CAPITAL IMPROVEMENT PLAN - INTRODUCTION

A. Overview

The Capital Improvement Plan (CIP) is one of the most significant planning processes for Arlington County and Arlington Public Schools. This plan typically identifies the capital needs of the community over a ten-year period.

In FY 2021, a one-year CIP was adopted due to the ongoing impacts of the COVID-19 pandemic. The Proposed CIP is a three-year plan with the potential for any adopted bond referenda to be presented to voters in November 2021. The County will return to a full ten-year CIP beginning in FY 2023.

The CIP is a planning document that is updated biennially and subject to change as the needs of the community become more defined and individual projects move along in their respective planning and budgeting processes. The effective use of a CIP process provides for considerable advance project identification, planning, evaluation, scope definition, design, public discussion, cost estimating, and financial planning.

The objectives used to develop the CIP include:

- To preserve and improve the infrastructure of Arlington through capital asset construction, rehabilitation and maintenance;
- To maximize the useful life of capital investments by scheduling major renovations and modifications at the appropriate time in the lifecycle of the facility;
- To identify and examine current and future infrastructure needs and establish priorities among projects so that available resources are used to the community's best advantage; and
- To improve financial planning by comparing needs with resources, estimating future bond issues, and identifying potential fiscal implications.

The CIP is the primary instrument for planning the funding and timing of the needs and priorities that have been approved by the County Board. The funding and implementation of CIP projects follow in the form of bond referenda, the annual appropriation of Pay-As-You-Go (PAYG) projects by the Board as part of the annual operating budget, and the approval / receipt of other funding sources identified in this document.

B. Capital Project Definition

Capital projects result in economic activities that lead to the acquisition, construction, or extension of the useful life of capital assets. Capital assets include land, facilities, parks, playgrounds and outdoor structures, streets, bridges, pedestrian and bicycle systems, water and sewer infrastructure, technology systems and equipment, traffic control devices, and other items of value from which the community derives benefit for a significant number of years.

Capital expenditures and operating expenditures are primarily differentiated by two characteristics: dollar amount of the expenditure and the useful life of the asset acquired, constructed, or maintained. Capital expenditures will enhance, acquire or extend the useful life of assets through a variety of activities. Generally, land acquisition, feasibility studies, planning, design, construction, asset rehabilitation, enterprise technology acquisition, and project Implementation, are activities associated with capital projects. Capital projects are typically funded with a variety of County sources – the primary two of which include PAYG and bond funds. They have similar and distinct eligibility criteria in that they both require that a project has an estimated useful life of at least ten years or more. However, they differ in scale and scope of projects they typically fund. Bond funds are usually reserved for the big-ticket items such as new construction or major renovations or alterations, while PAYG funds smaller scale renovations or maintenance type projects. In general, capital projects in the CIP:

- Have a total project cost in excess of $100,000.
- Range from construction of new buildings to renovations, additions, or conversions, or demolition of existing facilities.
- Have a minimum useful life of 10 years, significantly extend the useful life of an asset, or significantly alter the nature and character of an asset (i.e. not to include annual asset maintenance costs, annual warranty cost or other ongoing costs).

The CIP has also traditionally been the vehicle by which planning for technology capital investments occurs. In general, technology capital projects in the CIP:

- Have an estimated cost in excess of $25,000 and /or require six months or 1,000 hours for implementation or completion.
- Include applications systems, network design and implementation, telecommunications infrastructure, enterprise hardware and software systems, web design and implementation services, document imaging, data base design and development, consulting services (business process studies, requirements analysis or other studies), and technology associated with new construction and/or renovation and relocation projects.
- Have a minimum useful life of three years, significantly extend the useful life of an asset (i.e. not to include annual software and hardware maintenance and upgrade costs, warranty costs or other ongoing costs), provide a significant enhancement to functionality, or represent a change of platform or underlying structure.

C. CIP Development Process

Capital projects originate from a variety of sources. County Board appointed commissions, advisory groups, and task forces typically advise the Board or develop long-term plans that recommend certain types of improvements. In some cases, individual residents request improvements to their streets, playgrounds or other County facilities. Neighborhood associations and business groups may also suggest projects and work with County staff on projects. Some projects are initiated by staff based on adopted County master plans, such as the Transportation Master Plan or the Storm Water Master Plan.

Projects typically come forward through the sponsoring department that is responsible for their implementation but may also come from staff that exercises operational control over County asset. Investments were prioritized based on the ability to deliver value to the County and their alignment with the priorities of key stakeholders such as the County Board, County Government and the public.

