

**BUDGET SUMMARY**

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The FY 2006 Proposed Budget includes outstanding and planned 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 2006 Proposed General Fund debt service budget is \$43,802,834, which excludes debt service on School and Utilities bonds. Payment of the Emergency Communication Center's debt service of the IDA Lease Revenue Bonds is funded by the E-911 additional surcharge. 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, advance wastewater and water bonds) is provided for in the Utilities Enterprise Fund, and supported by user fees.

**FY 2006 Priorities:** The FY 2006 priorities for the 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 \$93 million in general obligation bonds in CY 2005 approved in the referenda from CY 1998, CY 2000, CY 2002, and CY 2004.

**SIGNIFICANT BUDGET CHANGES:** The FY 2006 Proposed General Fund debt service budget is \$43,802,834, a 17% increase over the FY 2005 Adopted Budget. This amount includes debt service on G.O. bonds issued for general governmental purposes, the County's WMATA obligations, the IDA Lease Revenue Bonds debt, but excludes debt service on School and Utilities bonds. This increase is attributable to:

- ❖ Proposed issuance of new General Fund-supported bonds in CY 2005, resulting in projected new FY 2006 debt service payments of approximately \$3.7 million.
- ❖ Inclusion of the IDA Lease Revenue Bonds debt service of \$5.2 million in FY 2006.

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

- ❖ Rapid payback of general obligation debt.
- ❖ Maintenance of low ratio of general obligation debt to the market value of taxable property (projected to be approximately 1.43 at the end of FY 2006).
- ❖ Greater reliance on the use of pay-as-you-go funding than similar communities around the country.
- ❖ Moderate ratio of debt service to general expenditures.

The Arlington County Board adopted debt policies to establish fiscal parameters for how General Obligation 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 established the following debt ceilings as part of the debt policy:

- ❖ 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%**)

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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

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

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 \$60.07 million in general obligation bonds in May 2004. 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 GENERAL OBLIGATION BOND ISSUE:** The County would issue \$93 million in general obligation bonds in the spring of 2005. The initial debt service payment on this bond issue would be due in FY 2006 and includes approximately \$3.7 million in the General Fund; \$3.2 million in the School Debt Service Fund. The bond issue would be used for purposes as shown in the chart below, although the amount could change depending on project funding needs and scheduling.

<b>Proposed Bond Issue</b>	
	<b>Proposed Amount (In Millions)</b>
<b>General Government Bonds</b>	
Public Facilities	7.69
Higher Education	1.00
Community Conservation	8.27
Parks and Recreation	29.81
Metro	<u>5.53</u>
<b>Sub-Total</b>	<b>\$52.30</b>
Utility	6.00
School Bonds	<u>34.70</u>
<b>Total</b>	<b>\$93.00</b>

**INTEREST EARNINGS, STATE JAIL REIMBURSEMENT, & E-911 ADDITIONAL SURCHARGE:**

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.

The County also receives \$1.8 million annually from the Commonwealth for reimbursement of a portion of jail debt service. Gross debt service on the jail bond is included in the County's outstanding debt summaries, although the General Fund tax support will be reduced by the amount of the Commonwealth reimbursement.

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Starting in FY 2005, Arlington County is authorized to increase the E-911 surcharge to \$3/line/month. The additional revenue will be used to fund the ECC debt service of the IDA Lease Revenue Bonds.

**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. Two new projects have been added to this list, the Gates of Ballston and the Ballston Skating Facility project.

	<b>FY 2004 Actual</b>	<b>FY 2005 Adopted</b>	<b>FY 2006 Proposed</b>	<b>Change: '05 to '06</b>
<b>Principal</b>	\$22,728,755	\$22,807,396	26,158,857	15%
<b>Interest</b>	11,971,729	14,413,259	17,493,977	21%
<b>Other</b>	<u>115,756</u>	<u>100,000</u>	<u>150,000</u>	50%
<b>Total Expenditure</b>	\$34,816,240	\$37,320,655 <sup>(1)</sup>	\$43,802,834 <sup>(2)</sup>	17%
<b>E-911 Additional Surcharge</b>	-	-	2,250,000	-
<b>State Jail Reimbursement</b>	1,800,000	1,800,000	1,800,000	-
<b>Interest Earnings</b>	<u>1,067,181</u>	<u>1,000,000</u>	<u>1,545,000</u>	55%
<b>Total Revenues</b>	\$2,867,181	\$2,800,000 <sup>(1)</sup>	\$5,595,000 <sup>(2)</sup>	100%
<b>Net Tax Support</b>	\$31,949,059	\$34,520,655	\$38,204,557	11%

(1) Excludes the IDA Lease Revenue Bonds Debt Service and the E-911 additional surcharge

(2) Includes the IDA Lease Revenue Bonds Debt Service and the E-911 additional surcharge

**FUTURE BUDGET CONSIDERATIONS:** The Capital Improvement Program (CIP) and the adoption of future CIPs will impact the General Fund, School Fund, and Utility Fund debt service budgets.