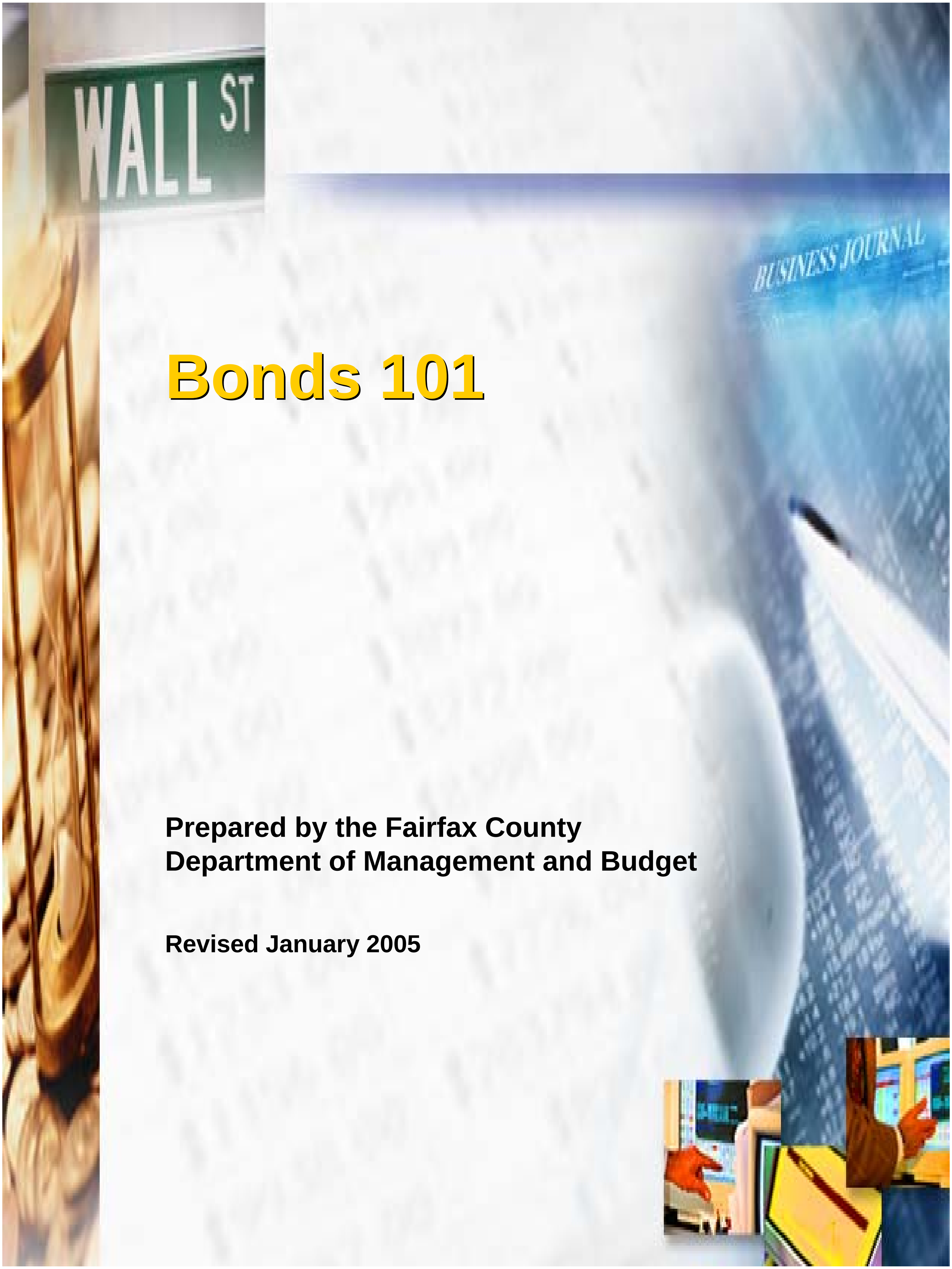

Bonds 101

Prepared by the Fairfax County
Department of Management and Budget

Revised January 2005

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Chapter One:
The Basics

What Are Bonds?

- A form of borrowing commonly used by municipal and state governments and large corporations
- A series of low face value promissory notes of 1 to 30 year duration, usually at a fixed interest rate
- Interest paid on municipal and state bonds may be tax-exempt from federal taxes
- Interest on municipal bonds may be tax-exempt from state taxes in the state issued

Why Borrow Money?

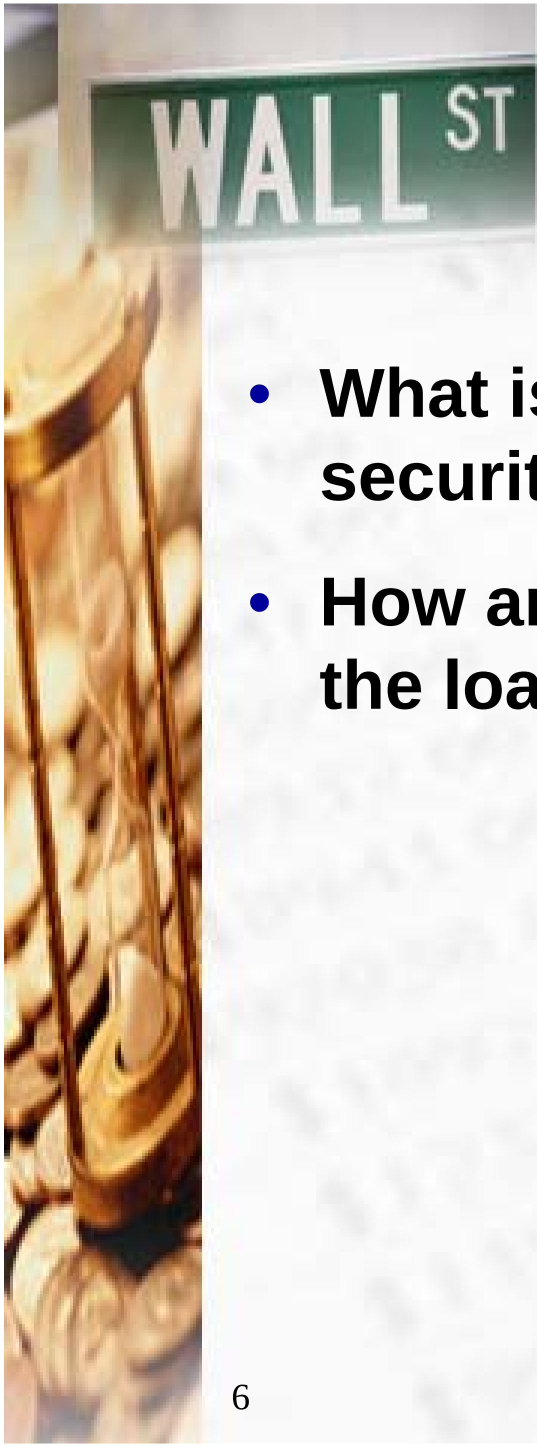
- To satisfy current and future needs
- To share costs with those that will use the facility in the future
- To avoid excessive cost burden to current taxpayers

When Is Borrowing A Good Idea?

