

**County Manager's Message
FY 2007 – FY 2012
Capital Improvement Program**

To the County Board of Arlington, Virginia:

As Arlington emerged into the 21st century, we embarked on an aggressive program to reinvest in the County's infrastructure. Much of Arlington was built during the middle of the last century when Arlington evolved from a rural to a suburban community. As Arlington matured as an urban community 50 years later, the time had arrived for reinvestment for the next generation.

Over the past five years, Arlington has spent over \$357 million in capital investments, excluding utilities, and over the past 10 years has spent over \$579 million. The latter amount includes \$215 million for public schools alone.

Arlington's investment during this 10 year period included \$142 million in Pay-as-You-Go (PAYG) funding and \$222 million in general obligation bonds, for which voters gave approval.

Throughout this period of intense reinvestment, Arlington has maintained the highest ratings for its bonds by all three of the private agencies that assess the risk of local government bond sales. This has enabled Arlington to re-invest at the lowest interest rates in its documented history.

As Arlington advanced its vision, the private sector undertook record levels of investments and the outlying communities grew aggressively into new suburbs. This intensity of development in the most recent years has resulted in record levels of construction inflation that have undermined estimates for virtually all capital projects and construction schedules.

Arlington has made prudent decisions in its reinvestment strategy and has provided the amenities necessary to support a 21st century, urban community – especially in the reinvestment in public schools. The time has now arrived – especially given high construction inflation – to develop a new reinvestment strategy for the next 5- and 10-year period.

2006 CIP Update

The 2006 Update of the Arlington Capital Improvement Program (CIP) highlights two challenges:

- Coping with high capital inflation, and
- Securing long-term maintenance funding to sustain recent capital investments.

Our priority has to be the latter – sustaining what we have built is fiscal prudence that must be demonstrated by a community that desires to maintain the triple-A bond ratings that we have in Arlington.

The proposed Fiscal Year 2007 budget however, contains \$48 million for debt service and only \$2.6 million in sustaining funds for cash capital – commonly referred to as the Pay-As-You-Go budget. In previous years, one-time funds were generated to support PAYG from revenue surpluses – often the result of overly conservative revenue estimates. More accurate revenue projections and tighter budgeting have eliminated the ability to rely on surpluses to balance the capital maintenance budget.

During the review of this CIP, it is incumbent upon us to determine the appropriate mechanism to sustain a capital maintenance fund at an appropriate level.

The CIP is focused on completing projects that voters have previously approved through bond referenda. The high levels of construction inflation have jeopardized implementation of these projects. In order to fulfill these commitments, some projects and programs anticipated in the previous CIP will have to be deferred or re-evaluated. Fundamentally, Arlington must re-assess its capital program in light of current inflation realities.

Recent construction inflation also raises concerns about all estimates that are in the CIP. Efforts have been made to update estimates based on currently available knowledge, but recent experiences demonstrate the inability of predicting the future. If construction inflation remains as unconstrained as it has been most recently, all of the projects proposed in this revised program will not be realized.

For Fiscal Year 2007, supplemental funding – mostly for construction inflation – is recommended at \$30.15 million with a fall bond referendum of \$77.2 million.

Priority Projects Recommended For Funding

Within the recommended CIP, recommended funds would achieve the following commitments previously made to the community:

- Fire Station 3 in Cherrydale
- Westover Library;
- Currently approved Neighborhood Conservation projects;
- Improvements at the Lee Community Center, the Arlington Arts Center, and the Trades Center;
- An expanded, new swimming pool at Washington and Lee High School;
- Commitments to Metro and matching funds for other high priority transit projects;
- Acquisition of several critical properties previously identified.

On a contingent basis, funds are recommended for the following:

- Arlington Mill Community Center,
- Land acquisition for parks and open space, and
- Emergency infrastructure.

Of special significance is the Arlington Mill Center, which represents the single largest item in the updated CIP at \$29 million. Funding for this project is recommended in order to maintain faith with the community. However, actual timing of the project will be contingent upon the following:

- Other projects staying within budget,
- Constraining the scope of Arlington Mill, and
- A public-private partnership to offset funding requirements.

