,947	266,324	-	-	-	-	-	-	-
Subtotal	\$125,494,794	\$117,263,700	\$109,598,412	\$101,822,218	\$96,714,798	\$93,798,568	\$91,228,270	\$86,929,831	\$85,794,648	\$74,585,591
Project-Supported Subject to Appropriation ("STA") Debt (4)										
Ballston Public Parking Garage	7,500,000	6,300,000	5,100,000	8,400,000	-	-	-	-	-	-
IDA Lease Revenue Bonds (Ballston Skating Facility)	26,280,000	25,255,000	24,195,000	23,095,000	21,945,000	20,740,000	19,480,000	18,155,000	16,760,000	15,290,000
Gates of Ballston (6)	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	56,780,000	54,555,000	52,295,000	54,495,000	44,945,000	43,740,000	42,480,000	41,155,000	39,760,000	38,290,000
LESS: State Regional Jail Reimbursement (7)	-	-	-	-	-	-	-	-	-	-
Total Tax-Supported General Obligation (GO) & ALL STA Financi	\$1,055,466,124	\$1,071,734,067	\$1,118,013,050	\$1,143,112,679	\$1,170,671,452	\$1,170,228,704	\$1,182,874,924	\$1,188,841,089	\$1,162,329,629	\$1,122,218,193
Total <u>Tax-Supported</u> GO and <u>Tax-Supported</u> STA Financings	\$998,686,124	\$1,017,179,067	\$1,065,718,050	\$1,088,617,679	\$1,125,726,452	\$1,126,488,704	\$1,140,394,924	\$1,147,686,089	\$1,122,569,629	\$1,083,928,193
Total <u>Project-Supported</u> STA Financings	\$56,780,000	\$54,555,000	\$52,295,000	\$54,495,000	\$44,945,000	\$43,740,000	\$42,480,000	\$41,155,000	\$39,760,000	\$38,290,000
Market Value of Taxable Property	\$66,683,398,835	\$68,017,066,812	\$69,377,408,148	\$70,764,956,311	\$72,887,905,000	\$75,074,542,150	\$77,326,778,415	\$79,646,581,767	\$82,035,979,220	\$84,497,058,597
Total <u>Tax-Supported</u> GO & ALL STA Financings as Percent of Market Value (Not to Exceed 4%)	1.58%	1.58%	1.61%	1.62%	1.61%	1.56%	1.53%	1.49%	1.42%	1.33%
Total <u>Tax-Supported</u> GO & <u>Tax-Supported</u> STA Financings as Percent of Market Value	1.50%	1.50%	1.54%	1.54%	1.54%	1.50%	1.47%	1.44%	1.37%	1.28%
Total <u>Project-Supported</u> STA Financings (Credit Enhancement) as Percent of Market Value (2)	0.09%	0.08%	0.08%	0.08%	0.06%	0.06%	0.05%	0.05%	0.05%	0.05%

(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 2009, 2011 and 2013 IDA Revenue Bonds