- **When a facility or equipment is very expensive and may represent an excessive burden on current taxpayers or rate payers**
- **When the useful life of a facility will extend for a long time (over 10 years)**
- **When asset value received equals value invested (i.e., capital construction, land acquisition)**

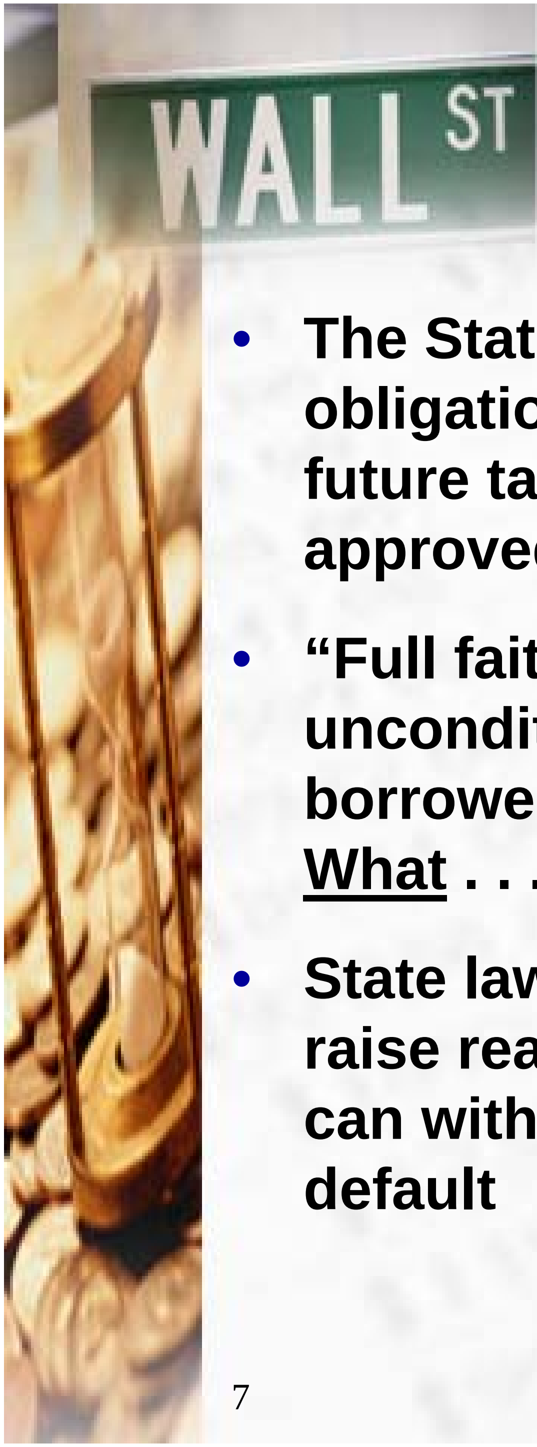
When Is Borrowing NOT A Good Idea?

- **To fund operating expenses – no asset value received, long term obligation**
- **When the useful life is less than the payback period**
- **When interest costs are excessive**
- **When the total cost of debt begins to interfere with normal, necessary operating expenses**



Critical Questions to Consider When Borrowing

- **What is the bondholder's security?**
- **How are you going to pay back the loan?**



What is the County's Security?

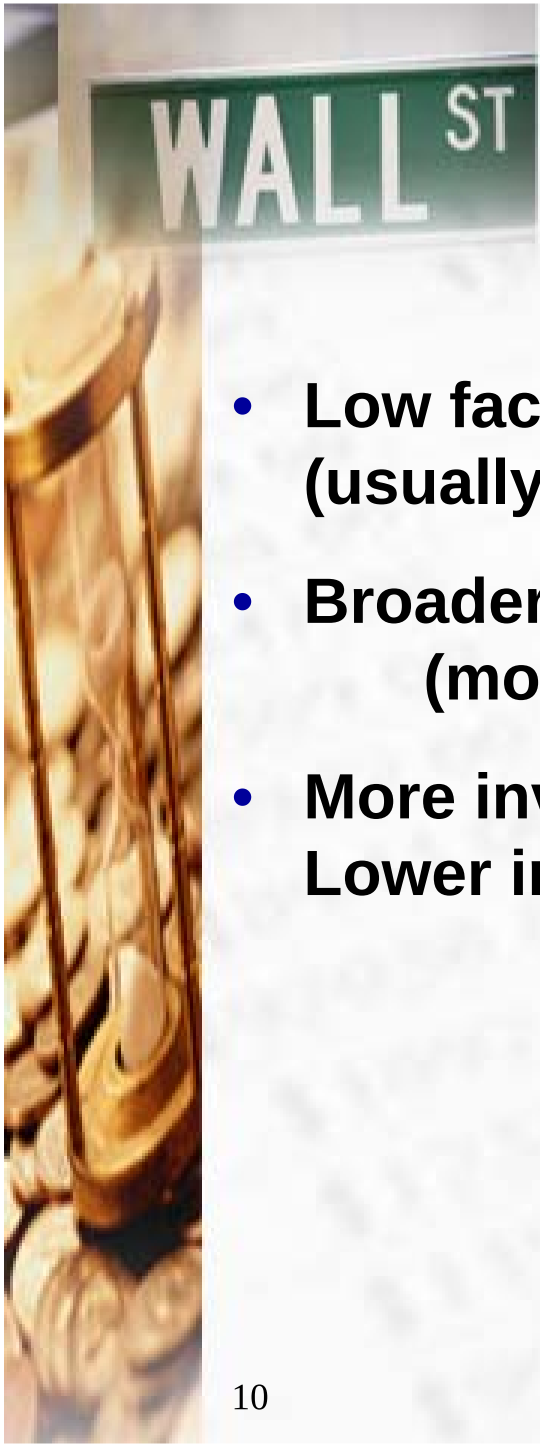
- **The State Constitution requires that obligations that are binding on future taxpayers can only be approved at voter referendum**
- **"Full faith and credit": the absolute, unconditional pledge of the borrower to pay its debt <u>No Matter What</u> . . .**
- **State law requires the County to raise real estate taxes or the State can withhold revenue to avoid default**

Is a Voter Referendum Always Required to Borrow Money?

- NO. A voter referendum is only required for the government's unconditional guarantee, i.e., "Full Faith and Credit"
- The County may issue debt that is:
  - Subject to specific project revenue (Revenue Bonds, Anticipation Notes)
  - Non-binding on future taxpayers (subject to annual appropriation; usually capital leases or certificates of participation)
  - Refunding bonds for previously approved projects
- The County may use another governmental unit issue debt on its behalf (backed by agreements, pledged revenue, subject to annual appropriation)

Why Fairfax County Also Uses Other Entities to Issue Debt

- **To use a revenue source that may not be available to the County**
  - Example: EDA Metro Parking Revenue Bonds
- **To offer a source of security that does not impact the County's own credit**
  - Example: State issued Route 28 Bonds
- **To limit liability to a small part of the County**
  - Example: McLean Community Center Bonds
- **To limit liability to a special revenue source**
  - Example: Sewer Revenue Bonds
- **To limit liability to a specific project**
  - Example: Energy Resource Recovery Facility
- **To issue a non-binding contract or lease to pay for capital expenses**
  - Examples: EDA Government Center Lease Revenue Bonds; South County Government Center; FCRHA Community Center Lease Revenue Bonds



Why A Bond?
(And Not Some Other Form of Note)

- **Low face value, smaller pieces (usually $5,000)**
- **Broader participation (more investors)**
- **More investors = More competition = Lower interest cost**

What Are the Various Types of Bonds?

There are many types of bonds. Bonds are usually defined by the security that backs them.

