

Debt Capacity Analysis

In developing the CIP, the County establishes its long-range plan for pay-as-you-go (PAYG) and bond/lease purchase financing of its six-year capital program. In determining the level of capital projects to finance and the method of financing, the County considers its financial ability to undertake these projects. The financial capability analysis includes a review of debt capacity factors and the impact of the costs of the adopted CIP on these debt capacity factors. Debt capacity factors indicate the ability of the County to sell bonds and then to meet planned annual principal and interest payments. These are based on the relationships among the value of the County's property tax base, the income of its residents and the effects of principal and interest payments on the annual budget and total outstanding debt. The relationships between these determinants are expressed as debt ratios.

While there is no legal limit in Virginia on the level of general obligation debt issued by Virginia counties, Arlington has issued and plans to issue its general obligation debt prudently. Arlington will remain within the acceptable range of debt capacity factors with the adopted CIP. The impacts of the FY 2003-2008 CIP on the County's debt ratios are illustrated on the following pages.

The amount of debt that the County carries is moderate when compared to its tax base and per capita income levels. For example, in FY 1978 the County's outstanding General Fund serviced tax-supported general obligation debt equaled 2.54 percent of the tax base. At the end of FY 1998, this ratio was 1.56 percent. In FY 2003, the ratio is projected to increase to 1.64 percent. Further increases are expected to peak at 1.83 percent. A decrease to 1.82 percent is expected in FY 2008. These debt ratio levels are slightly lower than those included in the FY 2001-2006 adopted CIP due to the growth experienced by the market value of Taxable Property. It is recommended that this ratio should not exceed four percent including the revenue and lease financing issues where the County has provided a "subject-to-appropriation" type of pledge.

The projected ratios are based on the adopted Capital Improvement Program budgets submitted by the County Manager and the School Board. Other debt ratios also mirror the County's strong financial position and ability to finance the level of debt adopted in the CIP. It should be noted that these debt ratios include only general obligation tax-supported debt and do not include revenue and lease-financing issues where the County has provided a "subject-to-appropriation" type pledge. In the last chart of this section, the customary general obligation debt to the tax base ratio chart has been amended to also show the effect of the "subject-to-appropriation" backed capital financing. The Net Tax-Supported Debt is estimated to be \$435,175,755 at the end of FY 2002, before the adjustment due to the real amount sold in June 2002; this number will be adjusted in the proposed FY 2004 Budget. The County estimates that it will sell \$382,626,700 in General Obligation bonds during FY 2003 through FY 2008 based on the adopted CIP. During this same period, the County will reduce its debt by \$227,008,460. This represents an overall increase of \$155,618,240 or 36.76 percent during this six-year period. On average, Arlington County retires 72.5 percent of its debt in ten years or less.

Another debt ratio that reflects the good financial administration of the County is the relationship between Debt Service to General Expenditures. In FY 2003 for every dollar spent by the County a little less than eight cents will be applied toward debt service. The County estimates that in FY 2008 for every dollar spent by the County, a little more than nine cents would be applied toward debt service. It is recommended that this ratio not exceed ten cents in debt service for every dollar spent by the County and Schools.

Another assessment is the Debt to Income ratio. At the end of FY 2000 this ratio was 4.1 percent. The County estimates that the Debt to Income ratio will reach a level of 5.2 percent at the end of FY 2008. It is recommended that this ratio not exceed six percent.

The bond rating agencies that rate the County's debt for potential investors use these debt ratios, coupled with other County and community economic factors. The three major bond rating agencies, Moody's Investors Service, Standard & Poor's, and Fitch Ratings currently rate the County Aaa/AAA/AAA (the highest possible). Arlington is one of a select national group of 20 counties that hold these coveted Aaa/AAA/AAA ratings from the three major rating agencies. Finally, the County's bond sale in June 2001 and historical County bond trading in the secondary market confirm that Arlington belongs within the very top group of municipal credits in the national bond market. The funding levels that are adopted in this CIP would maintain this status.

