

DEBT SERVICE

The FY 2019 proposed 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 \$69,587,282, 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 2019 Proposed General Fund debt service budget to be supported by non-AHIF revenues totals \$67,800,000.

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 2019 PRIORITIES

The FY 2019 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 \$80 million in general obligation new money bonds in CY 2018 as approved in the referenda from CY 2010, CY 2012, CY 2014, and CY 2016.

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 FY 2018 Adopted Budget, 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, CY 2009, and CY 2014. The revised policies, coupled with expanded policies regarding County reserves, 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 Adopted FY 2017 – FY 2026 Capital Improvement Program (CIP) with updates for revised project cashflows where appropriate and the most recent bond issuance in May 2017.

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 2017 General Obligation bonds in May 2017. 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.

2018 NEW MONEY BONDS

The proposed debt service budget was developed assuming a County general obligation bond sale of approximately \$80 million in the spring of 2018. The initial debt service payments due in FY 2019 are approximately \$5.6 million in the General Fund, and \$9.5 million in the School Debt Service Fund for their issuance of approximately \$95 million of bonds.

SPRING 2018 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, Jennie Dean Park	\$7.7	\$33.4
Transportation – Paving, BikeArlington, WalkArlington, Street Lights, Bridge Renovation, Transportation Systems & Traffic Signals	15.2	6.7
Metro	22.4	0.0
Community Infrastructure – Neighborhood Conservation, Facilities Maintenance, Critical Systems Infrastructure, Thomas Jefferson Parking Deck, 2020 Building, Lubber Run Community Center, North Side Salt Facility Planning	34.2	51.2
County General Obligation Bonds	\$79.5	\$91.3
School General Obligation Bonds – Capacity Projects	94.8	12.0
Utility General Obligation Bonds - Water Pollution Control Plant	0.0	4.2
Total General Obligation Bonds	\$174.3	\$107.5

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. Interest earned on unexpended bond proceeds has remained low over the past few years, but is increasing slightly with recent increases to the federal funds target rate. Minimal changes in rates are forecasted for FY 2019.

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 2019 proposed General Fund debt service budget is \$67,800,000, an eight percent increase over the FY 2018 adopted budget, excluding the impact of bonds issued for Buckingham Village 3 debt, paid for from AHIF funds (and budgeted accordingly in Non-Departmental).

	FY 2017 Actual	FY 2018 Adopted	FY 2019 Proposed	% Change '18 to '19
Principal	\$44,712,972	41,644,012	43,670,188	5%
Interest	17,323,432	22,981,617	25,792,094	12%
Other (1)	26,953	125,000	125,000	-
Total Expenditures (2)	62,063,357	64,750,629	69,587,282	7%
Less: Debt Service Supported by AHIF	(1,788,192)	(1,786,284)	(1,787,282)	-
Total Non-AHIF Supported Debt Service	\$60,275,165	\$62,964,345	\$67,800,000	8%

(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)

