

DEBT SERVICE

The FY 2023 adopted budget includes outstanding and new money debt service on the County's General Obligation (GO) 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 \$85,371,512, which includes \$3.9 million for debt service on Buckingham Village 3 and the Barcroft Acquisition line of credit, and \$4.3 million for debt service on revenue bonds issued for short-term financed projects and paid for from the short-term finance debt service budget. The Buckingham debt service has been budgeted in Non-Departmental and will be paid for from the Affordable Housing Investment Fund (AHIF). The net FY 2023 adopted General Fund debt service budget totals \$77,110,907.

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. Payment of Stormwater bonded indebtedness is provided for in the Stormwater Fund.

FY 2023 PRIORITIES

The FY 2023 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 \$48 million in new money GO bonds in CY 2022 as approved in the referenda from CY 2014, CY 2016, CY 2020, and CY 2021.

DEBT POLICY AND CREDIT RATINGS

The County's debt service budget reflects County fiscal policies regarding the prudent use of bond financing. There is no legal limit as to the amount of indebtedness that the County can incur; however, the County maintains and frequently updates a set of policies addressing fiscal integrity and sustainability (see <https://www.arlingtonva.us/Government/Programs/Budget-Finance/Debt-Policies>). These policies 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 percent);
- Ratio of Tax supported General Obligation Debt and Subject to Appropriation Financing to Market Value of County Taxable Real and Personal Property (three percent);
- Ratio of Tax supported General Obligation Debt to Resident Per Capita Income (six percent); and
- 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.

The general obligation bonds planned in CY 2022 are based on the approved projects in the Adopted FY 2022 – FY 2024 Capital Improvement Plan (CIP). Outstanding debt service is based on completed bond sales and required principal and interest payments due to bondholders.

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 GO 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 in May 2021 as part of the issuance of the Series 2021 GO bonds. 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.

2022 NEW MONEY BONDS

The adopted debt service budget was developed assuming a County GO bond sale of approximately \$48 million in the spring of 2022. The initial debt service payments due in FY 2023 are approximately \$3.3 million in the General Fund, \$4.2 million in the School Debt Service Fund for their issuance of approximately \$42 million of bonds, and \$1.0 million in the stormwater fund for their issuance of approximately \$16 million of bonds.

SPRING 2022 NEW MONEY BOND ISSUANCE AND AUTHORIZED BUT UNISSUED BONDS

Referendum Category	Amount Issued	Authorized Unissued Bonds
Local Parks & Recreation	1.80	5.00
Metro Transportation	20.70	-
Metro & Transportation	<u>11.00</u>	<u>10.00</u>
Metro & Transportation	31.70	10.00
Community Infrastructure	14.34	16.50
County General Obligation Bonds	\$47.84	\$31.50
School General Obligation Bonds	41.87	7.97
Utility General Obligation Bonds	-	-
Stormwater General Obligation Bonds	15.57	22.07
Total General Obligation Bonds	\$105.28	\$61.54

In \$ millions, numbers may not add due to rounding

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 that are not financed under voter approved general obligation bond referenda. 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 2023 adopted General Fund debt service budget is \$77,110,907, a five percent increase over the FY 2022 adopted budget. This excludes debt service for bonds issued for short-term finance projects and paid for from short-term finance debt service budget, and also debt service for Buckingham Village 3 and the Barcroft acquisition loan. These are paid for from AHIF funds and budgeted accordingly in Non-Departmental.

	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted	% Change '22 to '23
Principal	\$42,612,178	\$52,167,528	\$52,676,950	1%
Interest	25,401,277	30,641,891	32,569,562	6%
Other (1)	29,480	125,000	125,000	-
Total Expenditures (2)	68,042,935	82,934,419	85,371,512	3%
Less: Debt Service Supported by AHIF	(1,561,523)	(1,760,453)	(3,935,105)	(124%)
Less: Short-Term Finance Revenue Bonds	-	(7,609,256)	(4,325,500)	(43%)
Total Non-AHIF Supported Debt Service	\$66,481,412	\$73,564,710	\$77,110,907	5%

- (1) Includes trustee fees and other fees related to bond transactions. Expenditures related to cost of issuance are paid with proceeds of the bonds being issued.
- (2) Includes the debt service for the IDA Revenue Bonds (2011/2013/2017/2020) and for the \$150 million Barcroft Line of Credit borrowing. Debt service on the line of credit is paid for from AHIF and does not include interest revenue received on the Barcroft acquisition loan.