ARLINGTON COUNTY, VIRGINIA

IMPACT OF ADOPTED FY 2003 - 2008 CAPITAL IMPROVEMENT PROGRAM ON DEBT RATIOS (Includes changes in CIP)

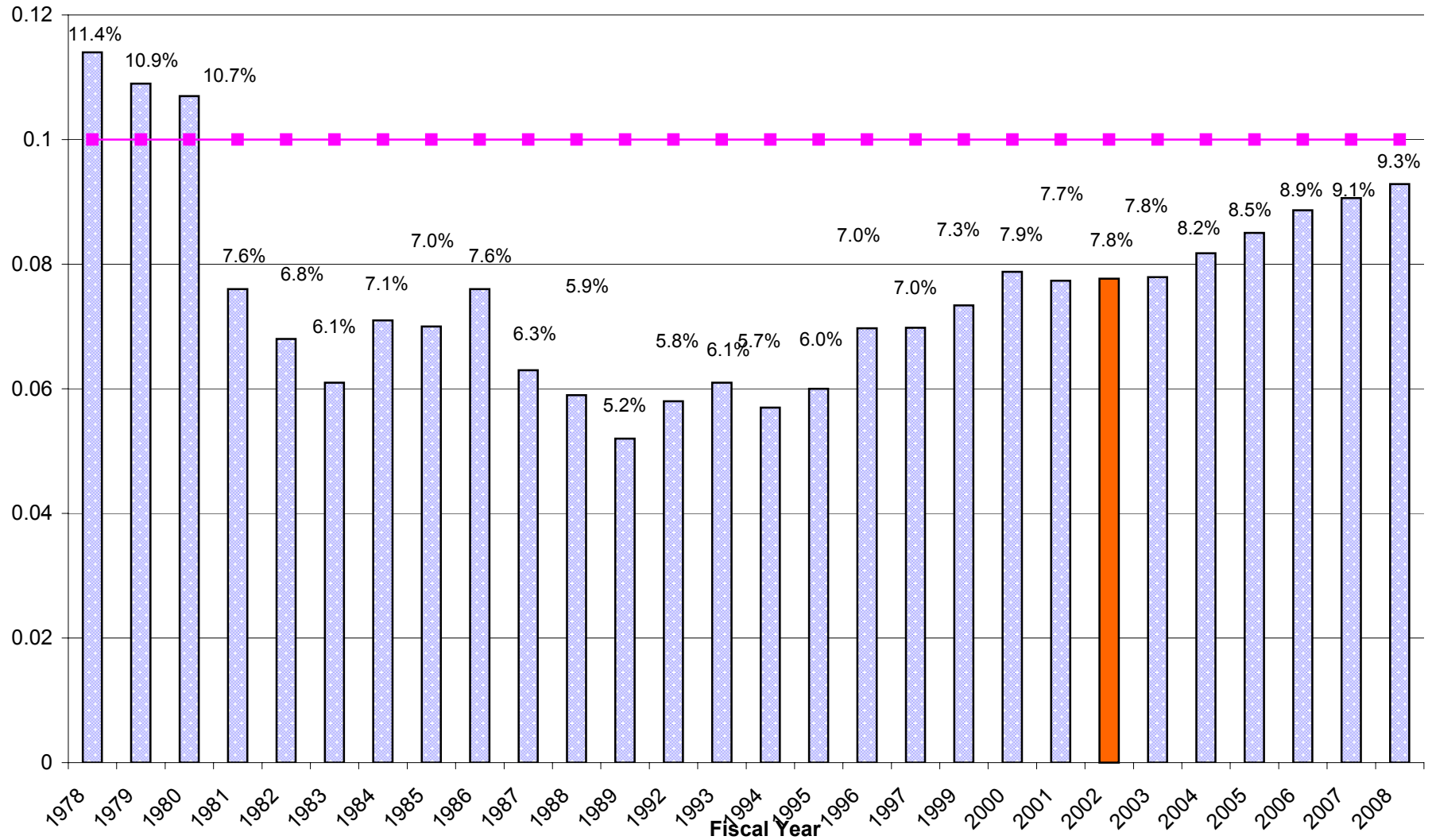
	Actual 2000	Actual 2001	Adopted 2002	Adopted 2003	2004	2005	PROJECTED 2006	2007	2008
PAY-AS-YOU-GO APPROPRIATIONS (1)	34,466,000	28,644,000	36,075,817	28,187,000	57,434,000	40,878,000	43,538,000	41,238,000	52,443,000
GENERAL OBLIGATION BOND ISSUANCE	23,785,000	87,821,316	39,661,439	57,287,225	68,955,900	77,322,475	50,866,200	71,759,500	56,435,400
GENERAL OBLIGATION UTILITY BOND ISSUANCE	-	2,503,684	-	-	9,566,316	6,171,000	6,171,000	-	-
CAPITAL PLAN	58,251,000	118,969,000	75,737,256	85,474,225	135,956,216	124,371,475	100,575,200	112,997,500	108,878,400
TAX SUPPORTED GENERAL OBLIGATION BONDS RETIRED (2)	24,661,711	50,605,862	29,561,474	32,020,288	34,606,661	36,622,115	38,794,182	41,491,081	43,474,134
NET TAX-SUPPORTED DEBT AT END OF FISCAL YEAR (3)	387,860,653	425,076,107	435,175,755	460,442,692	494,791,931	535,492,292	547,564,309	577,832,728	590,793,995
SCHOOLS DEBT SERVICE	13,678,312	15,338,029	16,805,306	18,619,392	21,261,347	23,851,642	26,385,123	27,477,332	29,211,294
