



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of July 8, 2006
Recessed to July 11, 2006**

REVISED BY COUNTY BOARD

DATE: July 11, 2006

SUBJECT: Fiscal Year (FY) 2007 – 2012 Capital Improvement Program Adoption

C. M. RECOMMENDATION:

- A. Amend the FY 2007 Pay-As-You-Go (PAYG) budget to \$10.9 million, an increase of \$8.3 million, consistent with the Board's Adopted FY 2007 operating budget.
- B. Amend the County's CIP to \$297.9 million, an increase of \$8.3 million as reflected in the FY 2007 adopted Pay-As-You-Go (PAYG) budget. The Utilities' CIP is unchanged at \$321.8 million.
- C. Amend the Schools' CIP to \$258.1 million, a \$27.1 million decrease from the Superintendent's Proposed CIP.
- D. Based on Capital worksession discussions and public hearing comments, the following are options for consideration:
 1. Amend the Neighborhood Conservation budget to \$6.7 million, an increase of \$0.8 million.
 2. Amend the WALKArlington/ATM budget to \$1.2 million, a previously unfunded program.
 3. Amend the Parks and Open Space Land Acquisition budget to \$8.0 million, a decrease of \$2.0 million.

ISSUES: What is the appropriate funding level and financing strategy for the recommended FY 2007 – 2012 CIP?

SUMMARY: The amended County Manager's Capital Improvement Program (CIP) represents the outcome of the process established by the County Board to plan, fund and implement capital projects over the next six fiscal years. The CIP reflects the County's capital improvement objectives and priorities in Arlington's neighborhoods and commercial corridors. Improvements

County Manager: _____

County Attorney: _____

Staff: Mark Schwartz, Deputy Chief Financial Officer, DMF
Greg Emanuel, Director of Engineering & Capital Projects, DES
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include transportation, public facilities, parks and recreation, information technology, community conservation, schools, utilities and other capital programs.

The Proposed CIP was developed in the context of several challenges: high construction inflation; securing long-term maintenance funding to sustain the County's recent capital investments; and living within the County Board's affordability standards to ensure that the triple-A bond ratings are maintained. The Proposed CIP addresses these competing challenges by prioritizing projects, with the highest priority placed on fulfilling the project commitments already made to the community.

The County Manager's Proposed FY 2007 – FY 2012 CIP was presented to the County Board in April 2006. Since the release of the proposed CIP, amendments have been recommended as outlined in the recommendations. The most significant change is in the Schools' CIP; the revised numbers included in this document reflect the Schools' FY 2007 – FY 2012 CIP as adopted by the School Board on July 6, 2006.

The other substantive changes involve policy priorities across the different categories of funding, based on County Board guidance and community input:

- **Neighborhood Conservation:** to clear the backlog of previously approved projects and maintain the momentum within the various neighborhoods. An additional \$800,000 in funding would provide for new projects and supplement the funds recommended for previously approved projects in the CIP.
- **Pedestrian Initiatives:** to maintain the commitment to pedestrian safety. An additional \$1.2 million would provide for WALKArlington and Arterial Transportation Management (ATM) projects. These funds would allow the S. Four Mile Run Drive project to go to construction, provide additional design and right of way acquisition funds for the Carlin Springs Road project, and also provide \$650,000 for future WALKArlington projects.
- **Park Land Acquisition:** to fund the items above, \$2.0 million would be re-allocated from the proposed \$10 million for park land acquisition. This would leave \$8.0 million, which is still considerably higher than the \$2.0 million previously recommended in the FY 2005-2010 CIP.

Additional changes to the Proposed CIP are of an administrative nature and do not affect the overall CIP total. First, move the Arlington Mill project to be funded in the High Priority Bond category rather than the Contingent Bond category. Second, include the Four Mile Run restoration as a longer term concern in the alternative Funding category. This puts the restoration project on the list for consideration in the out years. Third, include in the FY 2007 general obligation bond referenda, \$17.1 million of projects from the Supplemental Funding category (Westover Library, Arlington Arts Center, Lee Center, Trades Center, Washington-Lee Pool, and Real Estate Acquisition –Non-Parks). The Proposed CIP did not have specific funding sources identified for these projects, though they were categorized as debt-funded projects.

The following table summarizes total costs under the Recommended CIP, with the changes as discussed above:

FY 2007 – FY 2012 CIP Totals
(in \$1,000)

Program	Revised County Manager Recommendation	Comments
County	\$ 297,921	\$8.3 million increase over Proposed CIP due to higher adopted FY 2007 PAYG budget
Schools	\$ 258,072	\$27.1 million decrease over Superintendent's Budget
Utilities	\$ 321,796	No change over Proposed CIP
TOTAL	\$ 877,789	

The following table presents the proposed amounts to be included on the general obligation bond referenda this November. This table excludes amounts to be financed through other financing vehicles, including the Virginia Department of Environmental Quality Wastewater Revolving Loan Fund (VRLF) for the Water Pollution Control Plant (WPCP) Master Plan 2001 upgrades and Virginia Resources Authority's public safety loan program for Fire Station 3 (approximately \$13 million.)

