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Vision for Arlington County

"Arlington will be a diverse and inclusive world-class urban community with secure, attractive residential and commercial neighborhoods where people unite to form a caring, learning, participating, sustainable community in which each person is important."

- Adopted by the Arlington County Board January 26, 2002

Table of Contents

E. METRO AND TRANSPORTATION

1. METRO

2. TRANSPORTATION INITIATIVES

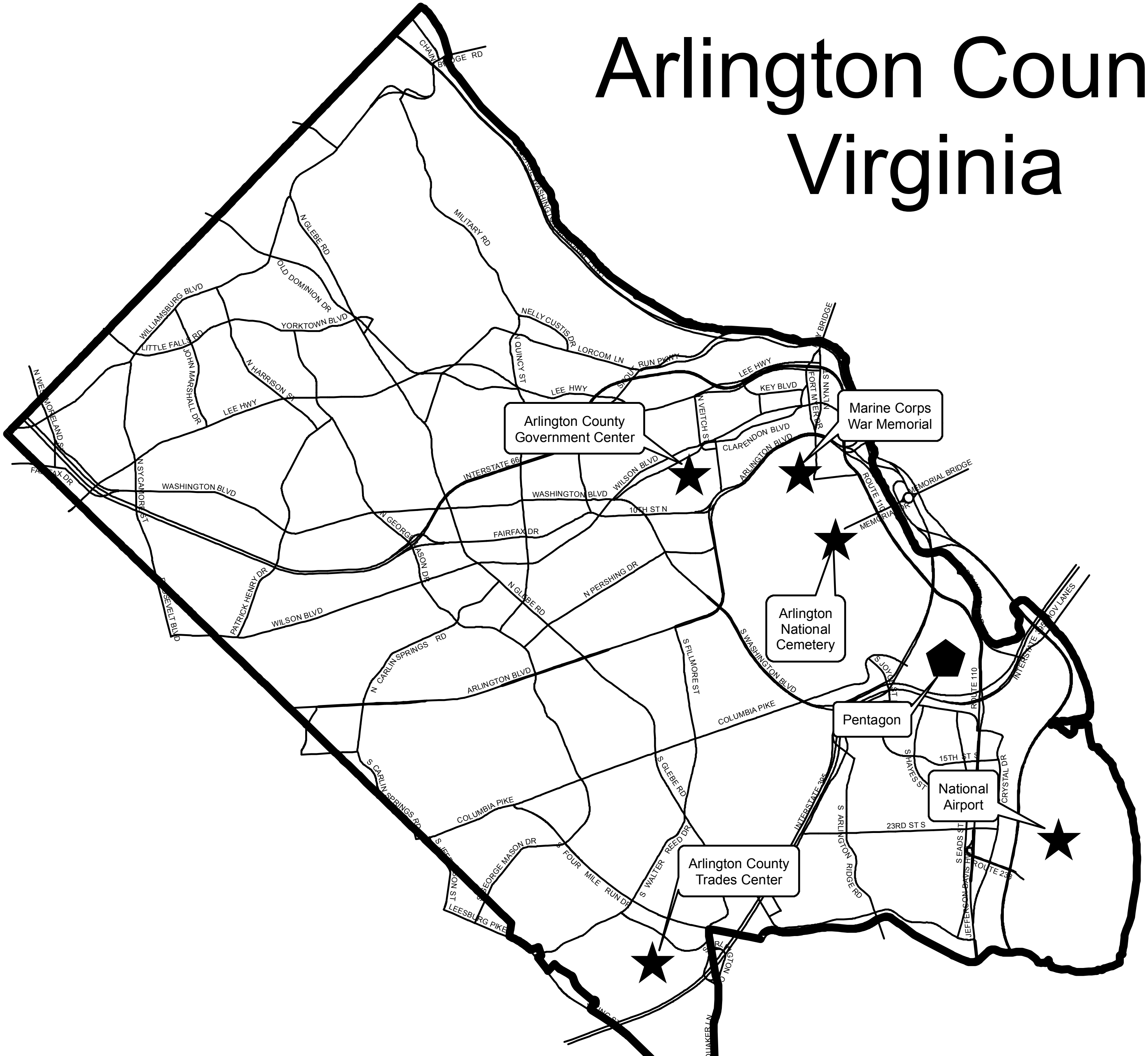
F. UTILITIES AND STORMWATER MANAGEMENT

1. UTILITIES

2. STORMWATER MANAGEMENT

G. ARLINGTON PUBLIC SCHOOLS

Arlington County, Virginia



A. Overview

The Capital Improvement Plan (CIP) is one of the most significant planning processes for Arlington County and Arlington Public Schools. This plan identifies the capital needs of the community over a ten-year period. This plan not only identifies the immediate needs but also seeks to capture longer-term capital needs.