COUNTY DEBT SERVICE	30,299,541	30,676,976	32,664,133	34,019,355	35,629,205	37,071,111	39,052,790	41,403,559	43,513,314
TOTAL TAX SUPPORTED DEBT SERVICE (3)	43,977,853	46,015,005	49,469,439	52,638,748	56,890,552	60,922,753	65,437,913	68,880,891	72,724,608
BUDGETED GENERAL EXPENDITURES (4)	558,148,799	594,875,423	636,843,830	675,459,481	695,723,265	716,594,963	738,092,812	760,235,597	783,042,665
DEBT SERVICE AS PERCENTAGE OF EXPENDITURES	7.88%	7.74%	7.77%	7.79%	8.18%	8.50%	8.87%	9.06%	9.29%
MARKET VALUATION OF TAXABLE PROPERTY (5)	23,844,085,709	26,075,966,222	27,188,419,400	28,004,071,982	28,844,194,141	29,709,519,966	30,600,805,565	31,518,829,732	32,464,394,624
NET TAX SUPPORTED DEBT AS PERCENTAGE OF MARKET VALUATION	1.63%	1.63%	1.60%	1.64%	1.72%	1.80%	1.79%	1.83%	1.82%
POPULATION (6)	189,010	190,848	193,639	194,070	194,500	194,931	195,147	195,363	195,579
DEBT PER CAPITA	\$2,052	\$2,227	\$2,247	\$2,373	\$2,544	\$2,747	\$2,806	\$2,958	\$3,021
INCOME PER CAPITA (7)	\$49,508	\$50,054	\$51,204	\$52,354	\$53,533	\$54,712	\$55,948	\$57,213	\$58,507
NET TAX-SUPPORTED DEBT TO INCOME	4.14%	4.45%	4.39%	4.53%	4.75%	5.02%	5.02%	5.17%	5.16%

