

DEBT SERVICE

The FY 2016 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 \$61,689,067, 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 2016 Adopted General Fund debt service budget to be supported by non-AHIF revenues totals \$59,900,000.

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 2016 PRIORITIES

The FY 2016 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 million in general obligation new money bonds in CY 2015 approved in the referenda from CY's 2008, 2010, 2012, and 2014.

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 Adopted FY 2015 – FY 2024 Capital Improvement Program, 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, CY 2005, and CY 2009. 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 (3%)
- 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 2015 – FY 2024 Capital Improvement Program (CIP) with updates for revised project cashflows where appropriate and the most recent bond issuance in June 2015.

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 2015 General Obligation bonds in June 2015. 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.

2015 NEW MONEY BONDS

The proposed debt service budget was developed assuming a general obligation bond sale of \$145 million in the spring of 2015. The 2015 bonds were issued in June based on revised project cashflow needs at a total of \$77.44 million. The adopted debt service budget was reduced by \$1.9 million due to the reduced issuance projection. The primary reason for the reduction in County bonds was a reduced capital funding request by Metro for FY 2016. No bonds in the bond sale were included for the Long Bridge aquatics facility. The initial debt service payments due in FY 2016 are approximately \$2.1 million in the General Fund, \$2.3 million in the School Debt Service Fund, and \$0.3 million in the Utilities Fund.

SPRING 2015 NEW MONEY BOND ISSUANCE AND REMAINING AUTHORIZED BUT UNISSUED BONDS

	Amount Issued	Remaining Authorized But Unissued
County General Obligation Bonds		
Local Parks and Recreation - Parks Maintenance Capital	\$5.7	\$39.4
Transportation – WalkArlington, BikeArlington, Neighborhood Complete Streets, Improvements Outside Major Travel Corridors, East Falls Church Streets, Transportation Systems & Traffic Signals, Paving	9.4	11.9
Metro – 7000 Series Railcars, Preventative Maintenance	8.0	40.6
Community Infrastructure – Neighborhood Conservation, Facilities Maintenance, Critical Systems Infrastructure, Trade Center Parking Deck, Aurora Hills Interior Renovation, ConnectArlington/ITS	21.4	34.6
County General Obligation Bonds	44.4	126.5
School General Obligation Bonds – Capacity Projects	30.0	75.8
Utility General Obligation Bonds - Water Pollution Control Plant	3	4.2
Total General Obligation Bonds	\$77.4	\$206.4

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 2016.

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 2016 Adopted General Fund debt service budget is \$59,900,000, a one percent decrease over the FY 2015 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 2014 Actual	FY 2015 Adopted	FY 2016 Adopted	% Change '15 to '16
Principal	\$39,004,170	\$41,837,431	\$41,330,197	(1%)
Interest	18,691,330	20,661,815	20,323,869	(2%)
Other (1)	7,676	35,000	35,000	-
Total Expenditures (2)	57,703,176	62,534,246	61,689,067	(1%)
Less: Debt Service Supported by AHIF	(1,817,402)	(1,788,679)	(1,789,067)	-
Total Non-AHIF Supported Debt Service	\$55,885,774	\$60,745,567	\$59,900,000	(1%)