The CIP is a planning document that is updated biennially and subject to change as the needs of the community become more defined and individual projects move along in their respective planning and budgeting processes. The effective use of a CIP process provides for considerable advance project identification, planning, evaluation, scope definition, design, public discussion, cost estimating, and financial planning.

The objectives used to develop the CIP include:

- To preserve and improve the infrastructure of Arlington through capital asset construction, rehabilitation and maintenance;
- To maximize the useful life of capital investments by scheduling major renovations and modifications at the appropriate time in the life-cycle of the facility;
- To identify and examine current and future infrastructure needs and establish priorities among projects so that available resources are used to the community's best advantage; and
- To improve financial planning by comparing needs with resources, estimating future bond issues, and identifying potential fiscal implications.

The CIP is the primary instrument for planning the funding and timing of the needs and priorities that have been approved by the County Board. The funding and implementation of CIP projects follow in the form of bond referenda; the annual appropriation of Pay-As-You-Go (PAYG) projects by the Board as part of the annual operating budget; and approval / receipt of other funding sources identified in this document.

B. Capital Project Definition

Capital projects result in economic activities that lead to the acquisition, construction, or extension of the useful life of capital assets. Capital assets include land, facilities, parks, playgrounds and outdoor structures, streets, bridges, pedestrian and bicycle systems, water and sewer infrastructure, technology systems and equipment, traffic control devices, and other items of value from which the community derives benefit for a significant number of years.

Capital expenditures and operating expenditures are primarily differentiated by two characteristics: dollar amount of the expenditure and the useful life of the asset acquired, constructed, or maintained. Capital expenditures will enhance, acquire or extend the useful life of assets through a variety of activities. Generally, land acquisition, feasibility studies, planning, design, construction, asset rehabilitation, enterprise technology acquisition, and project Implementation, are activities associated with capital projects. Capital projects are typically funded with a variety of County sources – the primary two of which include PAYG and bond funds. They have similar and distinct eligibility criteria in that they both require that a project has an estimated useful life of at least ten years or more. However they differ in scale and scope of projects they typically fund. Bond funds are usually reserved for the big ticket items such as new construction or major renovations or alterations, while PAYG funds smaller scale renovations or maintenance type projects. In general, capital projects in the CIP:

- Have a total project cost in excess of $100,000.
- Range from construction of new buildings to renovations, additions, or conversions, or demolition of existing facilities.
- Have a minimum useful life of 10 years, significantly extend the useful life of an asset, or significantly alter the nature and character of an asset (i.e. not to include annual asset maintenance costs, annual warranty cost or other ongoing costs).

The CIP has also traditionally been the vehicle by which planning for technology capital investments occurs. In general, technology capital projects in the CIP:

- Have an estimated cost in excess of $25,000 and /or require six months or 1,000 hours for implementation or completion.
- Include applications systems, network design and implementation, telecommunications infrastructure, enterprise hardware and software systems, web design and implementation services, document imaging, data base design and development, consulting services (business process studies, requirements analysis or other studies), and technology associated with new construction and/or renovation and relocation projects.
- Have a minimum useful life of three years, significantly extend the useful life of an asset (i.e. not to include annual software and hardware maintenance and upgrade costs, warranty costs or other ongoing costs), provide a significant enhancement to functionality, or represent a change of platform or underlying structure.

C. CIP Development Process

Capital projects originate from a variety of sources. County Board appointed commissions, advisory groups, and task forces typically advise the Board or develop long-term plans that recommend certain types of improvements. In some cases, individual residents request improvements to their streets, playgrounds or other County facilities. Neighborhood associations and business groups may also suggest projects and work with County staff on projects. Some projects are initiated by staff based on adopted County master plans, such as the Transportation Master Plan or the Storm Water Master Plan.