With regard to emergency infrastructure and land acquisition, the proposed bonds are intended to provide a funding source if needed. Projects would not be pursued proactively.

Projects And Programs Recommended For Deferral

In order to meet the commitments outlined above, a number of popular and desired projects and programs that are in the current CIP have to be deferred and re-evaluated during the 2008 CIP update. Of particular noteworthiness are the following:

- Neighborhood Conservation – during this period the focus would be on completing those projects already approved. It is recommended that the Neighborhood Conservation Advisory Committee use this time to develop revised policy recommendations and a master plan for completing Arlington's neighborhood sidewalk system.
- Neighborhood Traffic Calming, WalkArlington, and other pedestrian initiatives – site plan projects will offer an opportunity to advance these efforts where new development creates impacts that require mitigation. Otherwise, the high cost for transit – which is vital to Arlington – must take priority.
- Park and recreation improvements, including parks in the central area of Wilson Boulevard, additional improvements at Tyrol Hills Park, grounds improvements at Fairlington Community Center, and synthetic fields beyond those at North Tract – the magnitude of funding for North Tract and Arlington Mill effectively preclude simultaneous advancement of other park and recreation projects.

Projects Requiring A New Funding Strategy

There is a very long list of other projects that are desired, but cannot be achieved at this time. Rather than raise expectations that cannot be met, no specific funding or year is recommended in this CIP. Most notably, these include the following:

- Storm Water Management – in order to meet Arlington's commitments to water quality in the Chesapeake Bay watershed, a more aggressive storm water management program is required. We are currently evaluating a storm water utility (as is done for drinking water and sanitary sewage).
- Western entrance to the Ballston Metrorail Station – funds are recommended to complete the segment that is being built as part of private development, but subsequent phases will require a major re-programming of transit funds or a new source of funds, such as a new transit service district with dedicated funds from an add-on to the property tax.
- North Tract Phase II – to advance the \$60 million addition to this important project would require a major re-prioritization of the entire capital program.
- Obsolete buildings, including Drewry Center, Lubber Run Community Center, and Fire Stations 10, 8, 7, and 4 will all need to compete in future CIP rounds. Public-private partnerships and other creative funding should also be evaluated.

How Much Debt Can We Afford?

The size of this CIP is driven by affordability standards that have been established by the County Board. Arlington uses a variety of debt instruments to finance capital projects in addition to General Obligation Bonds; however, all of them are incorporated into calculations of how much debt Arlington can afford. Basically, there are two tests: (1) how much debt growth will taxpayers support on an annual basis and (2) how much debt can the community actually fund.

Annual debt growth has been the primary factor guiding the recommendations for the 2006 Update. As proposed, debt will grow annually by approximately 4.8 percent per year over the next five years. This is well within normal budget growth and should not unnecessarily compete with operating needs of the community.

Were the CIP funded at the levels anticipated in the 2006 CIP and construction inflation gaps filled, debt would grow at an average of 7.5 percent per year. Growth at this rate would require increased tax rates or reduction in operations.

Under the proposed plan, debt will grow from the equivalent of 9.2 cents on the real estate tax rate to 11.4 cents. Were the full program funded, it would be the equivalent of 12.6 cents based on the current assessment base. Although assessment growth is highly likely to plateau from historical increases, the debt required in the recommended CIP should be covered by normal assessment growth. Higher debt levels would require higher tax rates.

Another affordability measure that the County uses and reports to bond rating agencies is the size of debt relative to the overall operating budget. Assuming five percent growth in the operating budget, the recommended CIP remains below the maximum target of 10 percent. The previously envisioned program would exceed the target for four of the next five years.

Other affordability measures used by the County are well below targets. These are percent of tax base used for debt and percent of personal income used for debt.