As discussed in more detail under “Financial & Debt Management Policies” below, the consolidated recommendations were considered against various debt capacity scenarios to develop the final proposed CIP. Throughout the process, the team consulted with program managers and other subject matter experts within the departments.

D. Financial & Debt Management Policies

The Board-adopted financial and debt management policies provide the parameters for the amounts and timing of bond-financed projects to be included in the CIP, ensuring that the CIP is financially sustainable and that it supports the County's triple-A bond ratings.

E. Sources of Capital Funds

Funding for capital improvements comes from a number of sources. These funds are generated through local taxes, fees, charges, outside funding or other similar sources. The availability of these funds is sensitive to economic cycles.

Pay-As-You-Go (PAYG) comes from annual appropriations and is part of the adopted operating budget. PAYG funding provides the greatest flexibility since it is not constrained by tax-exempt bond requirements and historically has funded maintenance capital projects and regional partnership programs. Projects that are typically smaller in scale as well as minor renovations are likely candidates for PAYG funding – as long as the project has an expected useful life of at least 10 years or more. PAYG also:

- Has no debt service cost that must be paid on the expenditure;
- Is available at the start of the fiscal year;
- Must compete with operating programs for funding;
- Does not have to be approved through referendum; and
- Can be carried over at the end of each fiscal year.

Bond financing refers to debt financing of projects. Arlington County most often sells general obligation bonds. Bond financing is generated through the borrowing of funds (principal) at a cost (interest) through the sale of municipal bonds. There are several types of bond financing:

- *General obligation bonds* - Arlington typically issues general obligation bonds, which must first be approved by the County's voters and are secured by the full faith and credit of the County. Arlington's practice is to schedule bond referenda for even-numbered calendar years, which correspond to the bond sale in odd-number fiscal years.

- *Revenue and other types of bonds* – Arlington has issued low interest rate revenue bonds through the **Virginia Water Revolving Loan Fund** (VRLF) run by the **Virginia Resources Authority** for improvements to the Water Pollution Control Plant. Revenue bonds are typically secured solely by user fees or projected revenues and include no pledge from the General Fund. Revenue and other types of bonds (including those backed by the County's subject to appropriation pledge) typically carry a higher interest rate than GO bonds and generally have debt service coverage and other financial restrictions.

- *Lease revenue or annual appropriation bonds* – These types of bonds are secured by a "subject to appropriation" pledge by the County Board and do not require voter approval. (See "Lease-purchase finance" below) They generally require the use of a third party to execute the lease transaction, such as the **Industrial Development Authority** (IDA), Virginia Resources Authority, or Virginia Municipal League / Virginia Association of Counties.

One of the criteria used to determine which projects will be funded with bond proceeds is the useful life of the improvement. Projects funded with bond proceeds generally have a useful life that is similar in length to the repayment schedule of the bonds. Historically, Arlington has issued 20-year general obligation serial bonds and paid the bonds using a two-year step-up schedule of principal repayment, and the average bond principal is outstanding for approximately 11 years. The Board's financial policies allow for longer term bonds as long as the term of the bonds does not exceed the useful life of the project, and also allows for alternative amortization structures such as level debt service to better match certain revenue streams.

Inter-jurisdictional payments are another source of funding in the capital program. Arlington has agreed to provide services to other jurisdictions through contractual agreements. For example, wastewater treatment services for some areas of Alexandria, Falls Church, and Fairfax County are provided by Arlington's Water Pollution Control Plant. These jurisdictions also share in the cost of capital improvements of this facility, thus reducing the cost to Arlington users.

Short-Term Finance represents another source of capital financing to acquire equipment and technology, and to perform certain capital maintenance projects that result in a more limited extension to useful life. Because of the short-term maturities of these financing vehicles, interest rates are typically lower than rates on long-term bonds. The County typically procures the goods and services using temporary funding sources, and then draws funds from the financing institution to reimburse the temporary sources.

Infrastructure Availability (formerly hook-up) fees are another source of capital funding. These fees are assessed to developers and builders to join the water and sewer systems, based on the cost of capacity (volume) of the systems being "used up" by the customer. These funds are programmed during the annual budget process and can be used only for utilities projects.

The **Transportation Capital Fund – Commercial & Industrial Tax** is a source of funding authorized by the General Assembly in 2007 enabling the County to levy an additional real estate tax on industrial and commercial properties for transportation initiatives. In April 2008, the County Board adopted a tax of $0.125 per $100 of assessed value for transportation projects. Proceeds of the tax are held in a separate fund.

