

DEBT SERVICE

The FY 2017 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 \$63,056,011, 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 2017 Adopted General Fund debt service budget to be supported by non-AHIF revenues totals \$61,267,819.

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 2017 PRIORITIES

The FY 2017 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 2016 approved in the referenda from CY 2010, CY 2012, and CY 2014.

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 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). These policies built 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%), 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.

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 Proposed FY 2017 – FY 2026 Capital Improvement Program (CIP) with updates for revised project cashflows where appropriate and the most recent bond issuance in May 2016.

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 during the issuance of the Series 2016 General Obligation bonds in May 2016. 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.

2016 NEW MONEY BONDS

The adopted debt service budget was developed assuming a general obligation bond sale of approximately \$70 million in the spring of 2016. The initial debt service payments due in FY 2017 are approximately \$2.5 million in the General Fund, and \$3.4 million in the School Debt Service Fund.

SPRING 2016 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 & Land Acquisition	\$5.6	\$33.8
Transportation – Improvements Outside Major Travel Corridors, Paving, Transportation Systems & Traffic Signals	3.1	8.8
Metro	1.6	39.0
Community Infrastructure – Neighborhood Conservation, Facilities Maintenance, Critical Systems Infrastructure, Trade Center Parking Deck, Non-Parks Land Acquisition, Lubber Run Community Center Planning, North Side Salt Facility Planning	21.2	13.4
County General Obligation Bonds	31.5	95.0
School General Obligation Bonds – Capacity Projects	38.7	37.1
Utility General Obligation Bonds - Water Pollution Control Plant	--	4.2
Total General Obligation Bonds	\$70.2	\$136.2

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 remained low over the past few years. No change in rates is forecasted for FY 2017.

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 2017 adopted General Fund debt service budget is \$61,267,819, a two percent increase over the FY 2016 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 2015 Actual	FY 2016 Adopted	FY 2017 Adopted	% Change '16 to '17
Principal	\$41,580,031	\$41,330,198	42,259,549	2%
Interest	19,057,986	20,323,869	20,671,462	2%
Other (1)	30,403	35,000	125,000	257%
Total Expenditures (2)	60,668,420	61,689,067	63,056,011	2%
Less: Debt Service Supported by AHIF	(1,788,679)	(1,789,067)	(1,788,192)	-
Total Non-AHIF Supported Debt Service	\$58,879,741	\$59,900,000	\$61,267,819	2%

(1) Includes trustee fees and other fees related to 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 2017 Budget**