**FY 2007 Bond Total
(CY 2006 Bond Referendum)
(in \$1,000)**

	Revised County Manager Recommendation	Comments
County	\$ 94,350	Shift to GO bond authorization of \$17.1 million for projects which were to be financed through other debt-funded mechanisms. The debt service calculations for these projects were already included in the County's debt service capacity.
Schools	\$ 33,712	Includes funds for design work at Jefferson, Wakefield and the Career Center and construction at Yorktown.
Utilities	\$ 79,000	Includes \$60 million for WPCP Master Plan 2001 upgrades. The County will attempt to maximize the amount financed through the lower-cost VRLF program, although state-wide competition for funds may limit VRLF availability.
TOTAL	\$ 207,062	

BACKGROUND: The CIP, which includes the County government project plans and the School Board adopted costs and details, is primarily a planning document. As such, the CIP is subject to amendment and updating as the needs of the community change and become better known, and the proposed projects move closer to funding and final approval. Staff monitors changes in the community to be able to take advantage of opportunities that arise in scheduling and funding capital improvements in conjunction with private sector development and redevelopment. As priorities change and opportunities arise, staff reassesses the County's capital improvement program and proposes changes which will affect the timing and funding of projects. The proposed CIP represents staff's best evaluation, at this time, of overall capital needs at a level affordable to taxpayers. The County government portion of the CIP is prepared on an interdepartmental basis with staff expertise from each program area utilized to help prepare each segment of the proposed CIP.

Since the proposed CIP was released in mid April, staff has met with 12 Commissions and Committees to present the CIP and solicit input. The CIP was published in hard copy, on the County website, CD-ROM and over 100 hard copies have been distributed. Additionally, a CIP Public Hearing was held on May 22, 2006, in the County Board Room.

FISCAL IMPACT: This CIP represents a fiscally sustainable capital plan. The Arlington County Board adopted debt policies to establish fiscal parameters for how General Obligation and other “subject to appropriation” debt should be incurred. 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 be approved by public referendum. (Certain types of debt are excluded from the referendum requirement, including revenue and refunding bonds.) In an effort to maintain fiscal responsibility and control, the County Board has established the following debt targets as part of the debt policy:

- 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 Debt Service to General Expenditures **(10%)**
- Ratio of Tax supported General Obligation Debt to Resident Per Capita Income **(6%)**

In determining the size of the recommended bond issues, we have considered Arlington’s affordability guidelines and the benchmarks considered by rating agencies, such as the following:

- During the six-year period of this CIP, the County’s outstanding General Fund serviced General Obligation Debt and Subject to Appropriation Debt as a percentage of Market Value of County Taxable Real and Personal Property is projected to peak at 1.5 percent in FY 2009. This ratio is projected to decrease to 1.3 percent in FY 2012. This is well within the four-percent ceiling.
- In FY 2007 for every dollar spent by the County and Schools, about 8 cents will be applied to debt service. The County estimates that in FY 2012 for every dollar spent by the County, 8.8 cents would be applied toward debt service. The Tax supported Debt Service to General Expenditure debt ratio ceiling states that no more than 10 cents of every dollar spent by the County and Schools be spent on debt.
- Another assessment is the Debt to Arlington Resident Per Capita Income ratio. At the end of FY 2006 this ratio was 5.2 percent. The County estimates that the Debt to Income ratio will reach a peak level of 5.4 percent at the end of FY 2009 and come down by FY 2012 to 4.8 percent. While the ratio ceiling is six percent, Arlington’s self imposed target is significantly below the ratio average for local governments nationally and will not represent a risk to the County’s triple AAA rating.

In order to ensure compliance with these benchmarks, development of this CIP has focused on affordability based on modest levels of revenue growth at 4 percent. Historically, annual revenue growth has averaged over five percent for the past fifteen-year time period. Both the County's and the School's bond proposals are supportable based on Arlington's growth trends. Additional fiscal safeguards built into the County's capital funding approach include the scheduling of bond sales based on actual project construction schedules and biennial referenda. This incremental introduction of new debt enables the County to re-evaluate our priorities or defer commitments in the unlikely event that economic conditions ever deteriorate sharply.

Annual Projected Debt Service Growth						Change
(growth is year-over-year)						FY07 - FY12
	FY08	FY09	FY10	FY11	FY12	
Arlington County	4%	10%	4%	3%	3%	26.2%
Arlington Public Schools	11%	10%	13%	5%	5%	51.1%

ATTACHMENTS:

The following Charts (A – E) and are presented to illustrate the fiscal impacts of the amended FY 2007 – 2012 CIP financing strategy on future debt ratios and statistics. Chart F reflects the total County and Schools FY 2007 2012 CIP. Charts G-i through G-iv are presented at the request of the Arlington County Public School staff.

- (Chart A) Impact of FY 2007-2012 CIP on Debt Ratios
- (Chart B) Ratio of Tax-Supported Debt Service to General Expenditures
- (Chart C) Summary of Tax-Supported General Obligation Bonds and Subject-to-Appropriation Type Financing
- (Chart D) Tax-Supported General Obligation Bonds & Subject to Appropriation Financing – As Percent of Market Value
- (Chart E) Tax-Supported General Obligation Debt to Income Ratio
- (Chart F) Amended FY 2007 – 2012 CIP Summary (Three Pages)
- (Chart G) Schools' FY 2007 – 2012 CIP Funding Summaries
 - i. APS Proposed vs. Amended CIP Summary Schedule
 - ii. APS Adopted FY 2007 – FY 2012 CIP Summary
 - iii. APS Adopted Major Construction Projects Funding Plan
 - iv. APS Adopted Minor Construction/ Major Maintenance Schedule