(1) Includes cost of issuance for proposed bond transactions

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

Chart A

**Arlington County, Virginia
Debt Ratio Forecast
Adopted FY 2016 Budget**

	FY 2015 Adopted	FY 2016 Adopted	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GENERAL OBLIGATION BONDS - COUNTY (1)	44,440,000	64,031,000	84,850,000	89,910,000	84,050,000	47,345,000	48,820,000	48,920,000	66,230,000	65,230,000
GENERAL OBLIGATION BONDS - SCHOOLS (1)	58,310,000	33,200,000	69,000,000	60,400,000	52,000,000	45,500,000	57,000,000	44,400,000	8,000,000	8,200,000
GENERAL OBLIGATION BONDS RETIRED	62,271,548	66,161,743	68,951,831	71,550,075	76,463,263	78,772,196	83,988,881	85,284,128	87,533,136	89,029,615
NET TAX-SUPPORTED GENERAL OBLIGATION BONDS AT END OF FISCAL YEAR (2)	819,932,940	851,002,196	935,900,365	1,014,660,290	1,074,247,027	1,088,319,831	1,110,150,950	1,118,186,822	1,104,883,686	1,089,284,071
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)	917,639,437	944,113,382	1,024,409,177	1,098,560,988	1,153,496,580	1,162,879,863	1,179,978,083	1,183,233,971	1,165,098,765	1,144,621,286
SCHOOLS DEBT SERVICE	45,237,778	45,237,778	46,911,705	51,509,236	55,579,288	56,660,315	59,234,319	61,305,918	62,760,909	61,545,150
COUNTY DEBT SERVICE (4)	62,534,246	61,689,067	63,556,012	65,866,981	71,438,188	76,420,172	80,257,082	81,113,971	82,585,990	84,807,686
TOTAL TAX SUPPORTED DEBT SERVICE	107,772,024	106,926,845	110,467,716	117,376,217	127,017,476	133,080,488	139,491,401	142,419,889	145,346,900	146,352,835
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY TEN-YEAR AVERAGE (No Greater than 5.22%)		-1.4%	3.0%	3.6%	8.5%	7.0%	5.0%	1.1%	1.8%	2.7%
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY/SCHOOLS TEN-YEAR AVERAGE (No Greater than 5.22%)		-0.8%	3.3%	6.3%	8.2%	4.8%	4.8%	2.1%	2.1%	0.7%
GENERAL GOVERNMENT EXPENDITURES (5)	1,271,677,593	1,287,290,257	1,313,036,062	1,339,296,783	1,379,475,687	1,420,859,957	1,463,485,756	1,507,390,329	1,552,612,039	1,599,190,400
DEBT SERVICE AS % OF EXPENDITURES (NOT TO EXCEED 10%)	8.47%	8.31%	8.41%	8.76%	9.21%	9.37%	9.53%	9.45%	9.36%	9.15%
MARKET VALUATION OF TAXABLE PROPERTY (6)	69,423,299,531	71,652,994,536	73,086,054,427	74,547,775,515	76,784,208,781	79,087,735,044	81,460,367,095	83,904,178,108	86,421,303,452	89,013,942,555
NET TAX SUPPORTED DEBT AS % OF MARKET VALUATION (3%)	1.32%	1.32%	1.40%	1.47%	1.50%	1.47%	1.45%	1.41%	1.35%	1.29%
POPULATION (7)	215,000	216,700	219,900	223,100	226,300	229,500	232,700	235,410	238,120	240,830
DEBT PER CAPITA	\$4,268	\$4,357	\$4,659	\$4,924	\$5,097	\$5,067	\$5,071	\$5,026	\$4,893	\$4,753
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%)	4.9%	4.9%	5.2%	5.4%	5.5%	5.3%	5.2%	5.1%	4.8%	4.6%

(1) Updated for 2015 GO Bond Issuance. 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 Utilities Fund and 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, personal property, and Public 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) Maximum lowered to 3% from 4% as part of the revised debt policies in the Adopted FY 2015 - FY 2024 CIP

Chart C

Summary of Tax-Supported General Obligation Bonds & Subject To Appropriation-Type Financings ⁽¹⁾
Ratio of Outstanding Debt to Market Value
Adopted FY 2016 Budget
As of June 30

	FY 2015 Adopted	FY 2016 Adopted	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Tax-Supported General Obligation Debt	\$819,932,940	\$851,002,196	\$935,900,365	\$1,014,660,290	\$1,074,247,027	\$1,088,319,831	\$1,110,150,950	\$1,118,186,822	\$1,104,883,686	\$1,089,284,071
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) (5)	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
Total Tax-Supported General Obligation (GO) & ALL STA Financings	\$1,002,207,734	\$1,022,820,896	\$1,097,793,777	\$1,170,977,507	\$1,215,906,825	\$1,225,858,399	\$1,243,859,219	\$1,246,271,653	\$1,230,438,334	\$1,202,159,662
Total <u>Tax-Supported</u> GO and <u>Tax-Supported</u> STA Financings	\$945,427,734	\$968,265,896	\$1,045,498,777	\$1,116,482,507	\$1,170,961,825	\$1,182,118,399	\$1,201,379,219	\$1,205,116,653	\$1,190,678,334	\$1,163,869,662
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	\$69,423,299,531	\$71,652,994,536	\$73,086,054,427	\$74,547,775,515	\$76,784,208,781	\$79,087,735,044	\$81,460,367,095	\$83,904,178,108	\$86,421,303,452	\$89,013,942,555
Total <u>Tax-Supported</u> GO & ALL STA Financings as Percent of Market Value (Not to Exceed 4%)	1.44%	1.43%	1.50%	1.57%	1.58%	1.55%	1.53%	1.49%	1.42%	1.35%
Total <u>Tax-Supported</u> GO & <u>Tax-Supported</u> STA Financings as Percent of Market Value	1.36%	1.35%	1.43%	1.50%	1.53%	1.49%	1.47%	1.44%	1.38%	1.31%
Total <u>Project-Supported</u> STA Financings (Credit Enhancement) as Percent of Market Value (2)	0.08%	0.08%	0.07%	0.07%	0.06%	0.06%	0.05%	0.05%	0.05%	0.04%