**Outstanding General Fund Debt Service
and Estimated FY 2022 GO Bond Debt Service ⁽¹⁾⁽²⁾**

Fiscal Year	Existing <u>General Fund Debt Service ⁽¹⁾</u>			FY2022 GO Bond <u>Debt Service ⁽²⁾</u>			Total New and Existing <u>General Fund Debt Service</u>		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2022	\$45,385,000	\$29,829,123	\$75,214,123	-	-	-	\$45,385,000	\$29,829,123	\$75,214,123
2023	47,930,000	27,468,384	75,398,384	\$956,700	\$2,391,750	\$3,348,450	48,886,700	29,860,134	78,746,834
2024	50,380,000	25,513,863	75,893,863	1,913,400	2,343,915	4,257,315	52,293,400	27,857,778	80,151,178
2025	51,395,000	23,580,048	74,975,048	2,498,050	2,248,245	4,746,295	53,893,050	25,828,293	79,721,343
2026	49,605,000	21,584,858	71,189,858	2,498,050	2,123,343	4,621,393	52,103,050	23,708,201	75,811,251
2027	49,750,000	19,556,868	69,306,868	2,498,050	1,998,440	4,496,490	52,248,050	21,555,308	73,803,358
2028	47,205,000	17,526,284	64,731,284	2,498,050	1,873,538	4,371,588	49,703,050	19,399,821	69,102,871
2029	45,275,000	15,621,791	60,896,791	2,498,050	1,748,635	4,246,685	47,773,050	17,370,426	65,143,476
2030	45,390,000	13,804,315	59,194,315	2,498,050	1,623,733	4,121,783	47,888,050	15,428,047	63,316,097
2031	44,860,000	12,017,249	56,877,249	2,498,050	1,498,830	3,996,880	47,358,050	13,516,079	60,874,129
2032	42,975,000	10,358,229	53,333,229	2,498,050	1,373,928	3,871,978	45,473,050	11,732,157	57,205,207
2033	39,195,000	8,860,182	48,055,182	2,498,050	1,249,025	3,747,075	41,693,050	10,109,207	51,802,257
2034	33,950,000	7,492,342	41,442,342	2,498,050	1,124,123	3,622,173	36,448,050	8,616,465	45,064,515
2035	32,605,000	6,173,541	38,778,541	2,498,050	999,220	3,497,270	35,103,050	7,172,761	42,275,811
2036	28,570,000	4,935,235	33,505,235	2,498,050	874,318	3,372,368	31,068,050	5,809,553	36,877,603
2037	27,365,000	3,812,980	31,177,980	2,498,050	749,415	3,247,465	29,863,050	4,562,395	34,425,445
2038	21,700,000	2,751,992	24,451,992	2,498,050	624,513	3,122,563	24,198,050	3,376,505	27,574,555
2039	17,620,000	1,906,689	19,526,689	2,498,050	499,610	2,997,660	20,118,050	2,406,299	22,524,349
2040	12,275,000	1,162,215	13,437,215	2,498,050	374,708	2,872,758	14,773,050	1,536,922	16,309,972
2041	12,340,000	631,567	12,971,567	2,498,050	249,805	2,747,855	14,838,050	881,372	15,719,422
2042	3,010,000	239,744	3,249,744	2,498,050	124,903	-	5,508,050	364,647	5,872,697
2043	3,080,000	102,645	3,182,645	-	-	-	3,080,000	102,645	3,182,645
Total	\$751,860,000	\$254,930,143	\$1,006,790,143	\$47,835,000	\$26,093,993	\$71,306,040	\$799,695,000	\$281,024,136	\$1,080,719,136

⁽¹⁾ Includes both general obligation and subject to revenue bonds. Excludes AHIF and Short-Term Finance program bonds

⁽²⁾ Includes the issuance of FY 2022 GO bonds (\$47.8MM)

**Ratio of Annual Debt Service for General Obligation Debt
to Total General Governmental Expenditures
Fiscal Years 2019 to 2023 ⁽¹⁾**

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures	Ratio of Debt Service to Total Expenditures
2019	85,168,385	40,780,952	125,949,337	1,416,428,904	8.89
2020	83,269,899	47,932,739	131,202,638	1,446,764,988	9.07
2021	78,420,929	42,860,689	121,281,618	1,469,839,581	8.25
2022 (Est) ⁽²⁾	84,010,000	49,699,676	133,709,676	1,543,403,639	8.66
2023 (Est) ⁽²⁾	89,025,200	49,748,207	138,773,407	1,590,816,595	8.72

(1) Includes General Fund and Arlington Public Schools debt service. Does not include debt service on general obligation bonds payable from the Utilities Enterprise Fund, bonds payable by a pledge of the water and wastewater system, or debt service on revenue bonds payable from the Ballston Garage Enterprise Fund; includes subject to appropriation financings, including 2011 IDA Bonds, 2013 IDA Bonds, 2017 IDA Bonds, 2020 IDA bonds, and the \$150 million line of credit secured in 2021 for the Barcroft affordable housing project.

(2) Estimated Values for Debt Service and Expenditures for FY 2022 and FY 2023

**Key Debt Ratios
Fiscal Years 2019 to 2023**

Fiscal Year	Population	Estimated Market Value of Taxable Property Calendar Year Ended December 31 ⁽¹⁾	Net Bonded Indebtedness at June 30 ⁽²⁾	Net Bonded Indebtedness Per Capita	Net Bonded Indebtedness as a Percent of Market Value	Per Capita Income ⁽³⁾	Net Bonded Indebtedness as a Percent Per Capita Income
2019	226,400	80,852,761,690	1,167,441,528	5,157	1.44%	95,198	5.42%
2020	238,643	84,464,076,093	1,083,401,629	4,540	1.28%	96,150	4.72%
2021	240,200	86,351,255,848	1,312,306,500	5,463	1.52%	97,111	5.63%
2022 ⁽³⁾	243,200	88,078,280,965	1,391,180,029	5,720	1.58%	98,083	5.83%
2023 ⁽³⁾	246,200	89,839,846,584	1,393,584,829	5,660	1.55%	99,063	5.71%

Sources: Market value and net bonded indebtedness – Arlington County Department of Management and Finance. Population data – Bureau of Economic Analysis Per Capita Personal Income (CAINC1)

(1) Includes real property, personal property and public service corporation property.

(2) Excludes general obligation bonds payable from the Utilities Enterprise Fund, bonds payable by a pledge of the water and wastewater system, bonds payable from the Transportation Capital Fund, Ballston Parking Garage revenue bonds payable from the Ballston Garage Enterprise Fund and includes subject to appropriation financings, including the 2011 IDA Bonds, 2013 IDA Bonds, 2017 IDA Bonds, 2020 IDA Bonds, and the \$150 million line of credit secured in 2021 for the Barcroft affordable housing project. Excludes unamortized bond premium/discount.

(3) Data for Fiscal Years 2022 and 2023 are estimates