General Obligation	"Full Faith and Credit"
Revenue	"Project Specific or Pledged Revenues"
Lease Revenue	Revenue from a lease
Certificates of Participation	Revenue related to a lease or other promise to pay
Revenue Anticipation	Future Revenue
Bond Anticipation	Future Bonds
Tax Anticipation	Future Taxes
Lease Purchase	Interest in the property or promise to pay
Tax Increment Financing	Incremental increase in tax receipts above a certain level

Anything less than the "Full Faith and Credit" or a binding revenue pledge must be subject to annual appropriation – which is a non-binding pledge.

What Are Refunding Bonds?

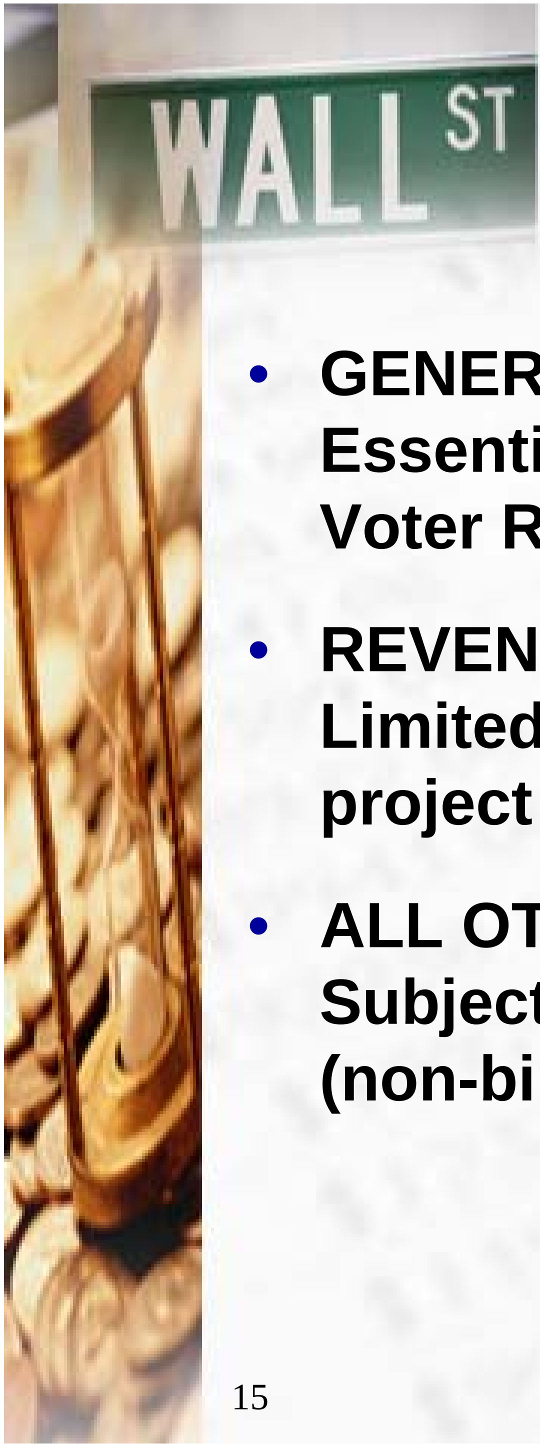
- Bonds issued to refinance a previous bond issue — usually to achieve a lower rate of interest or restructure for lower payments
- Uses the same security as the refunded debt (G.O. Bonds, Revenue Bonds, Certificates of Participation, etc.)

What are Variable Rate Bonds?

- A method of interest rate assignment where the interest rate is reset after a short period of time (e.g., weekly or 30-90 days)
  - Essentially, the loan rolls over every time the rate is reset
  - Bondholder can request repayment of principal at each reset
- Has the advantage of bearing the least expensive rates available in the market
- Has the disadvantage of having exposure to large scale upward interest rate movements in the market
- Usually costly in the long run from Letter of Credit protection and re-marketing fees, as a new buyer may be needed with each reset

Chapter Two:
Rules and Regulations

What Are the Legal Limits to the County's Borrowing?



- **GENERAL OBLIGATION:**
  Essentially none if approved at Voter Referendum
- **REVENUE:**
  Limited to revenue of specific project and no other source
- **ALL OTHER TYPES:**
  Subject to annual appropriation (non-binding pledge)

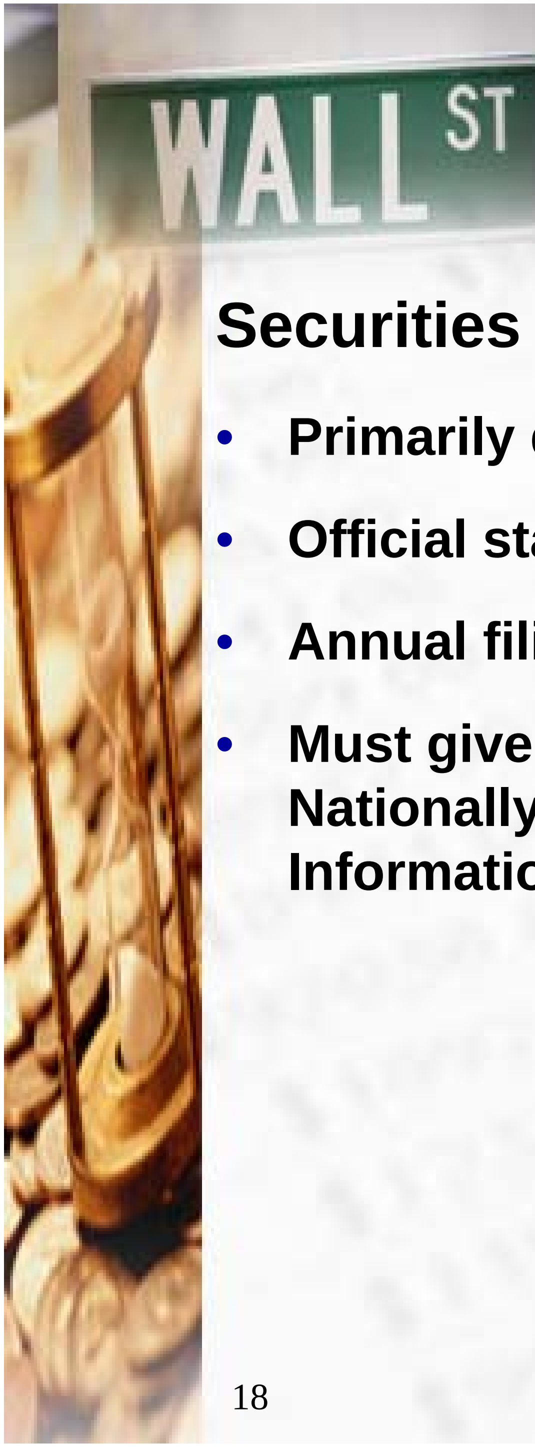
What Other State Rules Apply?

- **Referendum projects may be grouped together if of a similar nature - common purpose**
- **<u>Sunset Rule</u>: All referenda expire in eight years from date of voter approval**
  - **Two-year extension permitted upon petition to Circuit Court**
  - **Bonds approved prior to 1991 are grandfathered and not subject to sunset**
- **School Board must initiate request for voter approval and sale of all bonds**
- **Bonds approved for one purpose may not be used for another**
- **Use of bonds keyed to original question**
  - **If broad question, not tied to specific project**
  - **If narrow question, limited flexibility**

What Federal Rules Apply?

