

DEBT SERVICE

The FY 2018 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 \$63,238,629, 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 2018 Proposed General Fund debt service budget to be supported by non-AHIF revenues totals \$62,964,345.

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 2018 PRIORITIES

The FY 2018 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 \$108 million in general obligation new money bonds in CY 2017 approved in the referenda from CY 2010, CY 2012, CY 2014, and CY 2016.
- To issue \$38.5 million of subject-to-appropriation revenue bonds for the acquisition of the Buck Property (\$34.5M), upgrades to the Assessment and Collection System (\$2M), and upgrades to the Enterprise Payment System (\$2M).

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 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 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.

2017 NEW MONEY BONDS

The proposed debt service budget was developed assuming a general obligation bond sale of approximately \$70 million in the spring of 2017, and a revenue bond sale of \$38.5 million in the fall of 2017. The initial debt service payments due in FY 2018 are approximately \$6.6 million in the General Fund, and \$6.9 million in the School Debt Service Fund.

SPRING 2017 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	\$14.7	\$38.4
Transportation – Improvements Outside Major Travel Corridors, Paving, Transportation Systems & Traffic Signals	15.5	22.1
Metro	46.6	22.4
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	30.8	90.4
County General Obligation Bonds	107.6	173.2
School General Obligation Bonds – Capacity Projects	68.7	113.3
Utility General Obligation Bonds - Water Pollution Control Plant	--	4.2

Total General Obligation Bonds	\$176.3	\$290.7
Subject to Appropriation Revenue Bonds		
Buck Acquisition	34.5	
CAPP Upgrade / Replacement	2.0	
ACE Upgrade / Replacement	2.0	
Total General Obligation and Revenue Bonds	\$214.8	\$290.7

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 continued low interest rate environment, interest earned on unexpended bond proceeds has remained low over the past few years. Minimal changes in rates are forecasted for FY 2018.

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 2018 proposed General Fund debt service budget is \$62,964,345, a three percent increase over the FY 2017 adopted budget, excluding the impact of bonds issued for Buckingham Village 3 debt, paid for from AHIF funds (and budgeted accordingly in Non-Departmental).

Additionally, WMATA's ongoing capital maintenance programs such as SafeTrack, coupled with the ongoing delivery and payment for the 7000 series railcars, have increased the Agency's capital needs significantly in FY 2018. In order to contribute Arlington's jurisdictional share of the increase, an additional \$21.6 million of general obligation bonds must be issued in Spring 2017 that was not in previous budget estimates. The impact of this increase in debt issued is \$1.5 million of additional debt service in FY 2018.

	FY 2016 Actual	FY 2017 Adopted	FY 2018 Proposed	% Change '17 to '18
Principal	\$40,583,463	42,259,549	41,212,012	(2%)
Interest	19,409,340	20,671,462	21,901,617	6%
Other (1)	476,665	125,000	125,000	-
Total Expenditures (2)	60,469,468	63,056,011	63,238,629	-
Less: Debt Service Supported by AHIF	(1,789,067)	(1,788,192)	(1,786,284)	-
Plus: Debt Service on \$21.6M Additional WMATA Debt	-	-	1,512,000	-
Total Non-AHIF Supported Debt Service	\$58,680,401	\$61,267,819	\$62,964,345	3%

(1) Includes trustee fees and other fees related to bond transactions. In FY 2016, includes cost of issuance for the Series 2016 General Obligation Bonds of \$470,933. 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 (2009/2011/2013)