Projects typically come forward through the sponsoring department that is responsible for their implementation but also come from staff that exercises operational control over County assets. Given that there are always more project proposals submitted than can be funded in a given year, various criteria are used to assist in prioritizing capital projects. These criteria included a test for immediate safety, legislative, or judicial requirements, the project's ability to be implemented in the timeline proposed, linkages to other approved and funded projects, linkages to an approved County master plan, other goals and objectives of the County, and direct benefit to citizens. Other considerations include current and future fiscal impact, cost of deferring a project, alternative funding sources, and County and private development goals and plans.

Similar to the previous CIP formulation, staff organized a CIP Working Group to develop the CIP. The CIP Working Group included key leadership from all major areas of capital, including deputy directors from DES, the Parks Planning Division chief, DTS director and CPHD staff, (representing the Neighborhood Conservation program) along with the Fire Chief, Deputy Sheriff and representatives from other public safety and law enforcement staff. The CIP Working Group reviewed all initial departmental requests during a series of briefings in January and February. In March, the CIP Working Group went through a prioritization process and debt capacity exercises to form an initial recommendation to the County Manager.

As discussed in more detail under "Financial & Debt Management Policies" below, the consolidated recommendations were considered against various debt capacity scenarios to develop the final CIP. Throughout the process, the team consulted with program managers and other subject matter experts within the departments.

D. Financial & Debt Management Policies

The Board-adopted financial and debt management policies provide the parameters for the amounts and timing of bond-financed projects to be included in the CIP, ensuring that the CIP is financially sustainable and that it supports the County's triple-A bond ratings. The Adopted FY2015-2024 CIP includes revisions to the County's financial and debt management policies, based on recommendations resulting from an extensive review of these policies undertaken by the County and its financial advisors (the policies were last reviewed in 2008). A summary of the debt capacity (including adopted changes) is included later in this section.

E. Sources of Capital Funds

Funding for capital improvements comes from a number of sources. These funds are generated through local taxes, fees, charges, outside funding or other similar sources. The availability of these funds is sensitive to economic cycles.

Pay-As-You-Go (PAYG) comes from annual appropriations and is part of the adopted operating budget. PAYG funding provides the greatest flexibility since it is not constrained by tax-exempt bond requirements and historically has funded maintenance capital projects, regional partnership programs and other projects such as Neighborhood Conservation and Neighborhood Traffic Calming. Projects that are typically smaller in scale as well as minor renovations are likely candidates for PAYG funding – as long as the project has an expected useful life of at least 10 years or more. PAYG also:

- Has no debt service cost that has to be paid on the expenditure;
- Is available at the start of the fiscal year;
- Must compete with operating programs for funding;
- Does not have to be approved through referendum; and
- Can be carried over at the end of each fiscal year.

Beginning in FY 2011, the PAYG budget has included a decal fee allocation, currently over $1 million annually, for bicycle/pedestrian projects. In the FY 2015 budget adoption, the Board reallocated $400,000 of the decal revenue to the general fund, leaving approximately $800,000 for bicycle/pedestrian capital projects including Bike Arlington, Improvements to corridors outside principal business districts, and Capital Bike Share.

Bond financing refers to debt financing of projects. Arlington County most often sells general obligation bonds. Bond financing is generated through the borrowing of funds (principal) at a cost (interest) through the sale of municipal bonds. There are several types of bond financing:

- *General obligation bonds* - Arlington typically issues general obligation bonds, which must first be approved by the County's voters and are secured by the full faith and credit of the County. Arlington's practice is to schedule bond referenda for even-numbered calendar years, which correspond to the bond sale in odd-number fiscal years.

- *Revenue and other types of bonds* – Arlington has issued low interest rate revenue bonds through the **Virginia Water Revolving Loan Fund** (VRLF) run by the **Virginia Resources Authority** for improvements to the Water Pollution Control Plant. Revenue bonds are typically secured solely by user fees or projected revenues and include no pledge from the General Fund. Revenue and other types of bonds (including those backed by the County's subject to appropriation pledge) typically carry a higher interest rate than GO bonds and generally have debt service coverage and other financial restrictions. The FY 2015 – FY 2024 CIP continues the plan, from the previous CIP, to leverage the Transportation Capital Fund and the Tax Increment Financing for the streetcar program as well as other allowable transportation improvements. The Columbia Pike streetcar includes TCF bonds beginning in FY 2019 and the Route 1 Crystal City streetcar includes TCF bonds beginning in FY 2017 and TIF bonds beginning in FY 2018. The legal structure of transportation-related bonds is still being determined.