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

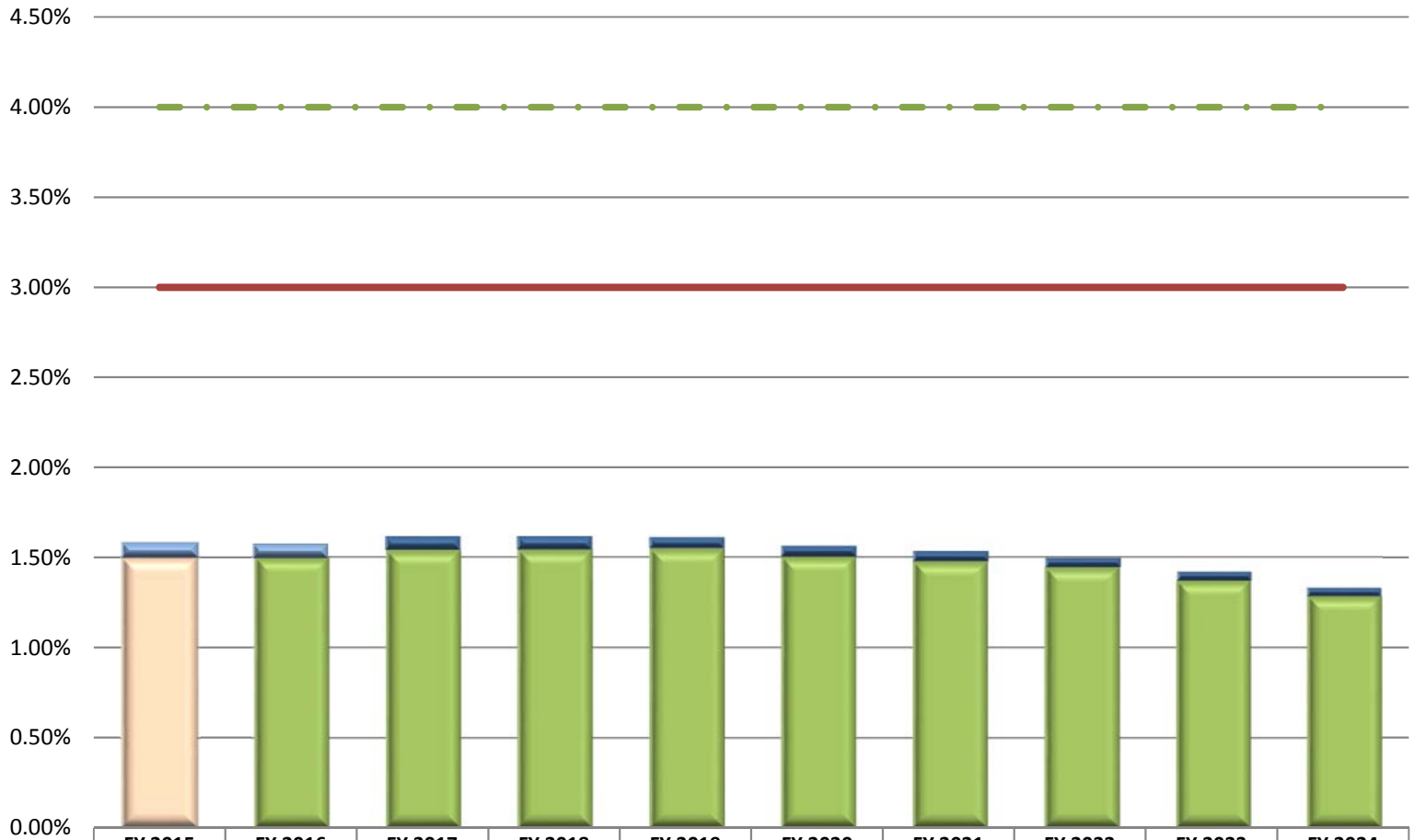
(5) Includes the bonds issued by the IDA in 2010 to refinance the construction of two ice rinks, the office space, and the training facility on top of the 8th Level at the Ballston Parking Garage.

(6) 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.

(7) Includes principal only.