Internal Revenue Service/IRS

- "Governmental purpose" necessary for tax exemption
- All other purposes classified as "private activities"
- Governmental purpose bonds may have up to 10% private activity and still retain tax exemption
- Some private activity bonds may qualify for tax exemption – statewide cap may apply
- Arbitrage rules require rapid rate of expenditure (e.g., 85% within three years)
- All earnings on proceeds are subject to arbitrage rebate: any interest earned beyond actual interest cost may be required to be rebated to the federal government (many rules)



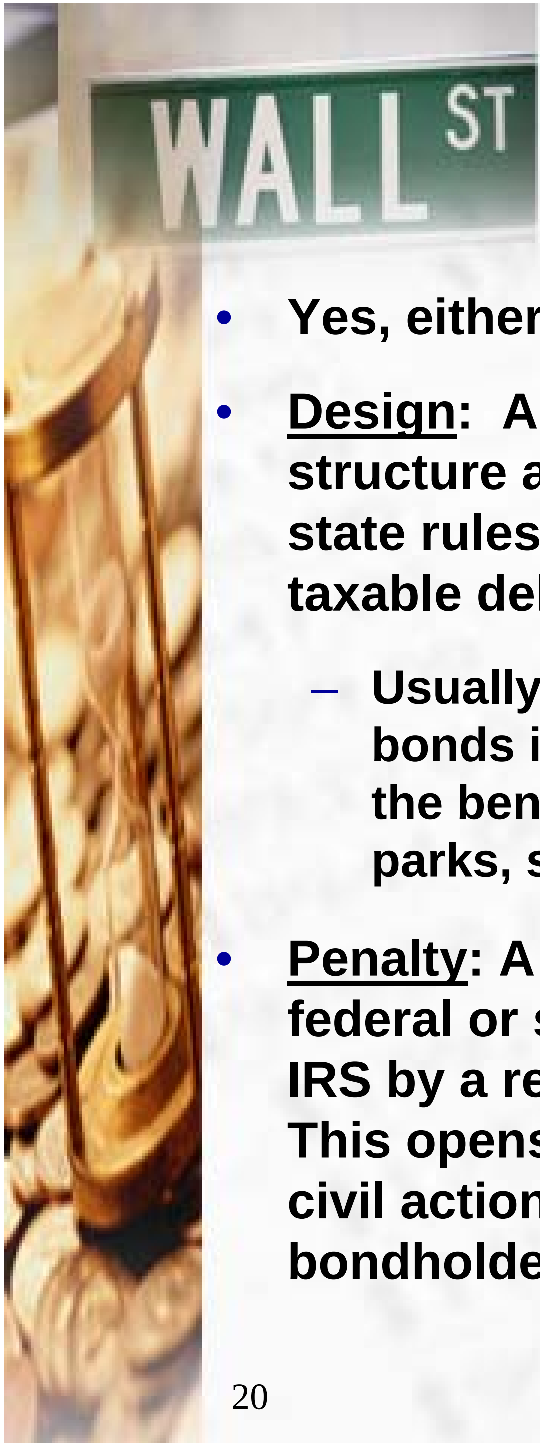
What Other Federal Rules Apply?

Securities and Exchange Commission/SEC

- **Primarily disclosure related**
- **Official statement with each sale**
- **Annual filing of financial condition**
- **Must give notice of certain material events to Nationally Recognized Municipal Securities Information Repositories**

What Does "Tax-Exempt" Mean?

Interest on a "tax-exempt" bond is excluded from the gross income of a bondholder under federal and/or state law.



Are Municipal Bonds Ever Taxable?

- **Yes, either by design or by penalty**
- **<u>Design</u>: A government may be unable to structure a loan to comply with federal or state rules and deliberately choose to issue taxable debt**
  - **Usually associated with "Private Activity" bonds in which a private entity is receiving the benefit of the debt (stadiums, office parks, shopping malls, etc.)**
- **<u>Penalty</u>: A government fails to comply with federal or state rules and is penalized by the IRS by a refusal to honor the tax exemption. This opens the government to the potential of civil action brought on behalf of the bondholders to recover the loss**

Why Issue Taxable Debt?

- **To support a "Private Activity" that is not eligible for tax-exempt debt, taxable Private Activity Bonds may be issued on behalf of "for profit" entities or organizations for facilities such as:**
  - **Recreation facilities**
  - **Airports**
  - **Ports**
  - **Toll facilities**
  - **Office/Industrial parks**
  - **Medical facilities**
- **Facilities owned by a non-profit, but operated under qualified contract usually okay**
- **Federal restrictions/State caps**
  - **Example: Energy Resource Recovery Facility**

Chapter Three:
The Costs of Borrowing

What Are the Costs of Borrowing?

- Principal: The amount borrowed
- Interest: Payment for use of the principal over a specified period of time
- Fees: Potential charges for services issuing bonds. Usually paid from Bond Proceeds.
  - Lawyers (Bond Counsel)
  - Financial Advisor
  - Underwriter (and Underwriter's Counsel)
  - Insurance Premium
  - Printer
  - Bank Fees
  - Rating Agency Fees
  - Trustee
  - Court Fees
  - Advertising and Notices

What Is a Bond Counsel?

- **A lawyer who specializes in Federal and State bond law**
- **Hired to advise a government on all legal matters pertaining to borrowing**
- **Renders the highly critical legal opinion that the bonds are tax-exempt to potential investors and are valid**

What Is a Financial Advisor?

- **A specialist hired to advise a government on issuing debt and maintaining a good credit rating**
- **Assists in hiring and monitoring underwriters and structuring loan deals**
- **Reviews outstanding debt, monitors market trends and recommends opportunities for refunding outstanding debt to achieve interest cost savings**

What Is an Underwriter?

- An agent who agrees to market and sell bonds to investors in a negotiated deal
- Contract of firm commitment for sales and placement
- Two fees – charges to both the issuer and the buyer
- Useful for one-time or unusual bonds
- Not necessary when bonds are sold directly to an investor or consortium, as in the case of the County's General Obligation Bonds
- Will also require a lawyer – underwriter's counsel

Bond Insurance:
What Is It? When Is It Used?

- **Enhances the credit on the bonds**
  - **Third Party guarantee**
  - **Makes the bonds more attractive to investors**
- **Used to lower interest costs by improving the credit rating**
  - **Premium and new rate < (less than) rate without insurance**

Other Fees

- **Other fees that may be charged in conjunction with the sale of bonds include:**
  - **Printing of the Preliminary and Official Statements**
  - **Bank Fees**
  - **Rating Agency Fees**
  - **Trustee, if needed**
  - **Court Fees**
  - **Advertising and Notices**

Chapter Four:
About Credit

What is Credit?

- Money on account
- Loan based on trust

What is a Credit Rating?

- A value assigned by one or more of the recognized rating agencies that "grades" a jurisdiction's credit, or financial trustworthiness
- The higher the grade, the stronger the credit

Rating Agencies:
Who Are They? Why Are They Important?

- **The four primary rating agencies are:**
  - **Standard & Poor's Ratings Services**
  - **Moody's Investors Service**
  - **Fitch Ratings**
  - **Dun & Bradstreet**
- **The County uses three rating agencies: S&P, Moody's and Fitch**
- **They serve as independent assessors of municipal and corporate credit strength**
- **Investors rely on their opinions to make investment decisions**
- **A favorable credit rating can mean lower interest rates**

Why is the Triple AAA Bond Rating So Important?