- *Lease revenue or annual appropriation bonds* – These types of bonds are secured by a "subject to appropriation" pledge by the County Board and do not require voter approval. (See "Lease-purchase finance" below) They generally require the use of a third party to execute the lease transaction, such as the **Industrial Development Authority** (IDA), Virginia Resources Authority, or Virginia Municipal League / Virginia Association of Counties.

One of the criteria used to determine which projects will be funded with bond proceeds is the useful life of the improvement. Projects funded with bond proceeds generally have a useful life that is similar in length to the repayment schedule of the bonds. Historically, Arlington has issued 20-year general obligation serial bonds and paid the bonds using a two-year step-up schedule of principal repayment, and the average bond principal is outstanding for approximately 11 years. The Board's financial policies allow for longer term bonds as long as the term of the bonds does not exceed the useful life of the project, and also allows for alternative amortization structures such as level debt service to better match certain revenue streams. Another capital funding source is **inter-jurisdictional payments**. Arlington has agreed to provide services to other jurisdictions through contractual agreements. For example, wastewater treatment services for some areas of Alexandria, Falls Church, and Fairfax County are provided by Arlington's Water Pollution Control Plant. These jurisdictions also share in the cost of capital improvements of this facility, thus reducing the cost to Arlington users.

Lease-purchase finance (or Master Lease) represents another source of capital financing to acquire equipment, rolling stock, furniture and technology purchases that have useful lives ranging from three to ten years. Master lease financing is very flexible, allowing the County to finance projects with minimal transaction costs and on an "as needed" basis over the term of the master lease. Because of the short-term maturities of master lease financing, interest rates are typically lower than rates on long-term bonds. The County typically procures equipment using temporary funding sources, and then draws funds from the master lease financing institution to reimburse the temporary sources.

Infrastructure Availability (formerly hook-up) fees are another source of capital funding. These fees are assessed to developers and builders to join the water and sewer systems, based on the cost of capacity (volume) of the systems being "used up" by the customer. These funds are programmed during the annual budget process and can be used only for utilities projects.

The **Transportation Capital Fund – Commercial & Industrial Tax** is a source of funding authorized by the General Assembly in 2007 enabling the County to levy an additional real estate tax on industrial and commercial properties for transportation initiatives. In April 2008, the County Board adopted a tax of $0.125 per $100 of assessed value for transportation projects. The commercial real estate tax is planned, beginning in FY 2017, to support bond financing. Proceeds of the tax are held in a separate fund.

The **Transportation Capital Fund – HB2313 Funds** are revenues from the taxes and fees adopted by the General Assembly in 2013 as part of HB 2313 and are distributed from the State to the Northern Virginia Transportation Authority **(**NVTA). These include a 0.7% increase in the local sales tax, a 2% transient occupancy tax, and a regional congestion fee of $0.15 per $100 added to the real estate recording tax. The Northern Virginia Transportation Authority (NVTA) receives the proceeds of these new taxes, and retains 70%, the **HB2313 Regional** portion, for funding of projects that are regional in nature. By law, each locality's long term benefit must be approximately equal to the proportion of the total fees and taxes generated in the locality divided by the total of all fees and taxes received by NVTA. The NVTA Board will approve projects for funding annually as part of its Six-Year Program (SYP). The remaining thirty percent, the **HB2313 Local** portion, of these new taxes and fees is returned on a pro rata basis to the member localities based on the amount of revenue generated by the taxes and fees within the locality. These funds are used for locally selected transportation projects and deposited into the Transportation Capital Fund of the County along with the commercial & industrial tax.

