

Arlington (County of) VA

Contacts

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Moody's Rating

Issue	Rating
General Obligation Public Improvement and Refunding Bonds, Series 2004	Aaa
Sale Amount	\$60,070,000
Expected Sale Date	04/28/04
Rating Description	General Obligation

MOODY'S ASSIGNS Aaa RATING TO ARLINGTON COUNTY'S (VA) \$60.07 MILLION G.O. PUBLIC IMPROVEMENT AND REFUNDING BONDS, SERIES 2004

Aaa AFFIRMATION AFFECTS APPROXIMATELY \$510.49 MILLION OF PARITY DEBT, INCLUDING CURRENT ISSUE

Opinion

Moody's Investors Service has assigned a Aaa rating to Arlington County's (VA) \$60.07 million General Obligation Public Improvement and Refunding Bonds, Series 2004. Concurrently, Moody's has affirmed the Aaa rating on approximately \$510.49 million in G.O. debt, including the current issue. The rating is based on the county's continued strong financial operations; the growing and affluent tax base; and moderate, well-structured debt. Approximately \$32.07 million of this issue will finance various county public improvements and \$28 million will support various school projects.

FINANCES REMAIN STABLE DESPITE STATE BUDGET CUTS; TOURISM-RELATED REVENUES REBOUNDING

Moody's believes the county's continued financial stability in the face of a host of fiscal challenges in recent years demonstrates the resilience of local revenues as well as prudent management. Despite short-term strains associated with the county's response to the September 11, 2001 attack on the Pentagon, including the subsequent closure of Ronald Reagan National Airport, and state funding cuts, the county has continued to contribute to its 2% fiscal liquidity fund due to strong local revenue performance. While total General Fund balance was reduced by \$2.3 million, as budgeted, in order to fund ambitious pay-as-you-go capital work, the county preserved its 2% operating reserve target.

While fiscal 2003 saw a modest \$2.6 million cut in state funding, the county experienced revenue growth and instituted mid-year expenditure cuts in order to absorb these losses (contributing to \$27.1 million in expenditure savings). In addition to cutting costs in programs directly affected by

the state cuts, the county pursued replacement funds through federal grants. The September 11 attacks, despite heightening concerns about emergency preparedness in the capital region, did not result in substantial additions to the county's fiscal 2003 budget. The county also incurred unexpected costs associated with clean-up after a series of major snowstorms in fiscal 2003, expenditures that were easily absorbed by the county's substantial budget. Despite these strains, the county maintained its aggressive pay-go program, which contributed to a use of \$4.5 million of fund balance designated for one time capital expenditures. The county ended fiscal 2002 with a healthy General Fund balance of \$59.2 million (9.3% of General Fund revenues) while \$13.4 million (2.1% of revenues) comprised the county's Operating Reserve.

The county's fiscal 2004 budget of \$665.7 million reflects a 6.2% increase, and includes a \$1 million increase to its operating reserve, modest increases to fire department salaries, and substantially higher insurance costs. The budget also includes a 1.5% decrease in the real estate tax rate and a 2% increase in employee salaries. While the county anticipates losing approximately \$2.8 million through state reductions, these pressures will be offset by a combination of increased federal funding, and projected increases in local revenues, driven by real estate value growth of 15.2% and a strong rebound in the tourism sector. Management projects robust growth of transient occupancy tax revenue (12.5%) and the meals tax (7.2%). As of April 2004, the county anticipates collecting \$15.8 million in additional revenues, which will fund the county's annual contribution to reserves, as well as one-time capital expenditures. It is the county's practice to utilize any unexpected revenue windfalls exclusively on non-recurring expenditures.

AFFLUENT ECONOMIC BASE, NEXT TO WASHINGTON, DC, EXPECTED TO GROW

While economic indicators, including assessed valuation growth and unemployment, remain strong the county faces some uncertainty associated with rising office vacancies. The county's very favorable location next to the nation's capital; large, high-quality commercial base; rising housing values and affluent residential base anchor its competitive position. With a \$34.44 billion tax base and very high full value per capita of \$181,317, the county is also in the unusual position of having more jobs than population. The location of 11 Metrorail train stations in the county adds long-term economic vitality, providing convenient access to the District of Columbia (GO rated A2). It also serves the county's two major growth corridors, which contain significant high-rise office development, retail shopping centers, hotels and multi-unit housing. The county is focusing development on its nine downtown areas, seven of which are served by Metrorail stations. The county's healthy growth in assessed valuation has largely been driven by appreciation of existing property values, as commercial and residential permitting have slowed. Recent increases in the office vacancy rate appear to have been driven by the effects of the national and state economic downturn. However, management reports that the increase in the vacancy rate has not derailed several high-profile construction projects currently underway and has not led to declines in property values. Despite the higher than normal office vacancy rate, management reports that rental rates have remained stable relative to neighboring localities that have begun to see rates decline in the face of escalating vacancy rates.

While the county experienced declines in tourism-related revenues as many destinations did in the wake of 9/11, calendar 2003 saw a rebound of hotel occupancy rates and a 10% increase in annual passenger traffic at the Ronald Reagan National Airport. This trend has contributed to growth in tourism-dependent revenues like the transient tax, which increased 10.22% in 2003 after a substantial decrease of 17% in 2002.

Population growth remains strong, at 10.7% over the past decade, and per capita income levels are among the highest in the country, with 2000 levels approximately two-thirds higher than the national average. Unemployment, at 1.9% in January 2004, remains well below the Virginia and U.S. rate. With one-quarter of its population holding a graduate or professional degree, the county also benefits from a highly educated workforce.

DEBT POSITION TO REMAIN STRONG DESPITE SUBSTANTIAL MILLION CAPITAL PLAN

The county benefits from a low debt burden of 1.6% and rapid amortization of 69% of principal in 10 years. Also, approximately 6.7% of the county's general obligation debt is self-supporting from Arlington's strong water and sewer system. Moody's believes the county can work within its \$681.6 million fiscal 2003 to 2008 capital improvement plan (revised 2005 to 2010 CIP expected to be approved in April 2004), given its strong financial position, affluent and growing tax base and expectations of continued fast retirement of debt. The county also plans to continue aggressively funding pay-as-you-go capital work at up to \$28 million annually, on average, through fiscal 2008. The CIP designates 34% of its total amount to schools, 18% to transportation, 12% to parks and recreation and 10% to utilities. Of the funding, 59% will come from general obligation bonds, 17% from General Fund appropriations (pay-go), 14% from developers and state and federal sources, and 2% from general obligation utility bonds. The next GO bonding is slated for fiscal 2005.

KEY STATISTICS

2002 population: 189,927

2003 full valuation: \$34.44 billion

Full valuation per capita: \$181,317

1/04 unemployment: 1.9%

Debt burden: 1.6%

Payout of principal (10 years): 69 %

Fiscal 2003 General Fund balance: \$59.2 million (9.3% of General Fund revenues)

County median family income as a % of state: 145.6%

County per capita income as a % of state: 157.3%

Post sale parity debt outstanding, including the current issue: \$510.49 million

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