	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GENERAL OBLIGATION BONDS - COUNTY (1)	\$85,980,000	\$88,105,000	\$104,305,000	\$83,460,000	\$54,579,569	\$58,625,000	\$51,260,000	\$57,390,000	\$74,940,000	\$58,490,000
GENERAL OBLIGATION BONDS - SCHOOLS (1)	68,730,000	93,300,000	54,730,000	32,900,000	51,100,000	42,800,000	33,500,000	33,200,000	56,400,000	15,600,000
GENERAL OBLIGATION BONDS RETIRED	72,423,997	71,027,452	74,906,186	77,558,266	83,090,290	86,127,980	89,350,294	92,020,077	93,814,405	94,233,405
NET TAX-SUPPORTED GENERAL OBLIGATION BONDS AT END OF FISCAL YEAR (2)	862,947,199	973,324,747	1,057,453,562	1,096,255,296	1,118,844,575	1,134,141,594	1,129,551,300	1,128,121,223	1,165,646,818	1,145,503,412
SUBJECT-TO-APPROPRIATION BOND ISSUANCE	-	38,500,000	2,000,000	-	2,000,000	2,000,000	9,000,000	8,000,000	2,000,000	2,000,000
SUBJECT-TO-APPROPRIATION BONDS RETIRED	4,602,374	4,608,114	5,682,573	6,466,664	6,772,899	7,105,699	7,443,498	8,775,007	9,978,658	8,616,155
NET TAX-SUPPORTED BONDS AT END OF FISCAL YEAR (3)	951,400,078	1,095,669,512	1,176,115,753	1,208,450,823	1,226,267,203	1,236,458,524	1,233,424,731	1,231,219,647	1,260,766,584	1,234,007,024
SCHOOLS DEBT SERVICE	46,745,244	51,145,183	58,464,758	59,595,007	60,782,258	62,187,191	63,559,678	64,769,378	66,076,345	67,505,653
COUNTY DEBT SERVICE (4)	62,931,011	63,113,628	67,934,848	75,195,150	82,213,315	85,790,341	88,848,475	91,810,267	93,713,170	93,364,630
TOTAL TAX SUPPORTED DEBT SERVICE	109,676,255	114,258,812	126,399,606	134,790,158	142,995,573	147,977,532	152,408,152	156,579,645	159,789,515	160,870,283
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY TEN-YEAR AVERAGE (No Greater than 4.31%)	2.0%	0.3%	7.6%	10.7%	9.3%	4.4%	3.6%	3.3%	2.1%	-0.4%
% GROWTH IN TAX-SUPPORTED DEBT SERVICE - COUNTY/SC TEN-YEAR AVERAGE (No Greater than 4.31%)	2.4%	4.2%	10.6%	6.6%	6.1%	3.5%	3.0%	2.7%	2.0%	0.7%
GENERAL GOVERNMENT EXPENDITURES (5)	1,356,959,894	1,384,099,092	1,418,701,569	1,454,169,108	1,490,523,336	1,535,239,036	1,581,296,207	1,628,735,094	1,677,597,146	1,727,925,061
DEBT SERVICE AS % OF EXPENDITURES (NOT TO EXCEED 10%)	8.08%	8.26%	8.91%	9.27%	9.59%	9.64%	9.64%	9.61%	9.52%	9.31%
MARKET VALUATION OF TAXABLE PROPERTY (6)	73,086,054,427	74,547,775,515	76,411,469,903	78,321,756,651	80,671,409,350	83,091,551,631	85,584,298,180	88,151,827,125	90,796,381,939	93,520,273,397
NET TAX SUPPORTED DEBT AS % OF MARKET VALUATION (3%)	1.30%	1.47%	1.54%	1.54%	1.52%	1.49%	1.44%	1.40%	1.39%	1.32%
POPULATION (7)	220,400	223,600	226,800	230,000	232,700	235,410	238,120	240,830	243,540	246,250
DEBT PER CAPITA	\$4,317	\$4,900	\$5,186	\$5,254	\$5,270	\$5,252	\$5,180	\$5,112	\$5,177	\$5,011
INCOME PER CAPITA (8)	\$84,400	\$86,088	\$87,810	\$89,566	\$91,357	\$93,184	\$95,048	\$96,949	\$98,888	\$100,866
NET TAX-SUPPORTED GENERAL OBLIGATION DEBT TO INCOME (NOT TO EXCEED 6%)	5.1%	5.7%	5.9%	5.9%	5.8%	5.6%	5.4%	5.3%	5.2%	5.0%

(1) Updated for CY 2016 GO Bond Issuance. 5% interest rate assumed on all other bond issuance
(2) Excludes Utilities and Transportation Capital Fund 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, Transportation Capital Fund Debt Service, and Other debt costs
(5) Includes expenditures of General Fund and certain Special Revenue Funds of the County and School Board. Assumes 2% in FY 2018, 2.5% in FY 2019 - 2021, 3% in FY 2022 and beyond
(6) Includes real, personal property, and Public Property. Assumes 2% in FY 2017 & 2018, 2.5% in FY 2019 - 2021, 3% in FY 2022 and beyond
(7) Population growth as estimated by the Arlington County Planning Division and MWCOG Round 8.4 Forecasts.
(8) Source: Arlington County planning division CY 2016 estimates. Assumes 2% growth

Chart C

Summary of Tax-Supported General Obligation Bonds & Subject To Appropriation-Type Financings ⁽¹⁾
Ratio of Outstanding Debt to Market Value
Adopted FY 2017 Budget
As of June 30