Chart A

**Arlington County, Virginia
Debt Ratio Forecast
Proposed FY 2018 Budget**

	FY 2017 Adopted	FY 2018 Proposed	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	85,810,000	52,230,000	62,805,000	51,260,000	53,215,000	74,940,000	58,490,000
GENERAL OBLIGATION BONDS - SCHOOLS (1)	68,730,000	93,300,000	66,730,000	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	71,621,735	70,832,805	74,747,103	78,155,766	84,567,290	87,387,743	89,545,133	92,042,239	94,801,917	95,841,528
NET TAX-SUPPORTED GENERAL OBLIGATION BONDS AT END OF FISCAL YEAR (2)	863,749,462	974,321,657	1,070,609,554	1,126,413,789	1,140,176,499	1,139,143,756	1,127,358,622	1,121,731,384	1,158,269,467	1,136,517,939
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)	952,258,273	1,096,722,354	1,189,327,678	1,238,665,248	1,247,655,060	1,241,516,618	1,231,287,987	1,224,885,741	1,253,445,166	1,225,077,484
SCHOOLS DEBT SERVICE	46,745,244	51,418,861	58,781,213	61,255,290	63,977,519	64,835,718	64,109,559	64,699,775	66,023,491	67,460,671
COUNTY DEBT SERVICE (4)	62,931,011	64,625,629	69,425,946	76,924,244	84,072,960	87,496,216	90,792,380	93,769,489	96,362,860	96,540,591
TOTAL TAX SUPPORTED DEBT SERVICE	109,676,255	116,044,489	128,207,159	138,179,534	148,050,479	152,331,933	154,901,940	158,469,264	162,386,351	164,001,262
% GROWTH IN TAX-SUPPORTED DEBT SERVICE COUNTY ONLY TEN-YEAR AVERAGE	2.0%	2.7%	7.4%	10.8%	9.3%	4.1%	3.8%	3.3%	2.8%	0.2%
% GROWTH IN TAX-SUPPORTED DEBT SERVICE COUNTY / SCHOOLS TEN-YEAR AVERAGE	2.4%	5.8%	10.5%	7.8%	7.1%	2.9%	1.7%	2.3%	2.5%	1.0%
GENERAL GOVERNMENT EXPENDITURES (5)	1,333,546,022	1,385,890,635	1,409,450,776	1,454,553,201	1,496,735,243	1,535,650,360	1,575,577,269	1,616,542,278	1,658,572,377	1,701,695,259
DEBT SERVICE AS % OF EXPENDITURES (NOT TO EXCEED 11)	8.2%	8.4%	9.1%	9.5%	9.9%	9.9%	9.8%	9.8%	9.8%	9.6%
MARKET VALUATION OF TAXABLE PROPERTY (6)	72,244,948,335	74,378,403,498	76,237,863,585	78,143,810,175	80,488,124,480	82,902,768,215	85,389,851,261	87,951,546,799	90,590,093,203	93,307,795,999
NET TAX SUPPORTED DEBT AS % OF MARKET VALUATION (3)	1.3%	1.5%	1.6%	1.6%	1.6%	1.5%	1.4%	1.4%	1.4%	1.3%
POPULATION (7)	220,400	224,500	228,600	232,700	232,700	235,410	238,120	240,830	243,540	246,250
DEBT PER CAPITA	\$4,321	\$4,885	\$5,203	\$5,323	\$5,362	\$5,274	\$5,171	\$5,086	\$5,147	\$4,975
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%	5.9%	5.7%	5.4%	5.2%	5.2%	4.9%

(1) Updated for 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 1.7% in FY 2019, 3.2% in FY 2020, 2.9% in FY 2021 - 2021, 2.6% in FY2022 and beyond

(6) Includes real, personal property, and Public Property. Assumes 2% in FY 2018, 2.5% in FY 2019 - 2021, 3% in FY2022 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 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
Proposed FY 2018 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	\$863,749,462	\$974,321,657	\$1,070,609,554	\$1,126,413,789	\$1,140,176,499	\$1,139,143,756	\$1,127,358,622	\$1,121,731,384	\$1,158,269,467	\$1,136,517,939
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	135,480,000	131,488,571	124,706,429	119,611,429	114,175,714	115,394,286	114,262,143	105,927,143	97,802,857
Peumansend Creek Regional Jail	121,938	-	-	-	-	-	-	-	-	-
No. Va. Criminal Justice Academy	266,324	-	-	-	-	-	-	-	-	-
Subtotal	\$114,885,559	\$158,643,355	\$156,333,006	\$149,495,065	\$141,685,714	\$133,851,324	\$133,992,205	\$130,881,009	\$129,286,299	\$124,020,893
Project-Supported Subject to Appropriation ("STA") Debt (4)										
Ballston Public Parking Garage	4,600,000	-	-	-	-	-	-	-	-	-
IDA Lease Revenue Bonds (Ballston Skating Facility) (5)	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	51,795,000	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 Financings	1,030,430,021	1,179,060,012	1,271,887,560	1,319,648,854	1,324,342,213	1,314,150,080	1,278,110,827	1,267,902,393	1,301,295,766	1,272,638,832
Total <u>Tax-Supported</u> GO and <u>Tax-Supported</u> STA Financings	978,635,021	1,132,965,012	1,226,942,560	1,275,908,854	1,281,862,213	1,272,995,080	1,261,350,827	1,252,612,393	1,287,555,766	1,260,538,832
Total <u>Project-Supported</u> STA Financings	51,795,000	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	72,244,948,335	74,378,403,498	76,237,863,585	78,143,810,175	80,488,124,480	82,902,768,215	85,389,851,261	87,951,546,799	90,590,093,203	93,307,795,999
Total <u>Tax-Supported</u> GO & ALL STA Financings as Percent of Market Value (Not to Exceed 4%)	1.43%	1.59%	1.67%	1.69%	1.65%	1.59%	1.50%	1.44%	1.44%	1.36%
Total <u>Tax-Supported</u> GO & <u>Tax-Supported</u> STA Financings as Percent of Market Value	1.35%	1.52%	1.61%	1.63%	1.59%	1.54%	1.48%	1.42%	1.42%	1.35%
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

