

DEBT SERVICE

The FY 2009 Proposed Budget includes outstanding and new money debt service on the County's General Obligation (G.O.) bonds, expenses associated with bond program administration, as well as the debt service of the IDA Lease Revenue Bonds sold in 2004. The FY 2009 Proposed General Fund debt service budget is \$53,030,218 which excludes debt service on School and Utilities bonds. To the extent that funding for Buckingham Villages, an affordable housing project, is met through debt financing, the associated debt service costs will be allocated from the Affordable Housing Investment Fund (AHIF). Payment of School bonded indebtedness is provided for in the School Debt Service Fund and is supported by a transfer from the 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 2009 PRIORITIES

The FY 2009 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 \$123.5 million in general obligation new money bonds in CY 2008 approved in the referenda from CY 2002, CY 2004, and CY 2006.

SIGNIFICANT BUDGET CHANGES

The FY 2009 Proposed General Fund debt service budget is \$53,030,218, an 11% increase over the FY 2008 Revised Budget. This amount includes debt service on G.O. bonds issued for general governmental purposes, the County's WMATA obligations, and the IDA Lease Revenue Bonds debt, but excludes debt service on School and Utilities bonds.

This increase is attributable to:

- Proposed issuance of \$45.0 million in new General Fund-supported bonds in CY 2008, resulting in projected new FY 2009 debt service payments of approximately \$3.35 million.

DEBT POLICY AND CREDIT RATINGS

The County's debt service budget reflects County fiscal policies regarding the prudent use of tax-exempt bond financing. These policies, which were adopted by the County Board in 2002, serve as the foundation for the County's high grade credit ratings and underlie the assumptions made in the existing Capital Improvement Program (CIP) and include:

- Ratio of Tax supported Debt Service to General Expenditures (10%)
- Ratio of Tax supported General Obligation and Subject to Appropriation Financing to Market Value of County Taxable Real and Personal Property (4%)
- Ratio of Tax supported General Obligation Debt to Resident Per Capita Income (6%)

Charts A – E on the following pages demonstrate the County's historical and planned adherence to these debt management policies.

As part of the FY 2009 Proposed Budget, the County Manager is proposing adoption of a comprehensive set of policies addressing fiscal integrity and sustainability (see "Fiscal Sustainability" in Volume 1). These proposed policies confirm the County's existing debt policies and add an additional policy specific to debt service growth: Growth in debt service should be consistent with the projected growth of revenues and not exceed the average ten-year historical revenue growth. The revised debt policies coupled with expanded policies regarding County reserves and planning and budgeting, will help ensure maintenance of the County's triple-A ratings.

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.

In January 2005, the County Board approved complementary variable rate debt guidelines:

- 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

By continually observing these policies, the County has maintained its high credit ratings of Aaa/AAA/AAA from Moody's Investors Services, Standard and Poor's Corporation, and Fitch Ratings. These ratings were again confirmed in conjunction with the County's issuance of \$117.36 million in general obligation bonds in May 2007. 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.

PROPOSED NEW MONEY BONDS

The County plans to issue \$123.5 million in general obligation bonds in the spring of 2008. The initial debt service payment on the new money bonds will be due in FY 2009 and is projected at approximately \$3.35 million in the General Fund; \$5.1 million in the School Debt Service Fund, and \$1.9 million for the Utilities Fund. The new debt would be used for purposes as shown in the following chart.

NEW MONEY BONDS

	Amount in (Millions)
General Obligation Bonds County Government	
Public Facilities	6.0
Pedestrian Systems, Highway, Streets	9.0
Community Conservation	2.0
Parks and Recreation	19.0
Metro	<u>9.0</u>
Arlington County General Obligation Bonds (Subtotal)	45.0
Utility General Obligation Bonds	<u>27.4</u>
Total County General Obligation Bonds	\$72.4
School General Obligation Bonds	\$51.1
Total	\$123.5

INTEREST EARNINGS & STATE JAIL REIMBURSEMENT

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. State law does not allow the County to enter into construction contracts until cash funds are available. This requires the County to issue bonds at the beginning of the 18 to 36 month project life cycle.

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.

	FY 2007 Actual	FY 2008 Revised	FY 2009 Proposed	% Change '08 to '09
Principal	\$27,595,301	\$28,924,674	\$33,266,407	15%
Interest	17,941,603	18,538,529	19,563,811	6%
Other	156,470	200,000	200,000	-
Total Expenditures ^{(1) & (2)}	45,693,374	47,663,203	53,030,218	11%
E-911 Additional Surcharge ⁽³⁾	560,000	2,041,667	-	-
State Jail Reimbursement	1,800,000	1,800,000	1,800,000	-
Interest Earnings	6,181,487	6,000,000	7,125,000	19%
Total Revenues	8,541,487	9,841,667	8,925,000	-9%
Net Tax Support	\$37,151,887	\$37,821,536	\$44,105,218	17%

(1) Includes the debt service for the IDA Lease Revenue Bonds (ECC, Trades Center, ERP, and George Mason Center).

(2) FY 2007 Actual numbers based on CAFR June 30, 2007.

(3) E-911 Additional Surcharge ended January 1, 2007.