Operating Costs

Virtually every new capital project adds new operating costs to the budget. In addition to debt service payments, new and larger facilities cost more to operate. Sometimes the costs are on the margin, such

as the maintenance cost for new sidewalks or streetlights. A stronger maintenance capital budget will provide a mechanism for ensuring the long-term sustainability of these projects.

Other projects dramatically change the operating budget because they require additional personnel, higher utilities, and day-to-day maintenance. North Tract is the most notable example of such costs in the current CIP, projected to add \$3.9 million to the Fiscal Year 2010 operating budget and growing with inflation thereafter. Other projects with costs outside the margin include: Arlington Mill (additional operating costs of \$500,000) and Westover Library (additional operating costs of \$300,000).

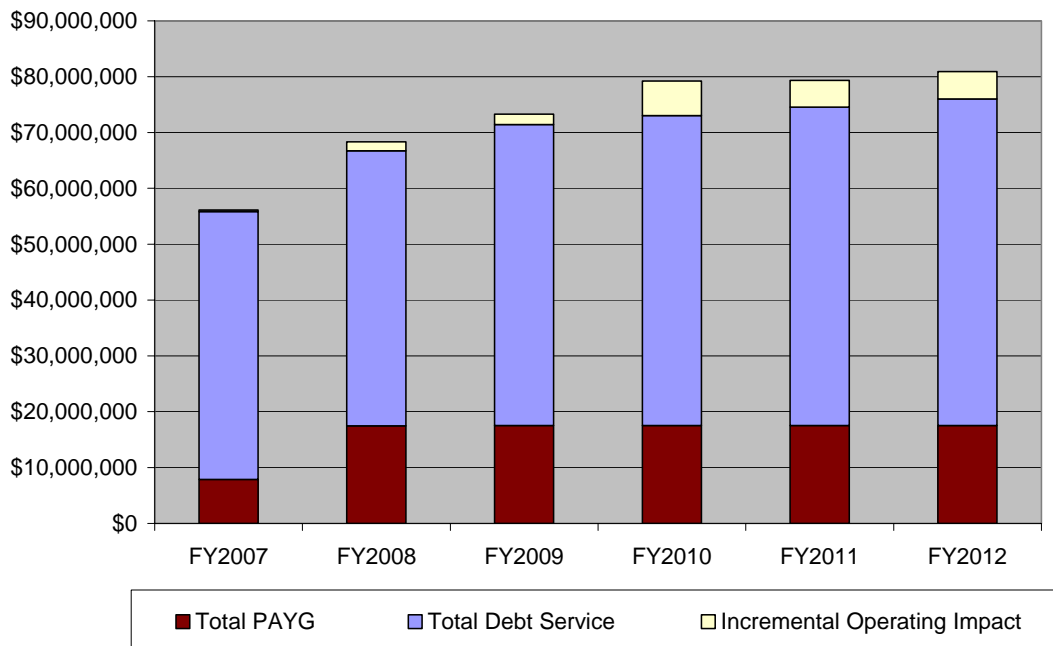
Conclusion

The CIP presented is a fiscally sound document that provides for an affordable six-year plan to meet commitments to the community. Arlington’s re-investment for the next generation focuses on maintenance of capital assets as a priority over new projects. Having a dedicated revenue source for maintenance capital will allow the County to accelerate deferred maintenance needs. This will complement the CIP and allow for a planning document that is consistent with the County’s vision and Comprehensive Plan. The FY 2007 – FY 2012 Capital Improvement Program is respectfully submitted with this in mind.