Chart A

**Arlington County, Virginia
Debt Ratio Forecast
Proposed FY 2019 Budget**

	FY 2018 Adopted	FY 2019 Proposed	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GENERAL OBLIGATION BONDS - COUNTY (1)	79,540,000	99,545,000	99,470,000	54,580,000	62,805,000	51,260,000	53,215,000	74,940,000	58,490,000
GENERAL OBLIGATION BONDS - SCHOOLS (1)	94,830,000	58,730,000	48,150,000	46,100,000	23,550,000	26,500,000	33,200,000	56,400,000	15,600,000
GENERAL OBLIGATION BONDS RETIRED	73,871,352	76,885,686	79,430,399	83,410,240	87,439,961	90,954,061	93,357,450	96,144,567	97,229,178
NET TAX-SUPPORTED GENERAL OBLIGATION BONDS AT END OF FISCAL YEAR (2)	993,830,847	1,075,220,162	1,143,409,763	1,160,679,523	1,159,594,562	1,146,400,500	1,139,458,050	1,174,653,484	1,151,514,306
SUBJECT-TO-APPROPRIATION BOND ISSUANCE	37,530,000	-	-	2,000,000	2,000,000	9,000,000	8,000,000	2,000,000	2,000,000
SUBJECT-TO-APPROPRIATION BONDS RETIRED	5,308,114	4,625,000	4,470,000	5,790,000	6,130,714	6,481,429	7,817,143	9,030,000	8,235,714
NET TAX-SUPPORTED BONDS AT END OF FISCAL YEAR (3)	1,114,561,545	1,191,325,859	1,255,045,460	1,268,525,220	1,263,309,545	1,252,634,055	1,245,874,462	1,274,039,895	1,244,665,003
SCHOOLS DEBT SERVICE	50,183,910	58,797,383	60,326,432	63,008,683	63,845,491	63,293,753	63,852,353	65,169,320	66,608,628
COUNTY DEBT SERVICE (4)	64,625,629	69,462,282	74,236,390	80,817,604	85,673,901	90,261,147	93,324,972	95,894,895	96,601,873
TOTAL TAX SUPPORTED DEBT SERVICE	114,809,539	128,259,665	134,562,822	143,826,287	149,519,392	153,554,900	157,177,325	161,064,215	163,210,501
% GROWTH IN TAX-SUPPORTED DEBT SERVICE COUNTY ONLY	7.3%	7.5%	6.9%	8.9%	6.0%	5.4%	3.4%	2.8%	0.7%
% GROWTH IN TAX-SUPPORTED DEBT SERVICE COUNTY / SCHOOLS	7.7%	11.7%	4.9%	6.9%	4.0%	2.7%	2.4%	2.5%	1.3%
GENERAL GOVERNMENT EXPENDITURES (5)	1,425,834,882	1,421,962,917	1,467,465,730	1,510,022,237	1,549,282,815	1,589,564,168	1,630,892,836	1,673,296,050	1,716,801,747
DEBT SERVICE AS % OF EXPENDITURES (NOT TO EXCEED 10%)	8.05%	9.02%	9.17%	9.52%	9.65%	9.66%	9.64%	9.63%	9.51%
MARKET VALUATION OF TAXABLE PROPERTY (6)	76,570,811,625	78,062,546,865	80,014,110,536	82,414,533,852	84,886,969,868	87,433,578,964	90,056,586,333	92,758,283,923	95,541,032,441
NET TAX SUPPORTED DEBT AS % OF MARKET VALUATION (3%)	1.5%	1.5%	1.6%	1.5%	1.5%	1.4%	1.4%	1.4%	1.3%
POPULATION (7)	226,100	229,400	232,700	235,030	237,360	239,690	242,020	244,350	246,680
DEBT PER CAPITA	\$4,930	\$5,193	\$5,393	\$5,397	\$5,322	\$5,226	\$5,148	\$5,214	\$5,046
INCOME PER CAPITA (8)	\$91,086	\$92,908	\$94,766	\$96,661	\$98,594	\$100,566	\$102,578	\$104,629	\$106,722
NET TAX-SUPPORTED GENERAL OBLIGATION DEBT TO INCOME (NOT TO EXCEED 6%)	5.4%	5.6%	5.7%	5.6%	5.4%	5.2%	5.0%	5.0%	4.7%

(1) Updated for 2017 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 3.2% growth in FY 2020, 2.9% in FY 2021, and 2.6% in FY2022 and beyond
(6) Includes real, personal property, and Public Property. Assumes 2.5% growth in FY 2020, and 3% in FY2021 - FY2026
(7) Population growth as estimated by the Arlington County Planning Division and MWCOG Round 8.4 Forecasts.
(8) Source: Arlington County planning division 2017 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
Proposed FY 2019 Budget
As of June 30

	FY 2018 Adopted	FY 2019 Proposed	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Tax-Supported General Obligation Debt	\$993,830,847	\$1,075,220,162	\$1,143,409,763	\$1,160,679,523	\$1,159,594,562	\$1,146,400,500	\$1,139,458,050	\$1,174,653,484	\$1,151,514,306
Tax-Supported Subject to Appropriation ("STA") Debt									
Capital Equipment Leases (2)	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)	110,930,000	106,305,000	101,835,000	96,045,000	90,200,000	84,290,000	78,330,000	72,300,000	67,350,000
Peumansend Creek Regional Jail	-	-	-	-	-	-	-	-	-
No. Va. Criminal Justice Academy	-	-	-	-	-	-	-	-	-
Subtotal	\$134,093,355	\$131,149,434	\$126,623,637	\$118,119,285	\$109,875,610	\$102,887,919	\$94,948,866	\$95,659,156	\$93,568,036
Project-Supported Subject to Appropriation ("STA") Debt (4)									
Ballston Public Parking Garage	-	-	-	-	-	-	-	-	-
IDA Lease Revenue Bonds (Ballston Skating Facility) (5)	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	-	-	-	-
Subtotal	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 Financings	1,174,019,203	1,251,314,596	1,313,773,400	1,321,278,808	1,310,625,171	1,266,048,420	1,249,696,916	1,284,052,640	1,257,182,342
Total <u>Tax-Supported</u> GO and <u>Tax-Supported</u> STA Financings	1,127,924,203	1,206,369,596	1,270,033,400	1,278,798,808	1,269,470,171	1,249,288,420	1,234,406,916	1,270,312,640	1,245,082,342
Total <u>Project-Supported</u> STA Financings	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	76,570,811,625	78,062,546,865	80,014,110,536	82,414,533,852	84,886,969,868	87,433,578,964	90,056,586,333	92,758,283,923	95,541,032,441
Total <u>Tax-Supported</u> GO & ALL STA Financings as Percent of Market Value (Not to Exceed 4%)	1.53%	1.60%	1.64%	1.60%	1.54%	1.45%	1.39%	1.38%	1.32%
Total <u>Tax-Supported</u> GO & <u>Tax-Supported</u> STA Financings as Percent of Market Value	1.47%	1.55%	1.59%	1.55%	1.50%	1.43%	1.37%	1.37%	1.30%
Total <u>Project-Supported</u> STA Financings (Credit Enhancement) as Percent of Market Value (2)	0.06%	0.06%	0.05%	0.05%	0.05%	0.02%	0.02%	0.01%	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