The **Transportation Capital Fund – NVTA 30% Local Funds** is comprised of a 0.7% increase in the local sales tax approved in 2013 by the General Assembly as part of HB 2313. The Northern Virginia Transportation Authority (NVTA) receives the proceeds of this tax and retains 70% for funding of projects that are regional in nature. The remaining thirty percent of this tax is deposited in the Transportation Capital Fund along with the Commercial & Industrial tax. In 2018, The General Assembly repealed two additional taxes and fees that were part of the original 2013 legislation and diverted those funds to the Washington Metropolitan Area Transit Authority (WMATA) Capital Fund beginning in FY 2019.

The **Northern Virginia Transportation Authority (NVTA)** – All revenues from the tax adopted by the General Assembly in 2013 as part of HB 2313 are distributed from the State to NVTA. Of these revenues, seventy percent ("Regional Funds") are retained by NVTA to fund regional transportation projects. By law, each locality's long-term benefit must be approximately equal to the proportion of the total fees and taxes generated in the locality divided by the total of all fees and taxes received by NVTA. The remaining thirty percent ("Local Share") will be returned on a pro rata basis to the member localities based on the amount of revenue generated by the taxes and fees within the locality, to be used for locally selected transportation projects and deposited into the Transportation Capital Fund. The NVTA Board will approve projects for regional funding as part of its Six-Year Program (SYP).

The **Crystal City – Potomac Yard – Pentagon City Tax Increment Financing Area** was established in 2010 to support the infrastructure investment needed as part of the Crystal City Sector Plan as well as the neighboring areas of Potomac Yard and Pentagon City. Tax increment financing (TIF) is a mechanism used to support development and redevelopment by capturing the projected increase in property tax revenues in the area and investing those related infrastructure improvements. Unlike a special district, it is not an additional or new tax; rather, it redirects and segregates the increased property tax revenues that would normally flow to the General Fund. The amount of tax increment revenue is determined by setting a baseline assessed value of all property in the area on January 1, 2011 and in each subsequent year, tracking the incremental increase in assessed values relative to the base year, and segregating the incremental revenues in a separate fund. Beginning in FY 19, the County Board approved allocating 25% percent of the incremental revenues to the Crystal City – Potomac Yard – Pentagon City area.

The **Stormwater Management Fund** relies on a source of funding originally adopted by the County Board in April 2008 to fund operating and capital costs to upgrade and expand the County's stormwater drainage and sewer infrastructure. Since then the Board has increased the sanitary district tax rate in FY 2011 to $0.013 per $100 of assessed value and then again in FY 2022 to $0.017 per $100 of assessed value. Recognizing the significance of the stormwater investment that is needed, the voters approved the November 2020 bond referendum for stormwater and watershed infrastructure. This will be a substantial, long-term investment in the County's stormwater management system, with multiple generations of taxpayers benefiting. Proceeds of this tax are held in a separate fund.

Developer contributions are also an important source of funding. These are contributions paid by developers to finance specific projects. Examples of these projects are utility undergrounding and street lighting.

Finally, there are **grants and reimbursements or other revenue** from the state and federal governments. These are funds provided by the Commonwealth of Virginia or the federal government for reimbursement of costs for certain capital improvements. Whenever possible, state or federal reimbursement is sought to offset County tax support and is included in the planning process. (See the Transportation & Pedestrian Initiatives section of the CIP for some current examples.)

F. Definition of Terms Used in Capital Planning

Arbitrage: Arbitrage is the gain a tax-exempt issuer may be able to obtain by borrowing at a tax-exempt rate and investing at a taxable rate. The Tax Reform Act of 1986 and subsequent amendments relating to the issuance of tax-exempt debt and arbitrage regulations had a dramatic effect on all issuers of tax-exempt debt.

Arbitrage Rebate: Refers to the requirement to rebate to the Federal government investment earnings derived with the proceeds of tax-exempt debt that are in excess of the earnings that would have been earned had the proceeds of the debt been invested at the same interest rate as that paid to the holders of the tax-exempt debt.

Architecture and Engineering (A&E): Professional services performed to facilitate planning, development, designs, cost estimates and construction of buildings, parks, streets, utilities, and other capital infrastructure.

Bond Funding: Funding derived from the public sale of bonds for which interest is paid to buyers for the use of the money.

- CIP programs and projects proposed for bond funding are approved by the County Board for inclusion on a bond referendum.
- Voters approve each bond referendum. In Arlington, a bond referendum is placed on the ballot for voter approval every other November, concurrent with Congressional/Presidential elections.
- Funds cannot be spent until after the referendum is approved by the voters, the Board approves the authorization and the County has developed cash flow plans.
- Spending rules are established based on referendum language and IRS regulations.

Bond Issuance Costs: Costs associated with the sale of bonds. Expenditures include fees to bond rating agencies, administrative expenses, legal fees, etc.