Sincerely,

Ron Carlee
County Manager

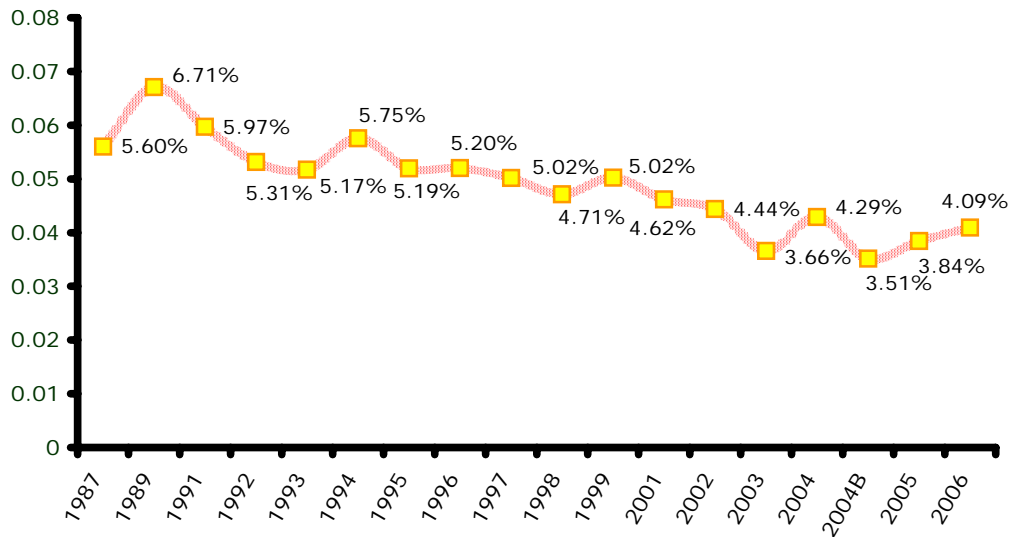
**Total Operating Impact of Proposed CIP
FY 2007-2012**



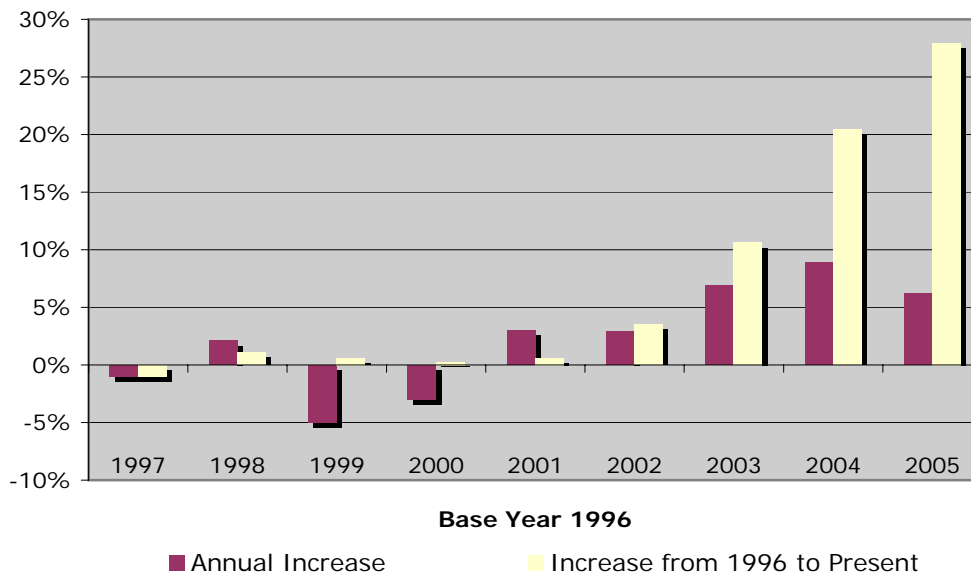
Arlington, Virginia

Interest Cost and Inflation History

**True Interest Costs - General Obligation Bonds
Series 1987 - 2006**



**10 Year History of Inflation in Construction Costs
Based on Indices for the Region**



Arlington, Virginia

FY 2007 - FY 2012 CIP Summary

(\$ in 000s)

