DEBT CAPACITY ANALYSIS

In developing the CIP, the County establishes its long-range plan for pay-as-you-go (PAYG), bond and short-term financing of its ten-year capital program. In determining the level of capital projects to finance and the method of financing, the County considers its financial ability to undertake these projects and the useful life of the project. This analysis includes a review of debt capacity factors and the impact of the adopted CIP on these debt capacity factors.

In April 2008, the County Board approved Financial and Debt Management Policies that affirmed the County's existing debt capacity factors. The policies also included guidance on bond term and amortization, specifically that bond-funded projects will typically have a useful life at least as long as the period over which the bonds will be repaid (the average life of County bonds is 10-12 years and final maturity is generally twenty years; however, longer terms may be considered on very long useful life projects). Finally, the Board's policies provided guidance on the use of variable rate debt and derivatives. The Board has periodically adopted revisions to the financial and debt management policies, most recently as part of the Adopted FY 2025 Operating Budget. These policies serve as the financial framework for the CIP, and a full copy of the adopted policies is included in the Financial & Debt Management Policies section.

The bond rating agencies that rate the County's debt for potential investors use these debt ratios along with other County and community economic factors as the basis of their ratings. The three major bond rating agencies, Moody's Investors Service, Standard & Poor's, and Fitch Ratings currently rate the County Aaa/AAA /AAA (the highest possible). Arlington is one of a select national group of counties that currently hold these coveted Aaa/AAA/AAA ratings from the three major rating agencies. The County's bond ratings were reaffirmed in May 2024 and historical County bond trading in the secondary market confirms that Arlington belongs within the very top group of municipal credits in the national bond market. The funding levels contained in this CIP are intended to maintain this status.

While there is no legal limit in Virginia on the level of debt issued by Virginia counties, Arlington has issued and plans to issue its debt prudently. Arlington will remain within the acceptable range of debt capacity factors with the CIP based on conservative assumptions, as illustrated on the following pages.

Underlying Assumptions

The projected ratios shown in the following tables are based on the County's Adopted FY 2025 – FY 2034 CIP. It is important to note that the County's Financial and Debt Management Policies view debt capacity on a combined basis (i.e., County and Schools) as do the bond rating agencies.

The projected debt ratios are based on conservative revenue growth assumptions: 2.5% growth in FY 2026 and FY 2027, escalating to 3.0% in FY 2028 and thereafter. Similarly conservative assumptions have been used for projected growth in market value of the County's tax base (identical to revenue growth assumptions) and per capita income growth of 2.6% in FY 2026, escalating to 3.0% in FY 2027 and beyond.

It should be noted that these debt ratios include only general obligation and other tax-supported debt, including bonds issued through the Industrial Development Authority (IDA) or other conduit issuers for County projects where debt service is paid for from the General Fund. For example, these ratios include the subject-to-appropriation Series 2021 IDA revenue notes issued in December 2021 for an acquisition loan the County provided to the affordable housing developer purchasing the Barcroft property. The ratios do not include bonds where the County has provided a moral obligation pledge as credit support to a project (e.g., the Kettler Iceplex facility). In charts C and D of this section, the customary general obligation debt to the tax base ratio chart has been amended to also show the effect of moral obligation or "subject-to-appropriation" backed capital financing. The ratios do not include debt for the Stormwater Fund or for enterprise funds, including debt included for the Utilities Fund that is supported by user fees.

Projected Debt Ratios

Ratio of Debt Service to General Expenditures No Greater Than 10% -- Over the ten-year planning period, this ratio will range from 8.79% to 9.87%, peaking in FY 2032.

Outstanding Debt as Percentage of Market Valuation of Tax Base No Greater than 3% -- The amount of debt that the County carries is moderate when compared to its tax base. This ratio is projected to range from 1.3% to 1.5% over the ten-year planning period.

Ratio of Debt per Capita to Per Capita Income No Greater than 6% -- The County estimates that the Debt-to-Income ratio will range from 4.5% to 5.2%, assuming 2.4% annual growth in per capita income.

Growth in Debt Service over the Ten-Year Planning Period No Greater than Ten-Year Historical Growth in Revenues – Average annual growth in total County and APS debt service is estimated at 3.7% compared to historical average ten-year revenue growth of 4.4%.