Capital Planning Process: The process of identifying, planning, evaluating and scoping projects, establishing performance standards, conducting public discussion, estimating costs and financial planning for capital projects. These processes should be completed for current year funding requests and underway for projects proposed in subsequent years.

Debt Service: The amount of principal and interest the County pays on its debt financing.

Full Time Equivalent (FTE): The measure of authorized personnel. It is calculated by equating 2,080 hours of work per year (2,912 for uniformed firefighters until the Kelly Day schedule is fully implemented, and 2,600 thereafter) with the full-time equivalent of one position (referred to in the budget as an FTE).

Out Years: All years after the current funding year. For example, in the FY 2022 – FY 2024 CIP, all years after FY 2022 are considered out years.

Overhead: The capital project should bear the cost of staff time spent directly on the implementation of the projects funded. In certain cases, the project can also bear the cost of program planning or preliminary business processes used in advance of funding or bringing the project to completion of scope.

Rules: This applies to limitations on the use of funds as a result of special revenue requirements. Interjurisdictional agreements for sewer construction reimbursement can only be applied to non-expansion costs of specific projects. Grants can only be spent under the terms and conditions provided with the grant. Bonds can only be used consistent with the language of the referendum and for items consistent with bond counsel determination, etc. Rules are not intended to imply administrative procedures, but rather legal requirements.

Total Project Cost: The CIP reflects the full cost of each project. The total cost includes such items as design, construction, right-of-way, construction management, utility relocations, hardware and software purchases, equipment needed to make the improvement useful, and appropriate overhead and operating costs.

GUIDE TO READING THE FY 2023 – FY 2032 CAPITAL IMPROVEMENT PLAN

The proposed FY 2023 – FY 2032 Capital Improvement Plan (CIP) provides comprehensive information on the near and longer-term facility and infrastructure capital improvements planned in the County over the next ten years.

The book is organized by the following sections: an introductory section, overview, capital funding section, and the program areas under which the projects reside. Each one of these sections represents a key component of the overall picture of the proposed FY 2023 – 2032 CIP:

- The Introductory section includes various information on the CIP process, policies, and governance that help provide context and framework under which the CIP is formulated.

- The Overview sets the tone for the proposed CIP with the County Manager's message and provides status of projects underway and summaries of authorized unissued bonds.

- The Capital Funding section includes various financial summaries of the CIP by program and funding source. It also includes analysis of the County's debt capacity as impacted by the proposed CIP.

The remaining four sections are dedicated to describing specific programs and projects included under the General Government section, IT and Equipment section, Metro and Transportation section, and the Utilities and Stormwater section. These sections detail the projects by major program areas.

- The first part of each of the programs provides a summary overview of the program vision and description as well as costs and funding sources.
- The following pages provide a description of each project including project highlights, funding schedules, critical milestones and operating impacts, if any. In addition, where applicable, the pages have a link to associated master plans, other online project status pages, board reports, sector plans, etc.

Like previous CIPs, the proposed FY 2023 – 2032 CIP is largely funded by bond debt, PAYG, and short-term financing. In addition, the Transportation Capital Fund, the Crystal City, Potomac Yard and Pentagon City tax increment financing area, the Utilities Fund and the Stormwater Management Fund are integrated in the comprehensive funding strategy for the CIP.

Please note that cost estimates are subject to market pressures and may not reflect the actual costs incurred at project implementation.

CIP CALENDAR

FEBRUARY 2022
- County Manager presents Proposed FY 2023 PAYG Budget to the County Board
- FY 2023 – FY 2032 Capital Improvement Program (CIP) staff kick-off

APRIL 2022
- Community submits early feedback on CIP Priorities online

MARCH - APRIL 2022
- County Board holds budget work sessions on PAYG and the operating budget with County departments and the Fiscal Affairs Advisory Commission

APRIL 2022
- County Board adopts FY 2023 Budget, PAYG Capital and Appropriations Resolutions for the County government and the public schools

MAY 2022
- Superintendent submits FY 2023 – FY 2032 Proposed CIP to the School Board – May 12
- County Manager submits FY 2023 – 2032 Proposed CIP to the County Board – May 17
- Various boards and commissions review the FY 2023 – FY 2032 Proposed CIP

JUNE 2022
- School Board adopts the School's FY 2023 – FY 2032 CIP – June 23
- County Board worksessions on CIP – June 7, June 14, June 28
- CIP Public Hearing – June 28

JULY 2022
- County Board wrap-up worksession – July 14
- County Board adopts the FY 2023 – FY 2032 CIP – July 16 or 19
- County Board approves the general obligation bond referenda resolutions and the language to be inserted on the ballot for the fall General Election