PAYG Funding	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed
	FY 2007 Tier I	FY 2007 Tier II	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total FY 07-12
MAINTENANCE CAPITAL								
Transportation	265	845	4,500	4,500	4,500	4,500	4,500	23,610
Public Facilities	-	2,148	4,000	4,000	4,000	4,000	4,000	22,148
Parks and Recreation	-	1,000	3,500	3,500	3,500	3,500	3,500	18,500
Information Technology	-	-	3,000	3,000	3,000	3,000	3,000	15,000
Americans with Disabilities Act	783	-	1,000	1,000	1,000	1,000	1,000	5,783
Energy Efficiency	-	-	400	400	400	400	400	2,000
<i>Sub-Total</i>	<i>1,048</i>	<i>3,993</i>	<i>16,400</i>	<i>16,400</i>	<i>16,400</i>	<i>16,400</i>	<i>16,400</i>	<i>87,041</i>
REGIONAL PROGRAMS								
Northern Virginia Community College	193	-	193	193	193	193	193	1,158
Northern Virginia Regional Park Authority	480	-	480	557	557	557	557	3,188
Northern Virginia Regional Identification	28	-	28	28	28	28	28	168
Peumansend Creek Regional Jail Authority	204	-	204	204	204	204	204	1,224
Northern Virginia Criminal Justice Academy	147	-	154	154	154	154	154	917
<i>Sub-Total</i>	<i>1,052</i>	<i>-</i>	<i>1,059</i>	<i>1,136</i>	<i>1,136</i>	<i>1,136</i>	<i>1,136</i>	<i>6,655</i>
ONE TIME EXPENSES								
Neighborhood Conservation	500	-	-	-	-	-	-	500
Facilities Planning	-	700	-	-	-	-	-	700
Neighborhood Traffic Calming	-	500	-	-	-	-	-	500
Park Enhancement Grants	-	75	-	-	-	-	-	75
<i>Sub-Total</i>	<i>500</i>	<i>1,275</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1,775</i>
TOTAL PAYG RECOMMENDATION	2,600	5,268	17,459	17,536	17,536	17,536	17,536	95,471

Arlington, Virginia

FY 2007 - FY 2012 CIP Summary

(\$ in 000s)

BOND/DEBT Funding	Proposed	Proposed	Proposed	Proposed
	FY 2007	FY 2009	FY 2011	Total FY 07-12
SUPPLEMENTAL FUNDING				
Fire Station 3	13,000	-	-	13,000
Westover	8,000	-	-	8,000
Neighborhood Conservation	5,900	-	-	5,900
Arlington Arts Center	400	-	-	400
Lee Center Site Work	400	-	-	400
Trades Center	1,000	-	-	1,000
Washington-Lee Pool	750	-	-	750
Land Acquisition	6,600	-	-	6,600
<i>Sub-total</i>	<i>36,050</i>	<i>-</i>	<i>-</i>	<i>36,050</i>
HIGH PRIORITY BOND				
METRO	18,600	17,000	15,000	50,600
Ballston Metro West - Current Phase	2,800	-	-	2,800
Transportation Match	8,900	5,000	5,000	18,900
<i>Sub-total</i>	<i>30,300</i>	<i>22,000</i>	<i>20,000</i>	<i>72,300</i>
CONTINGENT BOND				
Emergency Infrastructure	5,000	3,000	3,000	11,000
Parks and Open Space Land Acquisition	10,000	5,000	-	15,000
Arlington Mill Community Center	26,000	3,000	-	29,000
<i>Sub-total</i>	<i>41,000</i>	<i>11,000</i>	<i>3,000</i>	<i>55,000</i>
TOTAL RECOMMENDED FUNDING	107,350	33,000	23,000	163,350
OUT YEAR PROJECTS				
(Program Costs from 2005-10 CIP, Projects are Magnitude of Scale)				Estimated Need
Neighborhood Conservation	-	-	-	19,000
Neighborhood Traffic Calming	-	-	-	4,000
WALKArlington	-	-	-	5,000
Transportation Projects	-	-	-	17,700
Storm Drainage	-	-	-	7,835
Arlington Transit Vehicle Facility	-	-	-	15,000
Tyrol Hill Park - Phase 2	-	-	-	1,100
Fairlington Community Center	-	-	-	2,750
Central Wilson Boulevard Parks	-	-	-	1,000
Synthetic Fields	-	-	-	8,900
Edison Complex (design work only)	-	-	-	1,500
Public Art	-	-	-	450
Commercial Revitalization	-	-	-	6,000
TOTAL - OUT YEAR	-	-	-	90,235
ALTERNATIVE FUNDING NEEDED				
(Estimates are Magnitude of Scale)				Estimated Need
Old Signature Theatre Upgrades	-	-	-	3,000
Ballston Metro - West Entrance	-	-	-	40,000
North Tract Phase II	-	-	-	66,000
TOTAL - ALTERNATIVE FUNDING	-	-	-	109,000