NOTES

- (1) Includes General Capital Fund, School Capital Fund, Utilities Capital Fund, and federal and state capital grants which are appropriated
(2) Includes general government, WMATA, and School bonds. The FY 2001 includes \$23.8 million payment of BANC
(3) Excludes moral obligation commitments on revenue bonds or lease-backed bond financings. For Subject to Appropriation debts, see Chart C
(4) Includes expenditures of the General Fund and certain Special Revenue Funds of the County and School Board. It is assumed 3 percent growth.
(5) Assumes approximately 3 percent growth in market value of taxable property starting in FY 2003
(6) Population growth as estimated by the Arlington County Planning Division.
(7) 2000 Per Capita Personal Income is from US Bureau of Economic Analysis. All other figures are CPHD estimates. (Updated 5 30 02)

Chart B

**RATIO OF TAX-SUPPORTED DEBT SERVICE
TO GENERAL EXPENDITURES
FY 1978 - 2008
(Includes changes in the CIP)**



SUMMARY OF TAX-SUPPORTED GENERAL OBLIGATION BONDS & SUBJECT TO APPROPRIATION-TYPE FINANCINGS
Ratio of Outstanding Debt to Market Value
As of June 30 (Includes changes in the CIP)

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Tax-Supported General Obligation Debt	\$ 387,860,653	\$ 425,076,107	\$ 435,175,755	\$ 460,442,692	\$ 494,791,931	\$ 535,492,292	\$ 547,564,309	\$ 577,832,728	\$ 590,793,995
Tax-Supported Subject to Appropriation ("STA") Debt									
Capital Equipment Leases (6)	\$ 3,080,929	\$ 5,259,916	\$ 6,206,165	\$ 5,496,013	\$ 3,078,655	\$ 1,672,309	\$ 1,164,631	\$ 343,330	343,330
Peumansend Creek Regional Jail	2,205,803	2,082,203	1,958,603	1,835,058	1,711,458	1,587,858	1,464,258	1,340,952	1,217,047
No. Va. Criminal Justice Academy	1,465,000	1,295,000	1,125,000	955,000	785,000	618,000	451,000	284,000	117,000
Subtotal	\$ 6,751,732	\$ 8,637,119	\$ 9,289,768	\$ 8,286,071	\$ 5,575,113	\$ 3,878,167	3,079,889	1,968,282	1,677,377
Project-Supported Subject to Appropriation ("STA") Debt (1)									
Ballston Public Parking Garage	17,300,000	16,800,000	16,300,000	15,800,000	15,300,000	14,800,000	14,300,000	13,800,000	13,300,000
Waste-to-Energy Plant (2)	43,140,000	40,975,000	38,580,000	35,915,000	32,960,000	29,775,000	26,340,000	22,640,000	18,395,000
Buckingham Apartments (5)	1,900,000	1,900,000	-	-	-	-	-	-	-
Subtotal	\$ 62,340,000	\$ 59,675,000	\$ 54,880,000	\$ 51,715,000	\$ 48,260,000	\$ 44,575,000	40,640,000	36,440,000	31,695,000
LESS: State Regional Jail Reimbursement (3)	(1,126,000)	(1,126,000)	(1,126,000)	(1,126,000)	(1,126,000)	(1,126,000)	(1,126,000)	(1,126,000)	(1,126,000)
Total Tax-Supported General Obligation (GO) & ALL STA Financings	\$ 455,826,385	\$ 492,262,226	\$ 498,219,523	\$ 519,317,763	\$ 547,501,045	\$ 582,819,458	\$ 590,158,198	\$ 615,115,011	\$ 623,040,372
Total <u>Tax-Supported</u> GO and <u>Tax-Supported</u> STA Financings	\$ 393,486,385	\$ 432,587,226	\$ 443,339,523	\$ 467,602,763	\$ 499,241,045	\$ 538,244,458	\$ 549,518,198	\$ 578,675,011	\$ 591,345,372
Total <u>Project-Supported</u> STA Financings (1)	\$ 62,340,000	\$ 59,675,000	\$ 54,880,000	\$ 51,715,000	\$ 48,260,000	\$ 44,575,000	\$ 40,640,000	\$ 36,440,000	\$ 31,695,000
Market Value of Taxable Property	\$ 23,844,085,709	\$ 26,075,966,222	\$ 27,188,419,400	\$ 28,004,071,982	\$ 28,844,194,141	\$ 29,709,519,966	\$ 30,600,805,565	\$ 31,518,829,732	\$ 32,464,394,624
Total Tax-Supported GO & ALL STA Financings as Percent of Market Value	1.91%	1.89%	1.83%	1.85%	1.90%	1.96%	1.93%	1.95%	1.92%
Total <u>Tax-Supported</u> GO & <u>Tax-Supported</u> STA Financings as Percent of Market Value	1.65%	1.66%	1.63%	1.67%	1.73%	1.81%	1.80%	1.84%	1.82%
Total <u>Project-Supported</u> STA Financings (Credit Enhancement) as Percent of Market Value (1)	0.26%	0.23%	0.20%	0.18%	0.17%	0.15%	0.13%	0.12%	0.10%

(1) Debt service on these financings is intended to be repaid by user fees or tenant rental income, not by County General Fund revenues.

(2) Includes Arlington's share of the EPA-mandated retrofit of the waste-to-energy plant.

(3) Includes principal only.

(4) Starting FY 2000 Arlington County has no obligation for outstanding debts by Woodbury Park Apartments, bonds were refinanced.

(5) The initial total County limited pledge was \$14 million. In FY 1999 the Developer refinanced the debt, lowering the County's Moral Obligation to \$1.9 million. As of FY 1999 the County's pledge under this project is only \$1.9 million, which was refinanced.

(6) A new Master Lease Agreement was signed in May 2000.