	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Tax-Supported General Obligation Debt	\$862,947,199	\$973,324,747	\$1,057,453,562	\$1,096,255,296	\$1,118,844,575	\$1,134,141,594	\$1,129,551,300	\$1,128,121,223	\$1,165,646,818	\$1,145,503,412
Tax-Supported Subject to Appropriation ("STA") Debt										
Capital Equipment Leases (2)	17,517,297	23,163,355	24,844,434	24,788,637	22,074,285	19,675,610	18,597,919	16,618,866	23,359,156	26,218,036
Industrial Development Authority (IDA) Bonds (3)	96,980,000	92,020,000	87,015,000	81,960,000	76,850,000	71,680,000	66,445,000	61,150,000	55,780,000	51,470,000
Peumansend Creek Regional Jail	121,938	-	-	-	-	-	-	-	-	-
No. Va. Criminal Justice Academy	266,324	-	-	-	-	-	-	-	-	-
Subtotal	\$114,885,559	\$115,183,355	\$111,859,434	\$106,748,637	\$98,924,285	\$91,355,610	\$85,042,919	\$77,768,866	\$79,139,156	\$77,688,036
Project-Supported Subject to Appropriation ("STA") Debt (4)										
Ballston Public Parking Garage	5,100,000	-	-	-	-	-	-	-	-	-
IDA Lease Revenue Bonds (Ballston Skating Facility) (24,195,000	23,095,000	21,945,000	20,740,000	19,480,000	18,155,000	16,760,000	15,290,000	13,740,000	12,100,000
Gates of Ballston (6)	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000	-	-	-	-
Subtotal	52,295,000	46,095,000	44,945,000	43,740,000	42,480,000	41,155,000	16,760,000	15,290,000	13,740,000	12,100,000
Total Tax-Supported General Obligation (GO) & ALL STA Financing:	1,030,127,759	1,134,603,103	1,214,257,996	1,246,743,933	1,260,248,860	1,266,652,204	1,231,354,220	1,221,180,089	1,258,525,974	1,235,291,448
Total <u>Tax-Supported</u> GO and <u>Tax-Supported</u> STA Financings	977,832,759	1,088,508,103	1,169,312,996	1,203,003,933	1,217,768,860	1,225,497,204	1,214,594,220	1,205,890,089	1,244,785,974	1,223,191,448
Total <u>Project-Supported</u> STA Financings	52,295,000	46,095,000	44,945,000	43,740,000	42,480,000	41,155,000	16,760,000	15,290,000	13,740,000	12,100,000
Market Value of Taxable Property	73,086,054,427	74,547,775,515	76,411,469,903	78,321,756,651	80,671,409,350	83,091,551,631	85,584,298,180	88,151,827,125	90,796,381,939	93,520,273,397
Total <u>Tax-Supported</u> GO & ALL STA Financings as Percent of Market Value (Not to Exceed 4%)	1.41%	1.52%	1.59%	1.59%	1.56%	1.52%	1.44%	1.39%	1.39%	1.32%
Total <u>Tax-Supported</u> GO & <u>Tax-Supported</u> STA Financings as Percent of Market Value	1.34%	1.46%	1.53%	1.54%	1.51%	1.47%	1.42%	1.37%	1.37%	1.31%
Total <u>Project-Supported</u> STA Financings (Credit Enhancement) as Percent of Market Value (2)	0.07%	0.06%	0.06%	0.06%	0.05%	0.05%	0.02%	0.02%	0.02%	0.01%