- Ensures low interest cost to the County
- Demonstrates strong financial management and condition to potential investors
- Yields savings on debt service

Who Has the Triple AAA?

- **Fairfax County is one of only 23 counties in the nation with Triple A ratings from all three rating agencies.**
- **Who has earned this coveted rating?**
  - **Only 23 of the nation's 3,107 counties**
  - **Only 7 of the nation's 50 states**
  - **Only 20 of the nation's 22,529 cities**

Who Has the Triple AAA?

AAA Jurisdictions (January 2005)	States	Cities	Counties
	Delaware	Boca Raton, FL	Arlington, VA
	Georgia	Cambridge, MA	Baltimore, MD
	Maryland	Cary, NC	Chesterfield, VA
	Missouri	Charlotte, NC	Cobb, GA
	South Carolina	Durham, NC	Dupage, IL
	Utah	Fairfield, CT	Durham, NC
	Virginia	Greenwich, CT	Fairfax, VA
		Norwalk, CT	Forsyth, NC
		Overland Park, KS	Greenville, NC
		Palm Beach, FL	Gwinnet, NC
		Plano, TX	Hennepin, MN
		Raleigh, NC	Henrico, VA
		Ridgefield, CT	Howard, MD
		Santa Monica, CA	Kent, MI
		Scottsdale, AZ	Lake, IL
		Seattle, WA	Mecklenburg, NC
		Summit, NJ	Monmouth, NJ
		Troy, MI	Montgomery, MD
		Westlake, OH	New Castle, DE
		Winston-Salem, NC	Palm Beach, FL
			Salt Lake, UT
			St. Louis, MO
			Wake, NC
Total	**7**	**20**	**23**

Source: Public Financial Management (Arlington, VA)

How Does a County Earn and Keep Good Credit?

- **Record of debt payments on time**
- **Consistent Revenue**
- **Strong Revenue**
- **Revenue Growth**
- **Diverse, Balanced Revenue Streams**
- **Reasonable, Controlled Expenditures**
- **Spending within Means**
- **Record of Hard Decisions, when necessary**
- **Strong financial planning with ability to react quickly to change**
- **High level of liquid reserves**

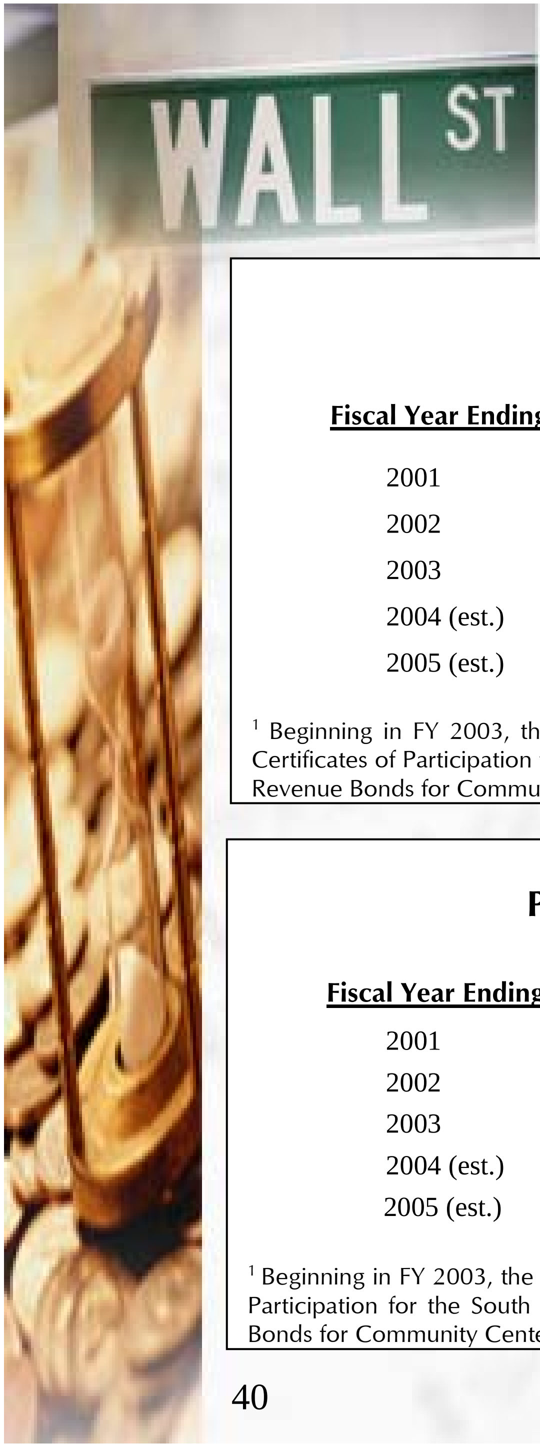
Chapter Five:
Practical Limits to Debt

Why Have Debt Limits?

- **To protect yourself from over committing your resources to debt when you may need them for something else**
- **To protect your investors by ensuring adequate resources exist to pay your obligations**

What Are the County's Debt Limits?

- **Net debt shall not exceed 3% of Assessed Value**
- **Debt Service shall not exceed 10% of General Fund Disbursements**
- **In order to achieve the above, annual bond sales shall not exceed an average of $200 million per year or $1 billion in a five-year period, with a technical limit of $225 million in a single year**
- **Debt limits were established as part of the <u>Ten Principles of Sound Financial Management</u>, adopted in 1975 (last revised April, 2002)**



What is the Current Status of County Debt Limits?

Net Debt as a Percentage of Market Value of Taxable Property

Fiscal Year Ending	Net Bonded Indebtedness[1]	Estimated Market Value	Percentage
2001	$1,442,682,525	$101,048,500,000	1.43%
2002	1,655,613,600	113,801,300,000	1.45%
2003	1,913,826,600	128,927,200,000	1.48%
2004 (est.)	1,964,874,675	142,981,000,000	1.37%
2005 (est.)	2,046,746,762	157,507,000,000	1.30%

[1] Beginning in FY 2003, the ratio includes outstanding Lease Revenue bonds for the Pennino and Herrity Buildings and outstanding Certificates of Participation for the South County Government Center in addition to General Obligation Bonds, Literary Loans and Special Revenue Bonds for Community Centers. In addition, a sale of $217.23 million for FY 2004 has been included for projection purposes.

Debt Service Requirements as a Percentage of Combined General Fund Disbursements

Fiscal Year Ending	Debt Service Requirements [1]	General Fund Disbursements	Percentage
2001	$183,740,487	$2,148,334,971	8.6%
2002	190,097,946	2,292,016,724	8.3%
2003	212,106,642	2,447,402,328	8.7%
2004 (est.)	219,188,245	2,654,215,588	8.3%
2005 (est.)	234,378,638	2,733,221,469	8.6%

[1] Beginning in FY 2003, the ratio includes debt service on Lease Revenue bonds for the Pennino and Herrity Buildings and Certificates of Participation for the South County Government Center in addition to General Obligation Bonds, Literary Loans and Special Revenue Bonds for Community Centers.

Other Limits To Which The County Pays Attention

- **Debt Per Capita (DPC)**
  - **Currently $1,775 (FY 2004 Actual)**
- **Debt Per Capita as Percent of Income (DPC/PCI)**
  - **Currently 3.11% ((FY 2004 Actual)**
  - **5% is the maximum “industry standard”**
  - **The low percent mitigates the impact of high Debt Per Capita**

Who Determines That These Limits Are Still Valid?