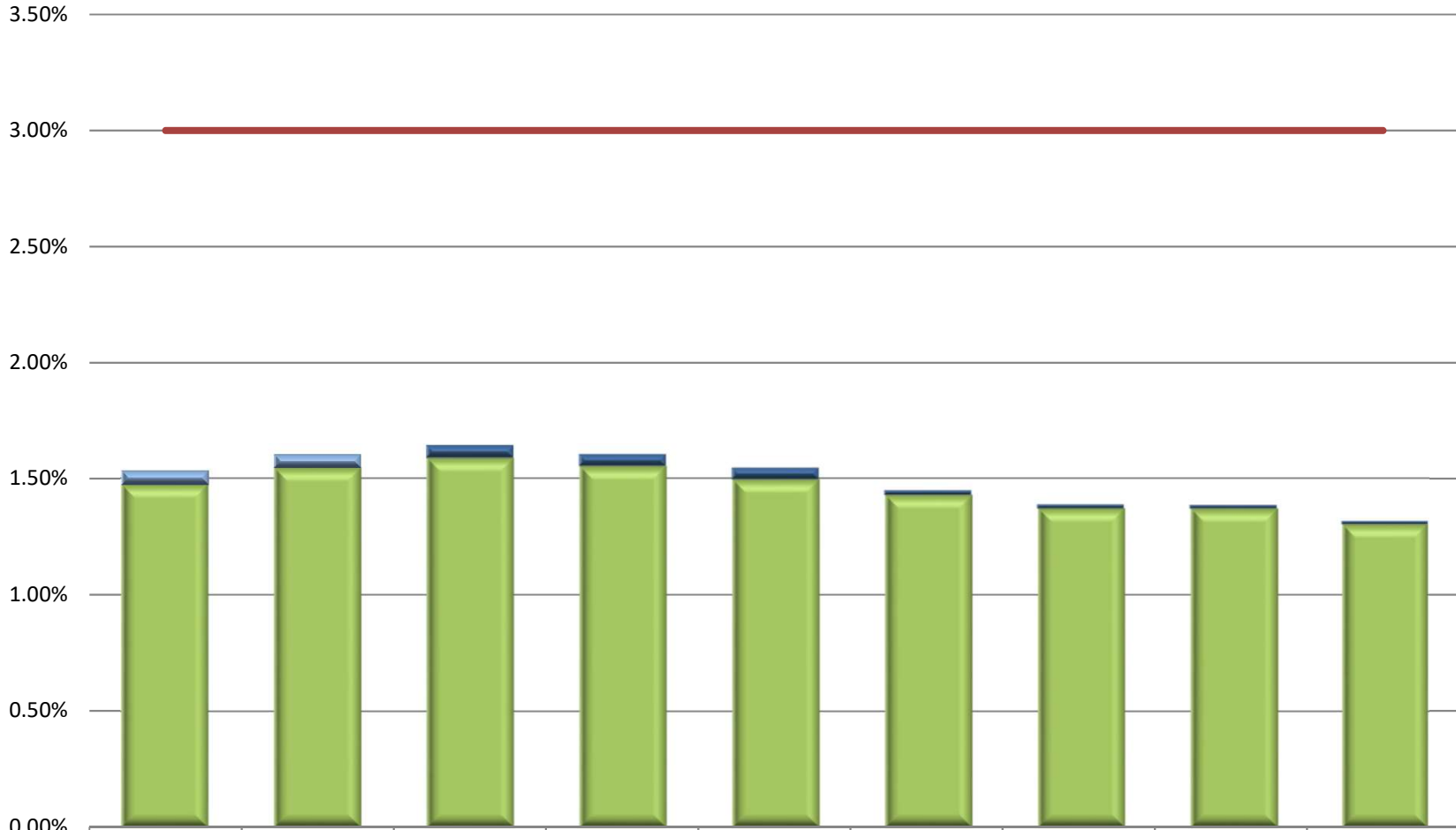
(3) Includes the Series 2009, 2011, 2013, and 2017 IDA Revenue Bonds

(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.

Chart D

**Ratio of Tax-Supported & Subject to Appropriation Financing
as a Percentage of Market Value
Proposed FY 2019 Budget**



	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Project-Supported	0.06%	0.06%	0.05%	0.05%	0.05%	0.02%	0.02%	0.01%	0.01%
Tax-Supported	1.47%	1.55%	1.59%	1.55%	1.50%	1.43%	1.37%	1.37%	1.30%
Not to Exceed 3%	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
Proposed FY 2019 Budget
Not to Exceed 6%