CIP Program Summary

The \$767.1 million Proposed FY 2007 - FY 2012 Capital Improvement Program (CIP) reflects a decrease in funding of \$175.2 million or 18.6 percent compared to the Adopted FY 2005 – FY 2010 CIP adjusted funding level of \$942.3.

6 Year Capital Program Costs Summary (\$ in 000s)

<u>Program Category</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>6 Year Total</u>
Local Parks & Recreation	37,550	3,500	11,500	3,500	3,500	3,500	63,050
Transportation & Pedestrian Initiatives	9,165	4,500	9,500	4,500	9,500	4,500	41,665
Community Conservation	6,400	-	-	-	-	-	6,400
Public / Government Facilities	27,783	5,400	8,400	5,400	8,400	5,400	60,783
Information Technology Investments	-	3,000	3,000	3,000	3,000	3,000	15,000
Real Estate	6,600	-	-	-	-	-	6,600
Storm Drainage	-	-	-	-	-	-	-
Regional Partnerships	1,052	1,059	1,136	1,136	1,136	1,136	6,655
Metro	35,900	4,300	21,700	4,300	19,300	4,000	89,500
Total County Capital	124,450	21,759	55,236	21,836	44,836	21,536	289,653
Bond Issuance Expenses	-	-	-	-	-	-	-
Water & Sewer Infrastructure	113,851	103,207	62,045	20,093	11,550	11,050	321,796
Schools Capital (1)	73,760	6,763	68,139	6,985	TBD	TBD	155,647
Total Program Cost	312,061	131,729	185,420	48,914	56,386	32,586	767,096

(1) Schools Capital includes estimates for FY 2007 - FY 2010 only as the APS FY2007-FY2012 CIP is currently in preliminary development.

6 Year Capital Program Funding Sources Summary (\$ in 000s)

<u>Capital Funding Sources</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>6 Year Total</u>
County General Fund Transfer	2,600	17,459	17,536	17,536	17,536	17,536	90,203
County Bonds	77,200	-	33,000	-	23,000	-	133,200
County Other Sources - Grants (1)	44,650	4,300	4,700	4,300	4,300	4,000	66,250
Schools Fund Transfer (2)	10,134	6,763	6,872	6,985	TBD	TBD	30,754
Schools Bonds (2)	63,626	-	61,267	-	TBD	TBD	124,893
Utility Fund Transfer & Other Sources (3)	34,851	34,207	26,745	20,093	11,550	11,050	138,496
Utility Bonds	79,000	-	-	-	-	-	79,000
Utility VRL Financing (4)	-	69,000	35,300	-	-	-	104,300
Total Program Funding	312,061	131,729	185,420	48,914	56,386	32,586	767,096