(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

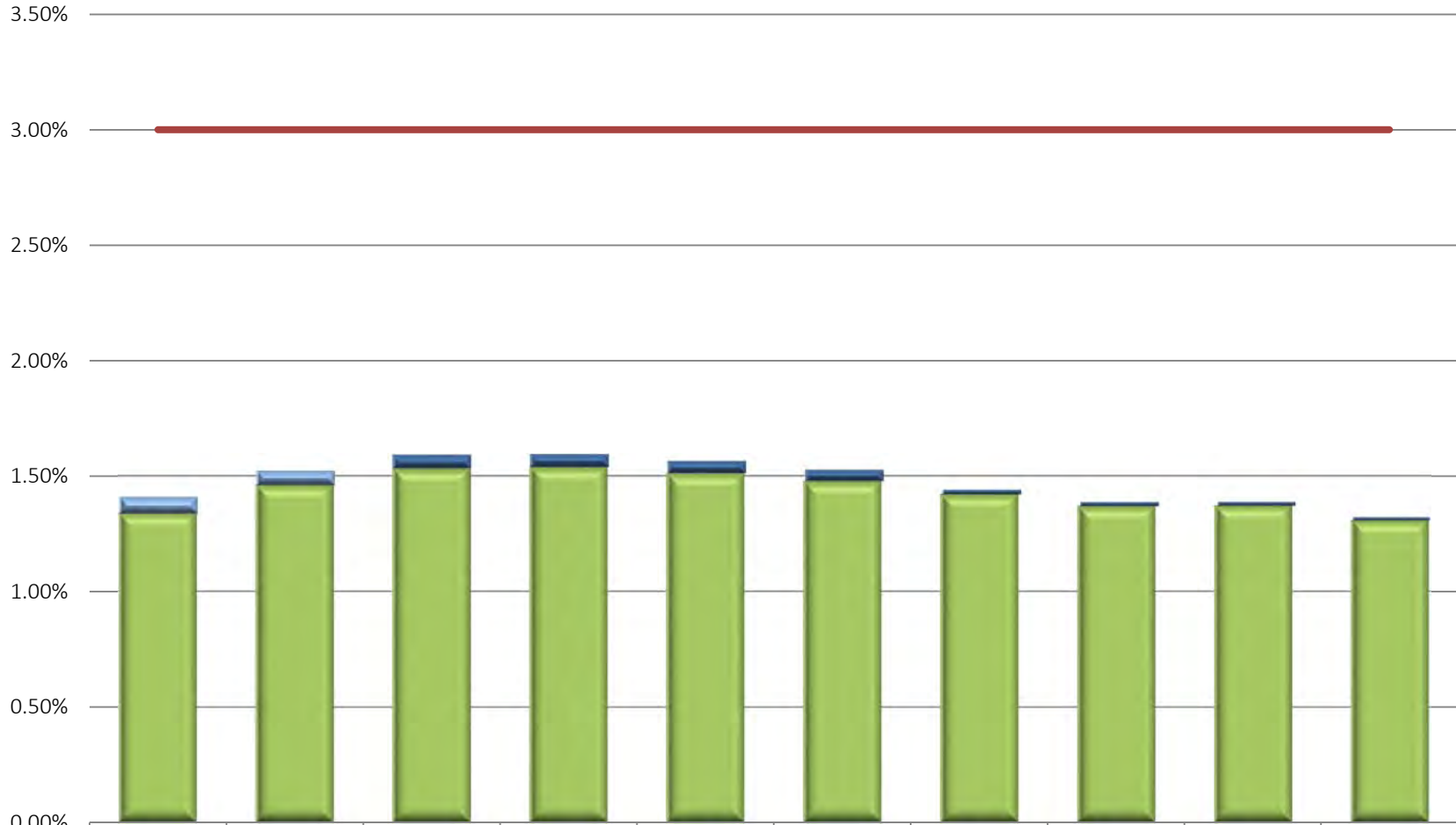
(4) Debt service on these financings is intended to be repaid by user fees or tenant rental income, not by County General Fund revenues.

(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 2017 Budget**



	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Project-Supported	0.07%	0.06%	0.06%	0.06%	0.05%	0.05%	0.02%	0.02%	0.02%	0.01%
Tax-Supported	1.34%	1.46%	1.53%	1.54%	1.51%	1.47%	1.42%	1.37%	1.37%	1.31%
Not to Exceed 3%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

■ Tax-Supported
 ■ Project-Supported
 — Not to Exceed 3%

Chart E

Ratio of Tax-Supported General Obligation Debt to Income
Adopted FY 2017 Budget
Not to Exceed 6%