- **Debt limits are internal guidelines based on the judgment of the Board of Supervisors in concert with the advice of:**
  - **County Staff**
  - **The Financial Advisor**
  - **The Rating Agencies**
  - **Consultation with Other Financial Professionals**
  - **Review of Peer Jurisdictions**

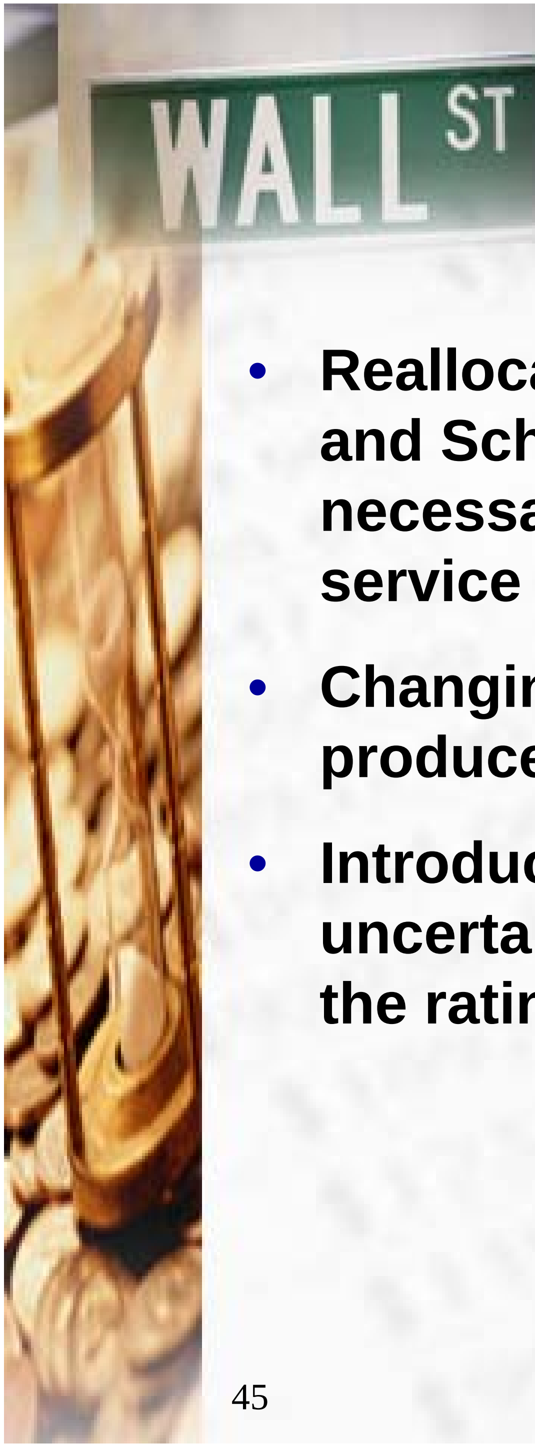
Why These Debt Limits?

Some may think these levels seem arbitrary. Why are some other values/levels not used? These levels are based on the following:

- **Judgement of Rating Agencies/others**
- **Market experience – what defines the stronger jurisdictions**
- **Debt Service less than 10% is considered a low to moderate burden that does not interfere with other operations**
- **Net debt less than 3% is considered a low burden on the tax base**
- **Debt Per Capita measures the burden as if owed by the individual taxpayer – Fairfax County is considered moderate to high**
- **Debt Per Capita as a percent of per capita income measures the individual burden against the individual's ability to pay – Fairfax County is considered very low due to high wealth/income levels**

Can The Debt Limits Be Changed?

- **Of course. Any policy can and should be reviewed periodically to ensure it still works as designed**
- **The policy on debt limits may be changed in the same manner as established – after careful deliberation and consultation with rating agencies and other financial professionals**



Why Don’t We Change the Debt Limits and Sell More Bonds?

- **Reallocation of income from County and School operating funds is necessary to pay the increased debt service**
- **Changing the debt limits will not produce the extra income needed**
- **Introduces inconsistency and uncertainty among investors and the rating agencies if done too often**

Chapter Six:
County Financial Planning

How Does the County Decide How Much to Borrow?

The County bases its decisions on the following:

- **Capital Improvement Program**
- **Financial Forecast**
- **Debt Capacity Analysis**

The Capital Improvement Program

- **The Capital Improvement Program (CIP):**
  - **is a five-year plan for identifying and funding needed capital improvements**
  - **identifies projects, why they are needed, when they are scheduled for planning, construction, etc., associated costs, future requirements and funding sources**
    - **Example: Human Services Construction Cash Flow slide on slide 49**
  - **prioritizes projects**
    - **See summary of all bond program requirements on slide 50**

Project Cost Summary

PROJECT COST SUMMARIES
HUMAN SERVICES
($000's)

Project Title/ Project Number	Source of Funds	Anticipated to be Expended Thru FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	Total FY2005-FY2009
1. West County Family Shelter / 009464	X, G	***150***	***850***	***2,116***	***2,115***			5,081
2. South County Center System Furniture Lease Purchase / 009425	G	***2,044***	***1,022***	1,022	1,022			3,066
3. School Age Child Care Centers / 007012	G	***C***	***500***	500	500	500	500	2,500
4. Mt. Vernon Mental Health Center / 009435	B	0		1,000	3,000	3,000	3,000	10,000
5. Woodburn Mental Health Center	B	0		1,000	3,000	3,000	3,000	10,000
6. Gregory Drive Facility	B	0		600	1,000	1,400		3,000
TOTAL		$2,194	$2,372	$6,238	$10,637	$7,900	$6,500	$33,647

Key: Stage of Development
- (yellow) Feasibility Study or Design
- (red) Land Acquisition
- (blue) Construction

Notes:
Numbers in bold italics represent funded amounts.
A "C" in the Authorized or Expended Column denotes a continuing project.

Bond Program Summary

FY 2005 - FY 2009
Adopted Capital Improvement Program
($ in millions)

FY 2005 - FY 2009 ADOPTED CAPITAL IMPROVEMENT PROGRAM
PROPOSED BOND SALES AND DEBT CAPACITY
($ in millions)