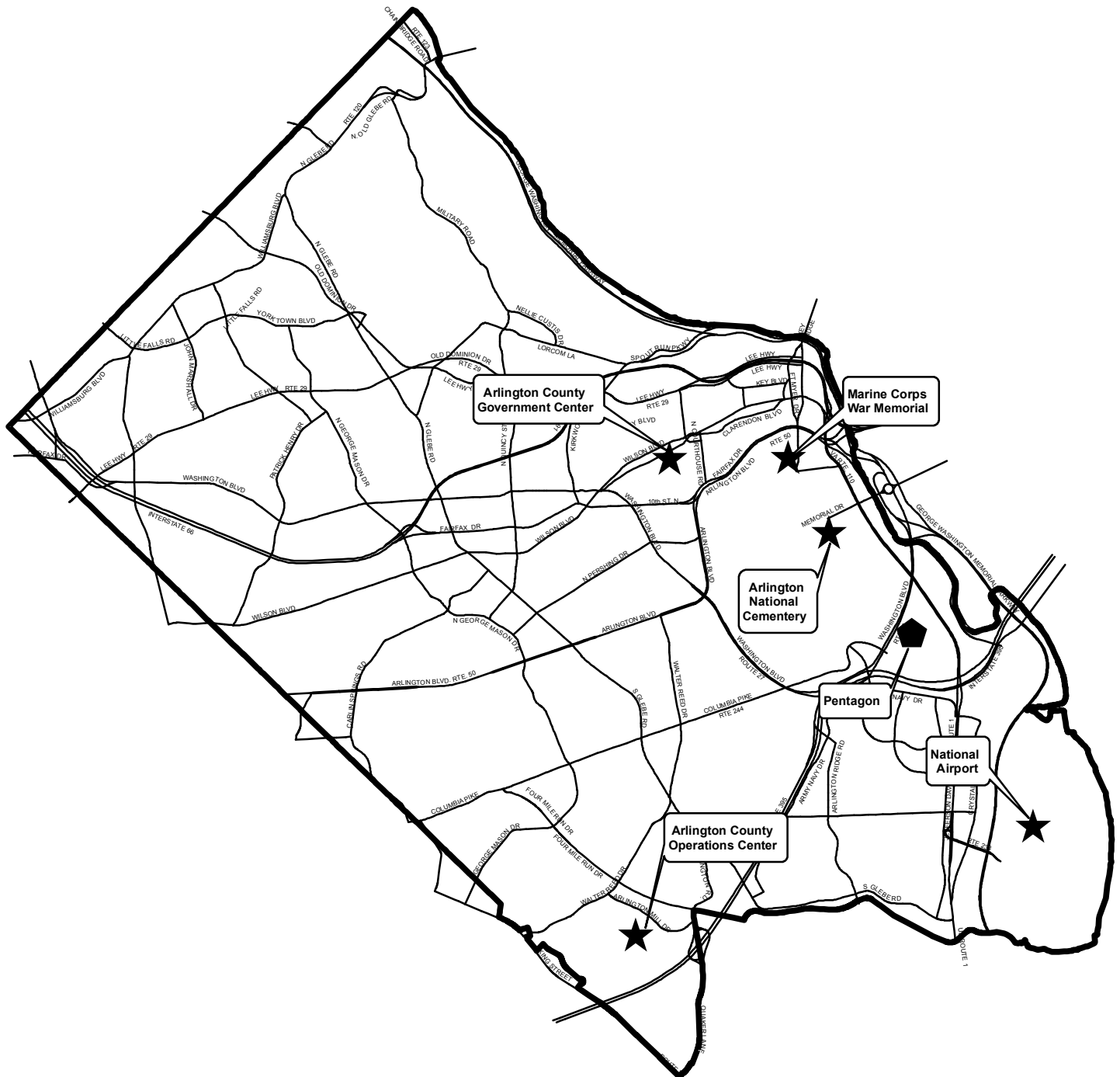
(1) County other sources: Revenue from the Commonwealth, Virginia Resources Authority Public Safety Loan Program, Developer Contributions and other alternative funding.

(2) Schools proposed fund transfer and bond estimates are for FY 2007 - FY 2010 only as the APS FY 2007 - FY 2012 CIP is currently in preliminary development.

(3) Utilities fund other sources: Developer contributions and Inter Jurisdictional payments.

(4) Virginia Revolving Loan (VRL) Fund financing for the Water Pollution Plant Control Plan Expansion project.

Arlington County, Virginia



GIS Mapping Center, Department of Environmental Services