The **Crystal City – Potomac Yard – Pentagon City Tax Increment Financing Area** was established in 2010 to support the infrastructure investment needed as part of the Crystal City Sector Plan as well as the neighboring areas of Potomac Yard and Pentagon City. Tax increment financing (TIF) is a mechanism used to support development and redevelopment by capturing the projected increase in property tax revenues in the area and investing those related infrastructure improvements. Unlike a special district, it is not an additional or new tax; rather, it redirects and segregates the increased property tax revenues that would normally flow to the General Fund. The amount of tax increment revenue is determined by setting a baseline assessed value of all property in the area on January 1, 2011 and in each subsequent year, tracking the incremental increase in assessed values relative to the base year, and segregating the incremental revenues in a separate fund. The County Board approved allocating 33 percent of the incremental revenues to the Crystal City – Potomac Yard – Pentagon City area. The tax increment financing is proposed to support bond financing beginning in FY 2018.

The **Stormwater Management Fund** relies on a source of funding adopted by the County Board in April 2008 to fund operating and capital costs to upgrade and expand the County's stormwater drainage and sewer infrastructure. The Board adopted a County-wide sanitary district tax of $0.01 per $100 of assessed value. This rate was raised to $0.013 in April 2010 and provides extra funds for capital projects. The sanitary district tax could ultimately be used to support bond financing. Proceeds of this tax are held in a separate fund.

Developer contributions are also an important source of funding. These are contributions paid by developers to finance specific projects. Examples of these projects are utility undergrounding and street lighting.

Finally, there are **grants and reimbursements or other revenue** from the state and federal governments. These are funds provided by the Commonwealth of Virginia or the federal government for reimbursement of costs for certain capital improvements. Whenever possible, state or federal reimbursement is sought to offset County tax support and is included in the planning process. (See the Transportation & Pedestrian Initiatives section of the CIP for some current examples.)

F. Definition of Terms Used in Capital Planning

Arbitrage: Arbitrage is the gain a tax-exempt issuer may be able to obtain by borrowing at a tax-exempt rate and investing at a taxable rate. The Tax Reform Act of 1986 and subsequent amendments relating to the issuance of tax-exempt debt and arbitrage regulations had a dramatic affect on all issuers of tax-exempt debt.

Arbitrage Rebate: Refers to the requirement to rebate to the Federal government investment earnings derived with the proceeds of tax-exempt debt that are in excess of the earnings that would have been earned had the proceeds of the debt been invested at the same interest rate as that paid to the holders of the tax-exempt debt.

Architecture and Engineering (A&E): Professional services performed to facilitate planning, development, designs, cost estimates and construction of buildings, parks, streets, utilities, and other capital infrastructure.

Bond Funding: Funding derived from the public sale of bonds for which interest is paid to buyers for the use of the money.

- CIP programs and projects proposed for bond funding are approved by the County Board for inclusion on a bond referendum.
- Voters approve each bond referendum. In Arlington, a bond referendum is placed on the ballot for voter approval every other November, concurrent with Congressional/Presidential elections.
- Funds cannot be spent until after the referendum is approved by the voters, the Board approves the authorization and the County has developed cash flow plans.
- Spending rules are established based on referendum language and IRS regulations.

Bond Issuance Costs: Costs associated with the sale of bonds. Expenditures include fees to bond rating agencies, administrative expenses, legal fees, etc.

Capital Planning Process: The process of identifying, planning, evaluating and scoping projects, establishing performance standards, conducting public discussion, estimating costs and financial planning for capital projects. These processes should be completed for current year funding requests and underway for projects proposed in subsequent years.

Full Time Equivalent (FTE): The measure of authorized personnel. It is calculated by equating 2,080 hours of work per year (2,912 for uniformed firefighters) with the full-time equivalent of one position (referred to in the budget as an FTE).

Inflation Factor: An increased cost applied to out year projects in the CIP to account for increases in costs over time; in the CIP, inflation is assumed at 3% annually.

Out Years: All years after the current funding year. For example, in the FY 2017 – FY 2026 CIP, all years after FY 2017 are considered out years.

Overhead: The capital project should bear the cost of staff time spent directly on the implementation of the projects funded. In certain cases, the project can also bear the cost of program planning or preliminary business processes used in advance of funding or bringing the project to completion of scope.

Rules: This applies to limitations on the use of funds as a result of special revenue requirements. Interjurisdictional agreements for sewer construction reimbursement can only be applied to non-expansion costs of specific projects. Grants can only be spent under the terms and conditions provided with the grant. Bonds can only be used consistent with the language of the referendum and for items consistent with bond counsel determination, etc. Rules are not intended to imply administrative procedures, but rather legal requirements.