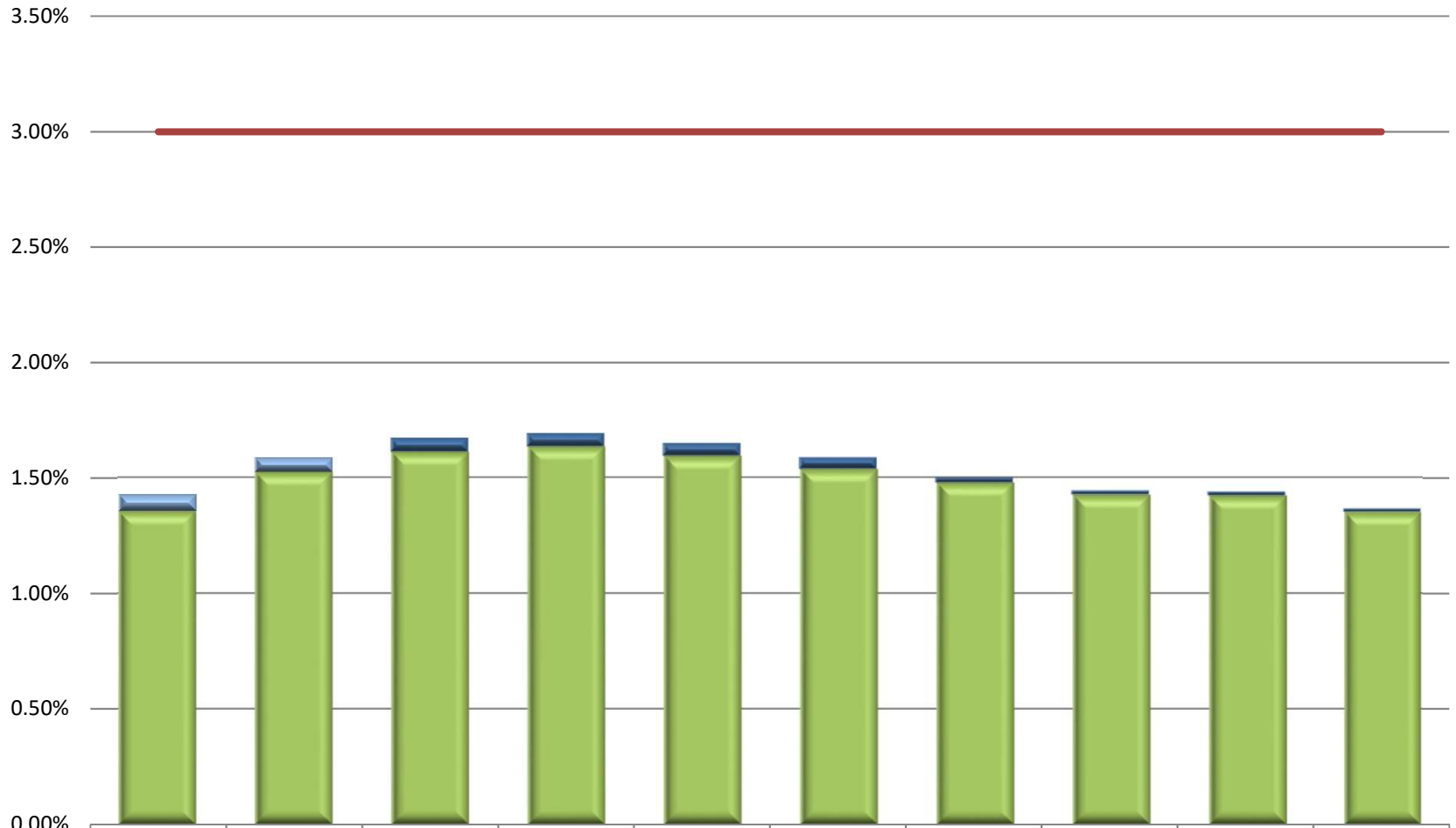
(4) Debt service on these financings is intended to be repaid by user fees or tenant rental income, not by County General Fund revenues.

(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
Proposed FY 2018 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	1.35%	1.52%	1.61%	1.63%	1.59%	1.54%	1.48%	1.42%	1.42%	1.35%
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
Proposed FY 2018 Budget
Not to Exceed 6%

