

DEBT SERVICE

The FY 2007 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 2007 Proposed General Fund debt service budget is \$47,964,367, 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, advanced wastewater and water bonds) is provided for in the Utilities Enterprise Fund, and supported by user fees.

FY 2007 PRIORITIES

The FY 2007 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 \$61.3 million in general obligation bonds in CY 2006 approved in the referenda CY 2002 and CY 2004.

SIGNIFICANT BUDGET CHANGES

The FY 2007 Proposed General Fund debt service budget is \$47,964,367, a 10% increase over the FY 2006 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 and master lease 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 2006, resulting in projected new FY 2007 debt service payments of approximately \$3.8 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 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 1.27 percent at the end of FY 2007).
- Moderate ratio of debt service to general expenditures.

The Arlington County Board proposed 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%)

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 \$94.5 million in general obligation bonds in May 2005. 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 \$61.3 million in general obligation bonds in the spring of 2006. The initial debt service payment on this bond issue would be due in FY 2007 and includes approximately \$3.8 million in the General Fund; \$1.8 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.

PROPOSED BOND ISSUE

	Amount (Millions)
General Government Bonds	
Public Facilities	6.7
Pedestrian Systems, Highway, Streets	7.7
Community Conservation	5.7
Parks and Recreation	13.6
Storm Drainage	1.5
Metro	8.6
Sub-Total Government Bonds	\$43.8
School Bonds	17.5
Total	\$61.3

INTEREST EARNINGS, STATE JAIL REIMBURSEMENT, & E-911 ADDITIONAL SURCHARGES

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 2005 Actual	FY 2006 Adopted	FY 2007 Proposed	% Change '06 to '07
Principal	\$22,805,993	\$26,158,857	\$28,472,002	9%
Interest	13,287,924	17,493,977	19,317,365	10%
Other	216,738	150,000	175,000	17%
Total Expenditures	\$36,310,655(1)	\$43,802,834(2)	\$47,964,367(2)	10%
E-911 Additional Surcharge (Revised FY 2006)	-	2,041,667	2,041,667	-
State Jail Reimbursement	1,800,000	1,800,000	1,800,000	-
Interest Earnings	2,322,276	1,545,000	1,500,000	-3%
Total Revenues	\$4,122,276(1)	\$5,386,667(2)	5,341,667(2)	-1%

(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