(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

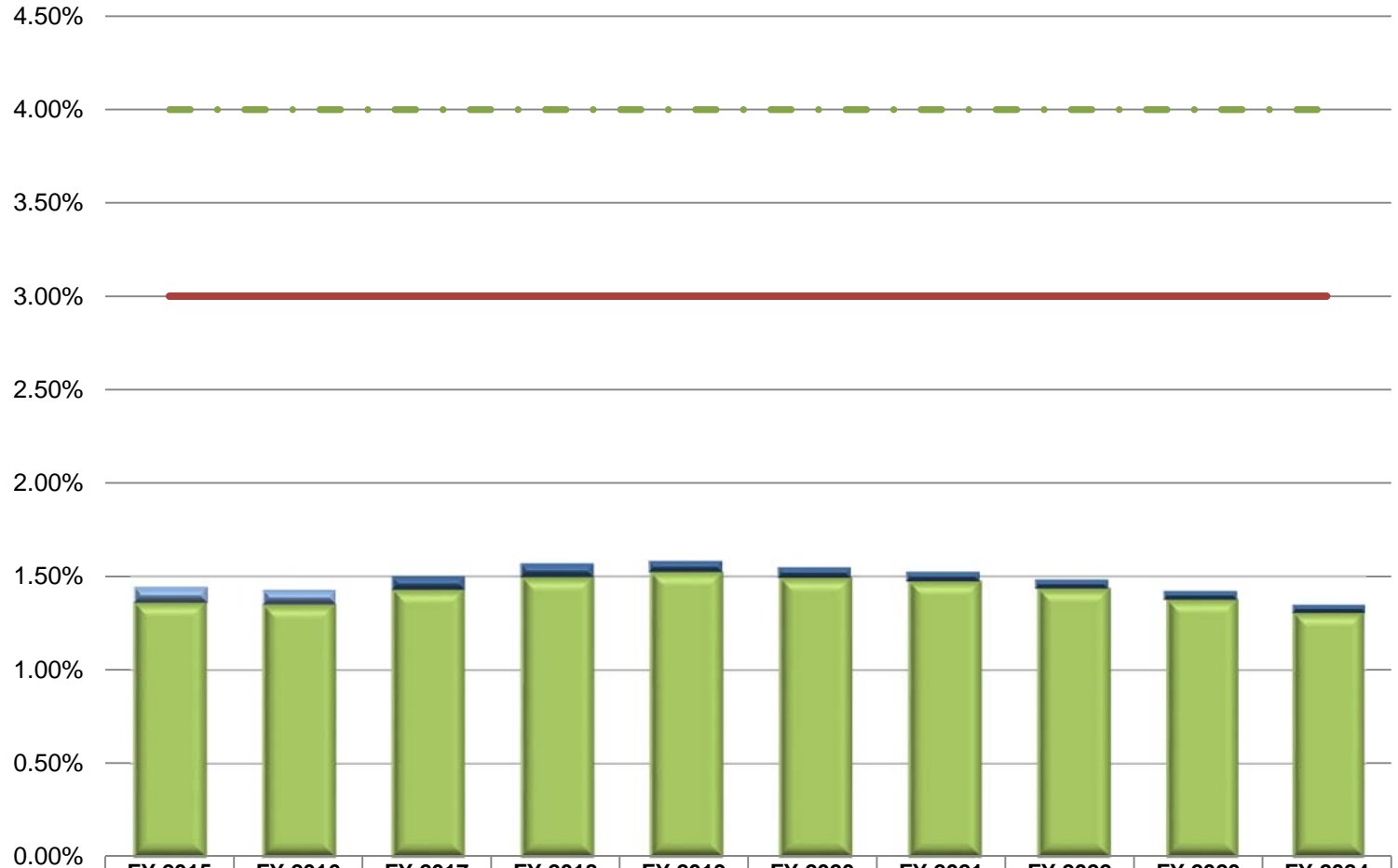
(4) Debt service on these financings is intended to be repaid by user fees or tenant rental income, not by County General Fund revenues.