PURPOSE	AUTH. BUT UNISSUED	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	2005-2009 TOTAL	2010-2014 PROJ.	REMAINING BALANCE
Libraries (1989)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Roads (1992)[1]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
NVRPA (1998)	2.25	2.25	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Metro (1992,1990)[1]	31.31	9.85	11.70	9.76	0.00	0.00	0.00	21.46		0.00
Storm Drainage (1988)	3.96	3.96	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Transportation (non-road) (1988,1990)	25.35	11.17	2.88	4.30	7.00	0.00	0.00	14.18		0.00
Human Services (1988)	1.19	0.00	0.00	0.00	0.00	1.19	0.00	1.19		0.00
Juvenile Detention (1989)	0.90	0.90	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Adult Detention (1989)	6.52	0.77	0.30	1.45	4.00	0.00	0.00	5.75		0.00
Public Safety Facilities (1998, 2002)	100.45	0.00	31.68	38.14	21.06	2.20	0.20	93.28	0.00	7.17
Neighborhood Improvement (1989)	1.47	1.47	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Commercial Revitalization(1988)[2]	17.28	4.15	4.58	8.39	0.16	0.00	0.00	13.13		0.00
Community Improvement (1989)	0.35	0.35	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Parks (1998,2002)	42.58	28.66	13.92	0.00	0.00	0.00	0.00	13.92	0.00	0.00
Subtotal County	**233.61**	**63.53**	**65.06**	**62.04**	**32.22**	**3.39**	**0.20**	**162.91**	**0.00**	**7.17**
Fund 390, Schools[3] (1999)	3.795	3.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2001)	377.955	116.42	125.59	109.69	26.25	0.00	0.00	261.53	0.00	0.00
(2003)	290.610	0.00	0.00	0.00	78.24	119.28	93.09	290.61	0.00	0.00
Subtotal Schools	**672.36**	**120.22**	**125.59**	**109.69**	**104.49**	**119.28**	**93.09**	**552.14**	**0.00**	**0.00**
Total General Obligation Bonds	**905.97**	**183.75**	**190.65**	**171.73**	**136.71**	**122.67**	**93.29**	**715.05**	**0.00**	**7.17**
FCRHA Lease Revenue[4]	30.10	13.90	11.20	5.00	0.00	0.00	0.00	16.20	0.00	0.00
Total Current Program	**936.07**	**197.65**	**201.85**	**176.73**	**136.71**	**122.67**	**93.29**	**731.25**	**0.00**	**7.17**

Potential Funding Sources for CIP

- General Obligation Bonds
- Revenue Bonds
- Federal Funds
- State Funds
- Other Jurisdictions

The Financial Forecast

A tool to forecast future revenue and expenditures

- **Projects future revenue (tax base data) including:**
  - Statistical analysis of real estate values
  - Analysis of personal property
  - Analysis of sales behavior
  - Analysis of known real estate improvements (growth)
  - Analysis of population changes
  - Analysis of interest earnings and cash management
  - Analysis of all minor revenue categories
- **Inputs to expenditure forecasts**
  - Inflation analysis
  - Analysis of personnel costs (new hires, departures, pay for performance)
  - Impact of new facilities
  - Impact of anticipated federal/state changes
- **Provides demographic data**
  - Population, Income, etc.

Financial Forecast:
Revenue

FY 2006 and FY 2007 FINANCIAL FORECAST (millions)

	FY 2003 ACTUAL	FY 2004 ADOPTED	FY 2004 REVISED	FY 2005 ADOPTED	FY 2006 FORECAST	FY 2007 FORECAST
Available Beginning Balance	$0.00	$0.86	$69.08	$10.03	$0.00	$0.00
Reserves Balance	94.57	49.81	49.81	53.08	54.66	58.60
REVENUE:						
Real Estate Taxes	$1,396.53	$1,494.19	$1,498.84	$1,623.84	$1,777.46	$1,936.81
Personal Property Taxes[1]	466.50	477.17	471.62	468.84	482.66	496.90
Other Local Taxes	373.59	372.94	390.14	402.01	414.56	427.67
Permits, Fees, and Licenses	27.74	26.85	26.90	26.94	26.94	26.94
Fines and Forfeitures	11.05	12.04	12.78	12.38	12.50	12.63
Revenue from Use of Money/Property	20.74	16.37	18.23	21.11	25.25	31.11
Charges for Services	40.55	38.15	41.94	42.53	43.38	44.25
Revenue from the Commonwealth[1]	79.68	75.91	79.11	76.73	76.73	76.73
Revenue from the Federal Govt.	47.00	39.91	51.42	42.50	42.50	42.50
Recovered Costs/Other Revenue	5.42	5.40	6.05	6.23	6.23	6.23
TOTAL REVENUE	$2,468.80	$2,558.93	$2,597.04	$2,723.11	$2,908.20	$3,101.75
TRANSFERS IN	3.93	1.40	1.40	1.67	1.71	1.75
TOTAL RECEIPTS	$2,472.73	$2,560.33	$2,598.43	$2,724.78	$2,909.91	$3,103.50
TOTAL AVAILABLE	**$2,567.30**	**$2,611.00**	**$2,717.33**	**$2,787.89**	**$2,964.57**	**$3,162.10**

[1] **The portion of the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.**

Debt Capacity Analysis:
What Is Looked At?

- **Coordination of planning elements of the CIP and Financial Forecast**
  - **Desired cash flow for capital improvements is compared to forecast revenue and expenditures**
- **Two questions are asked:**
  - ***Can Forecast revenue growth sustain debt service on the desired borrowing?***
  - ***Are the County's debt limits adversely impacted?***
- **In response to the answers received, policy decisions must be made regarding adjustments to the CIP Bond Program:**
  - **If the answer to either question is negative, the CIP either needs to be trimmed or other funding needs to be adjusted**

Debt Capacity

- **Analysis tool projects sales 5 to 8 years into the future**
- **Identifies impact on debt ratios**
- **Compares resulting bond sales to revenue limits**
- **Identifies annual adjustments needed**
- ***See the following chart***

Debt Capacity

DEBT CAPACITY
FY 2005 - FY 2009 ADOPTED CAPITAL IMPROVEMENT PROGRAM
($ in millions)

	AUTH. BUT UNISSUED	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	2005-2009 TOTAL	2010-2014 PROJ.	REMAINING BALANCE
COUNTY PROGRAM										
CURRENT PROGRAM	233.61	63.53	65.06	62.04	32.22	3.39	0.20	162.91	0.00	7.17
New Referenda	390.00	0.00	18.98	37.60	62.60	69.15	51.59	239.92	150.08	0.00
SUBTOTAL COUNTY	623.61	63.53	84.04	99.64	94.82	72.54	51.79	402.83	150.08	7.17
SCHOOLS PROGRAM[1]										
CURRENT PROGRAM	672.36	120.22	125.59	109.69	104.49	119.28	93.09	552.14	0.00	0.00
New Referenda	700.00	0.00	0.00	0.00	0.00	0.00	36.91	36.91	656.26	6.83
SUBTOTAL SCHOOLS	1372.36	120.22	125.59	109.69	104.49	119.28	130.00	589.05	656.27	6.83
GRAND TOTAL	1995.97	183.75	209.63	209.33	199.31	191.82	181.79	991.88	806.35	14.00
NECESSARY ADJUSTMENTS										
Maximum Sales Permissible[1,2]		200.00	200.59	194.69	189.49	204.28	200.00	989.05		
Sale Additions/(Reductions)[3]		16.26	(9.04)	(14.64)	(9.82)	12.46	18.21	(2.83)		

Deciding How Much To Borrow:

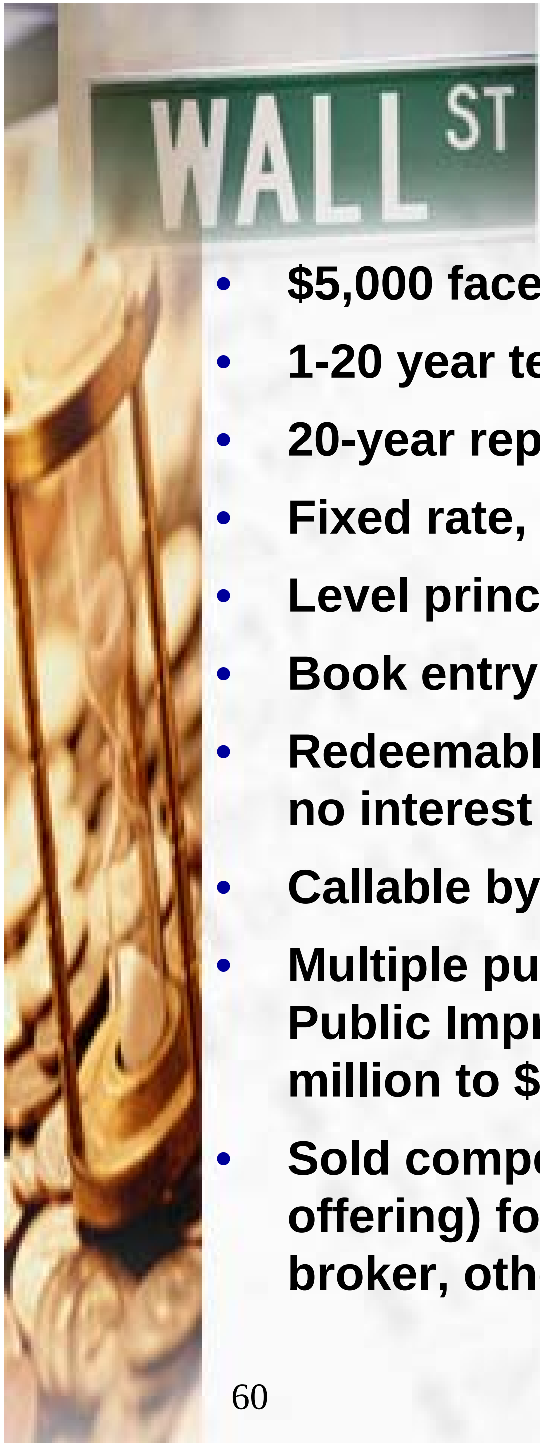
Factors Considered

- **Ability to Pay**
- **Tax Base**
- **Tax Diversity**
- **Ability of populace to support taxes**
- **Willingness of populace to support taxes**
- **Ability to control other expenses**
- **Willingness to pay the cost of borrowing**
- **Willingness of investors to invest**

Chapter Seven:
Making A Bond Sale Happen

How Does Fairfax County Sell Bonds?

- Evaluate cashflow needs for approved bond projects in current CIP
- Gauge market climate re: current interest rates and competing issues (i.e., avoid sales on days other AAA bonds or Virginia state issues are offered)
- School Board approves resolution for School Bonds
- Board of Supervisors approves resolution for all Bonds, including Schools
- Publish Preliminary Offering Statement and Notice of Sale
- Offer competitive bidding, typically receiving 4-6 bids (no underwriter needed for GO Bonds)
- Bonds are issued in Book entry form

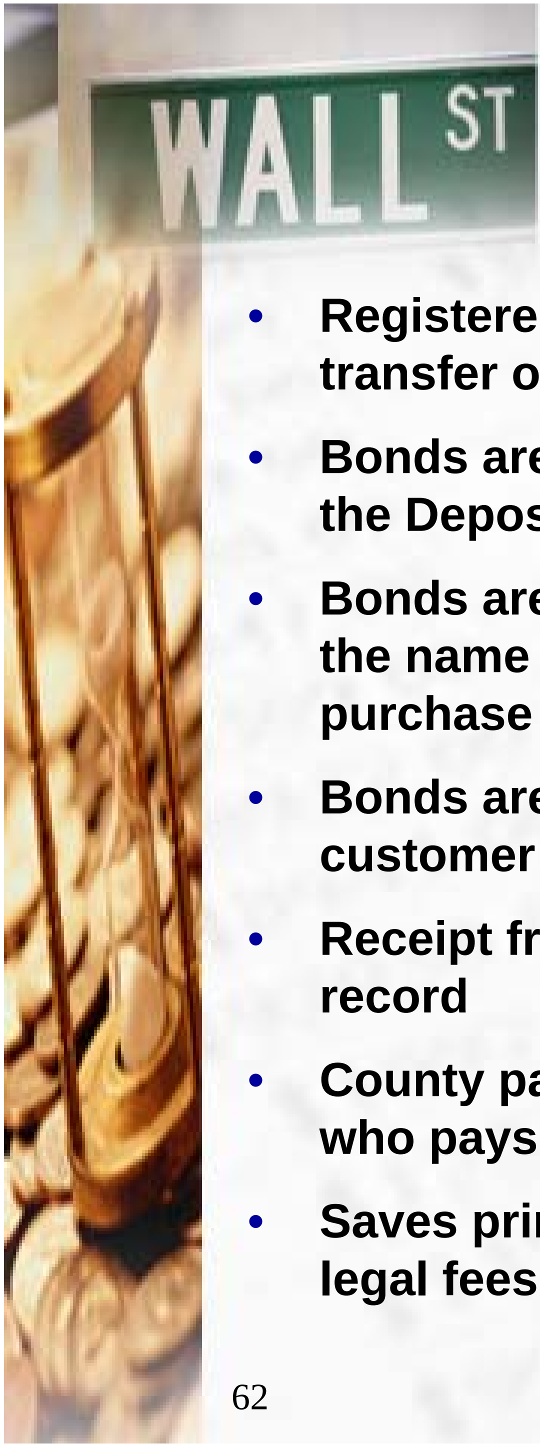


What is a Typical Fairfax County Bond?

- $5,000 face value
- 1-20 year term
- 20-year repayment (ensures rapid repayment)
- Fixed rate, payable semi-annually
- Level principal (generates lower interest costs)
- Book entry only, no paper issued
- Redeemable by bondholder on maturity, no interest payable after maturity
- Callable by the County after 8 years
- Multiple purposes bundled into single large Public Improvement Bond sale, typically $150 million to $200 million total value
- Sold competitively (non-negotiable bond offering) for total amount to single bank, broker, other financial consortium

Negotiated Bond Sales Using an Underwriter

- On occasion Fairfax County sells a negotiated bond using an underwriter.
- This approach may be used for non-General Fund Obligations and special financing
- Negotiated sales are typically used for unusual or unfamiliar bonds and structures
- EXAMPLES:
  - Metro Parking Garage Lease Revenue Bonds
  - Park Authority Revenue Bonds
  - Sewer Revenue Bonds
  - Resource Recovery Facility Bonds
  - Laurel Hill Public Facilities Bonds
  - Route 28 Highway Improvement Bonds



What Are Book Entry Bonds?

- Registered bonds that permit electronic transfer of funds with no exchange of paper
- Bonds are registered and held in the name of the Depository Trust Company (DTC)
- Bonds are sub-registered on DTC's books in the name of the broker executing the purchase
- Bonds are recorded in the name of the actual customer in the broker's records
- Receipt from the broker is the transaction record
- County pays interest to DTC who pays broker who pays customer - all electronically
- Saves printing, reprinting transfer and legal fees

Why Must A Buyer Use a Broker?

- All bonds are sold to an investment banking institution which acts as a senior partner for a sales group
- The bonds are re-marketed to the public through the participating brokers
- A broker facilitates the book entry system with the bondholder

Why Doesn’t Fairfax County Sell Bonds Directly to Citizens?

- The volume is not sufficient to justify the expense
- Use of book entry requires use of registered dealers to complete the transactions and hold the record
- Costs for the use of the dealer would either be passed on to the bondholder or borne by other taxpayers
- Creation of a separate system of non-book entry bonds would generate unnecessary expenses and potentially create notes that could not be resold in the normal market.