Total Project Cost: The CIP reflects the full cost of each project. The total cost includes such items as design, construction, right-of-way, construction management, utility relocations, hardware and software purchases, equipment needed to make the improvement useful, and appropriate overhead and operating costs.

GUIDE TO READING THE FY 2017 – FY 2026 CAPITAL IMPROVEMENT PLAN

The FY 2017 – FY 2026 Capital Improvement Plan (CIP) provides comprehensive information on the near and longer-term facility and infrastructure capital improvements planned in the County over the next ten years.

The book is organized by the following sections: an introductory section, overview, capital funding, and the program areas under which the projects reside. Each one of these sections represents a key component of the overall picture of the FY 2017-2026 CIP:

- The introductory section includes various information on the CIP process, policies, and governance that help provide context and framework under which the CIP is formulated.

- The Overview sets the tone for the CIP with the County Manager's message and provides status of existing projects, including summaries of authorized unissued bonds and projects that are underway. This section also describes the impact of the FY 2017-2026 CIP on the operating budget.

- The Capital Funding section includes various financial summaries of the CIP by program and funding source. It also includes analysis of the County's debt capacity as impacted by the CIP.

The remaining three sections are dedicated to describing specific programs and projects included under the General Government section, Metro and Transportation section, and the Utilities and Stormwater section. These sections detail the projects by major programs.

- The first part of each of the programs provides a summary overview of costs and funding sources. Also included is specific information on the impact bond/debt financing will have on annual debt service payments where applicable.
- The following pages provide a detailed description of each project, associated master plan impact, project justification, cost schedules, funding schedules, changes from the last CIP, and operating impacts, if any.

Like previous CIPs, the FY 2017-2026 CIP is largely funded by debt, PAYG, and Master Lease Funding. In addition, the Transportation Capital Fund, the Crystal City, Potomac Yard and Pentagon City tax increment financing area, and the Stormwater Management Fund are integrated in the comprehensive funding strategy for the CIP.

Please note that cost estimates are subject to market pressures and may not accurately reflect the actual costs incurred at project implementation.

As part of the County's effort to make these processes more accessible to citizens and responsive to the needs of the community, the method by which the ten-year CIP is developed, considered, and adopted is continually being improved. Suggestions for changes or comments regarding the CIP are welcome and encouraged and should be directed to the budget office of the Department of Management and Finance, (703) 228-3415 or CIP@arlingtonva.us.

CIP CALENDAR

OCTOBER 2015

- FY 2017 – FY 2026 Capital Improvement Program (CIP) staff kick-off

FEBRUARY 2016

- County Manager presents FY 2017 PAYG Budget to the County Board

MARCH 2016

- County Board holds a public hearing on the County Manager's proposed FY 2017 budget, including the PAYG budget

MARCH/APRIL 2016

- County Board holds budget work sessions on PAYG and the operating budget with County departments and the Fiscal Affairs Advisory Commission
- Engage Arlington On-line "Open Forum" opened to the public for on-line comments on the CIP

APRIL 2016

- County Board adopts FY 2017 Budget, PAYG Capital and Appropriations Resolutions for the County government and the public schools
- County Manager's Community Forum on the CIP - April 4, 7, 13

MAY 2016

- Superintendent submits FY 2017 – FY 2026 Proposed CIP to the School Board - May 5
- County Manager submits FY 2017 – FY 2026 Proposed CIP to the County Board - May 17
- Joint worksession of the County Board and School Board – May 24
- Various boards and commissions review the FY 2017 – FY 2026 Proposed CIP

MAY/JUNE 2016

- Various boards and commissions review the FY 2017 – FY 2026 Proposed CIP
- County Board worksessions on CIP – May 31, June 16, June 18
- School Board adopts the School's FY 2017 – FY 2026 CIP – June 16
- CIP Public Hearing – June 22

JULY 2016

- County Board wrap-up worksession – July 12
- County Board adopts the FY 2017 – FY 2026 CIP – July 19
- County Board approves the general obligation bond referenda resolutions and the language to be inserted on the ballot for the fall General Election