Chart D

**Ratio of Tax-Supported & Subject to Appropriation Financing
as a Percentage of Market Value
Adopted FY 2015 Budget**

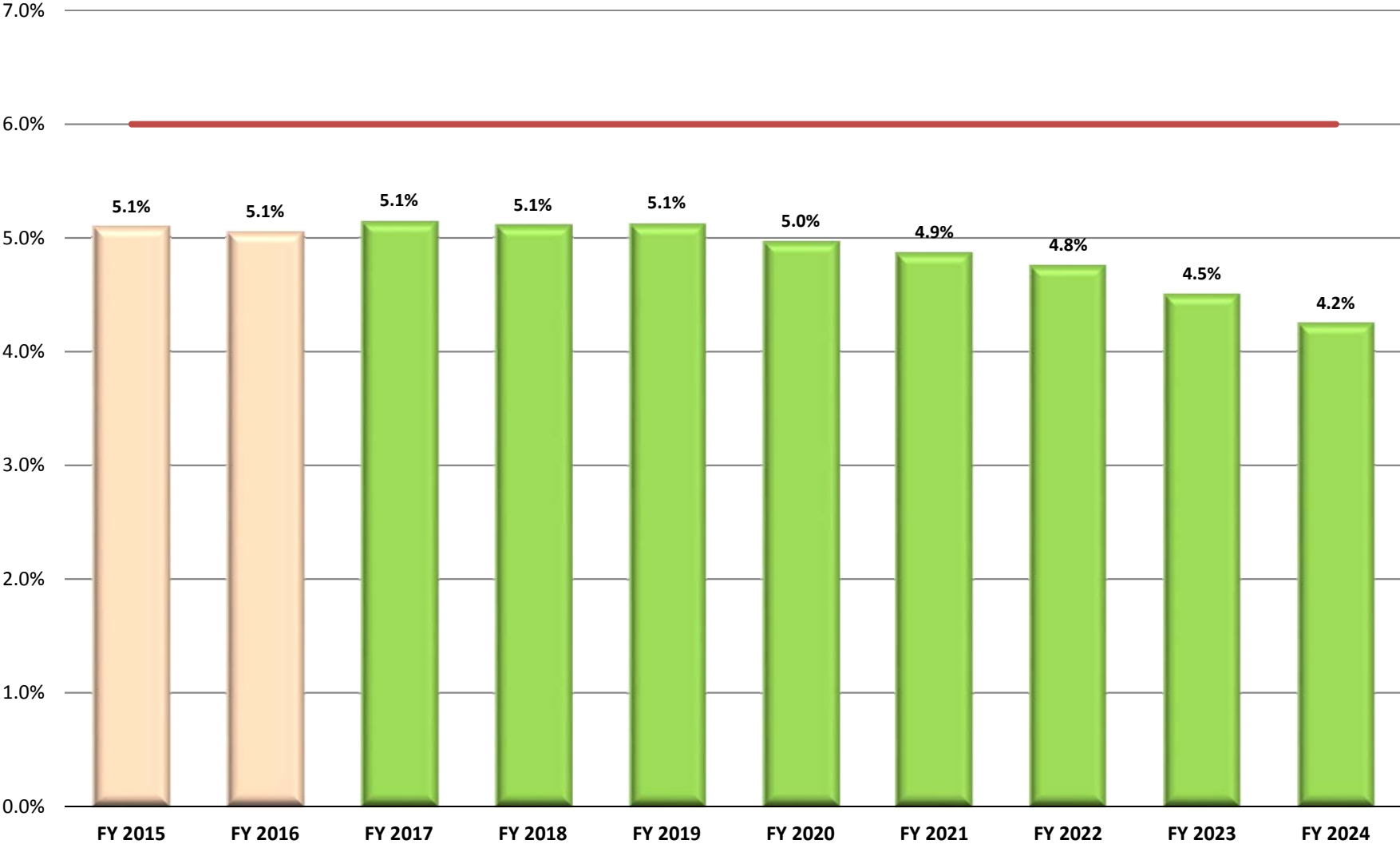


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Project-Supported	0.09%	0.08%	0.08%	0.08%	0.06%	0.06%	0.05%	0.05%	0.05%	0.05%
Tax-Supported	1.50%	1.50%	1.54%	1.54%	1.54%	1.50%	1.47%	1.44%	1.37%	1.28%
Not to Exceed 3% (New Policy)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Not to Exceed 4% (Old Policy)	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 3% (New Policy)
 Not to Exceed 4% (Old Policy)

Chart E

Ratio of Tax-Supported General Obligation Debt to Income
Adopted FY 2015 Budget
Not to Exceed 6%



■ Tax-Supported Debt to Income — Not to Exceed 6%