(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.

Chart D

**Ratio of Tax-Supported & Subject to Appropriation Financing
as a Percentage of Market Value
Adopted FY 2016 Budget**

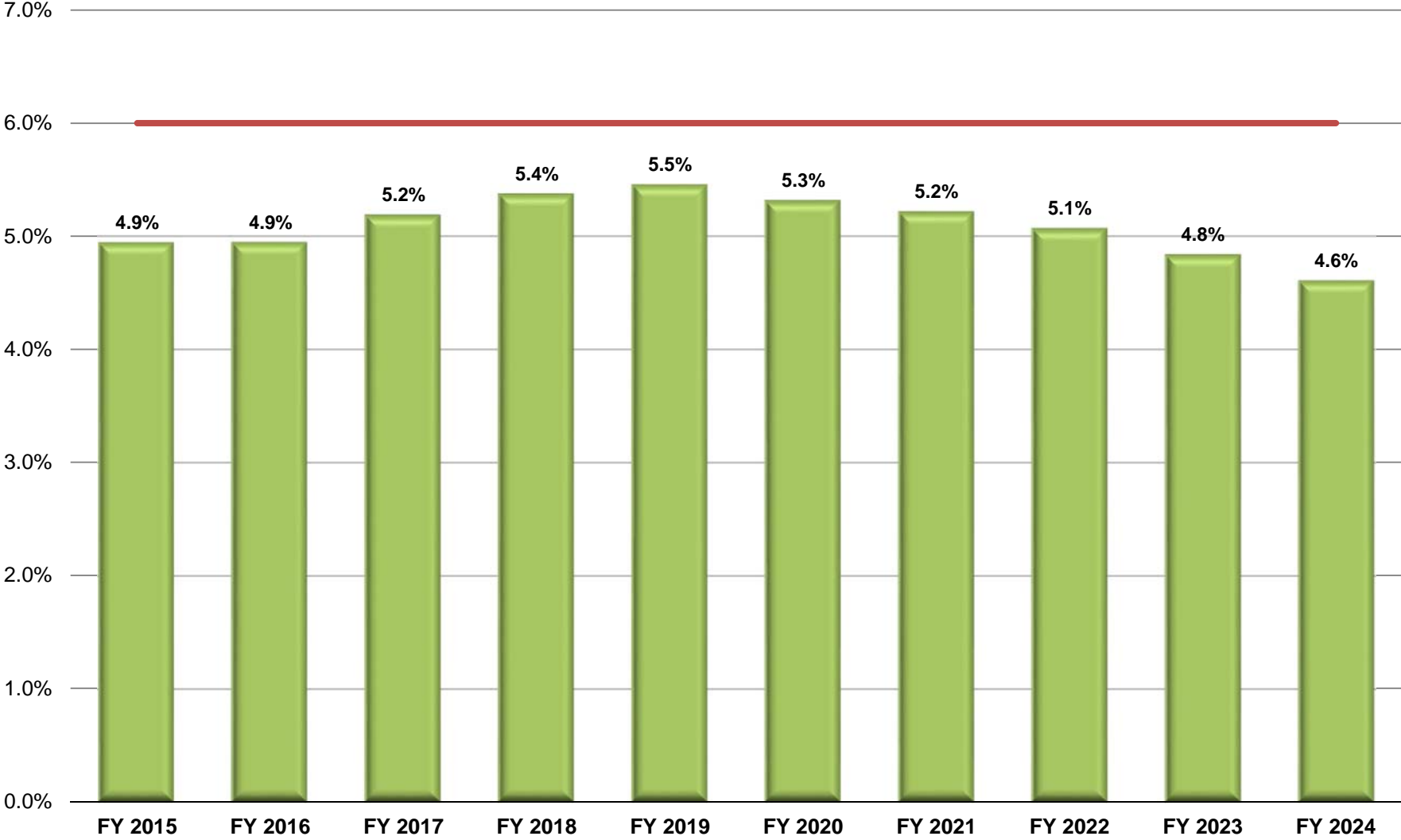


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Project-Supported	0.08%	0.08%	0.07%	0.07%	0.06%	0.06%	0.05%	0.05%	0.05%	0.04%
Tax-Supported	1.36%	1.35%	1.43%	1.50%	1.53%	1.49%	1.47%	1.44%	1.38%	1.31%
Not to Exceed 3% (New Policy)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	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 2016 Budget
Not to Exceed 6%



Tax-Supported Debt to Income Not to Exceed 6%