Consolidated County and Schools Debt Service Fund

Focus

The Consolidated Debt Service Fund accounts for the general obligation bond debt service of the County as well as general obligation bond debt for the Fairfax County Public Schools (FCPS). In addition, debt service expenditures are included for the Economic Development Authority Lease Revenue bonds and Certificates of Participation (COPS) associated with County government and School facilities and payments for Fairfax County Redevelopment and Housing Authority (FCRHA) Lease Revenue bonds. Revenues for the debt service funds are derived principally from a transfer from the General Fund. It should be noted that debt service on sewer revenue bonds is reflected in the Enterprise Funds.

The following is a chart illustrating the debt service payments and projected fiscal agent fees required in FY 2009 as well as the sources of funding supporting these costs:

	FY 2009 Advertised Budget Plan
Expenses	
County Debt Service	$102,947,432
Lease Revenue Bonds	14,855,242
School Administration Building	3,775,873
Park Authority (Laurel Hill Golf Course)	784,063
Fiscal Agent Fees/Cost of Issuance	590,000
Subtotal	**$122,952,610**
School Debt Service	$148,489,800
Lease Revenue Bonds (South County High School)	5,888,375
Fiscal Agent Fees/Cost of Issuance	435,000
Subtotal	**$154,813,175**
Total Expenses	**$277,765,785**
Funding	
General Fund Transfer	$263,101,335
Beginning Balance Applied	5,000,000
School Operating Fund Transfer	3,775,873
FCRHA Lease Revenue	4,699,514
Park Authority (Laurel Hill Golf Course)	784,063
Fairfax City Revenue	105,000
Bond Proceeds to Offset Cost of Issuance	300,000
Total Funding	**$277,765,785**

General Obligation Bonds

Anticipated debt service payments associated with the FY 2008 bond sale have been incorporated into the FY 2009 projections. A 4.5 percent interest rate is being used for planning purposes. No additional debt service funding has been included for a General Obligation bond sale in FY 2009 as a spring sale is anticipated such that payments will begin in FY 2010.

Capital Leases

Funding is included for the following Capital Leases which were issued by other entities, but are actually supported by the County and paid through County Debt Service subject to annual appropriation by the Board of Supervisors:

Economic Development Authority:	
Herrity and Pennino Buildings	$ 8,083,250
South County Government Center	2,072,478
South County High School	5,888,375
Laurel Hill Golf Course	784,063*
School Administration Building	3,775,873**
Subtotal	**$20,604,039**
Fairfax County Redevelopment and Housing Authority:	
Mott & Gum Springs Community Centers	$533,225
Baileys Community Center	413,730
Herndon Harbor Adult Day Health Care Center	70,681
Gum Springs Head Start Facility	176,430
James Lee Community Center	1,060,050
Herndon Senior Center	1,003,185
Braddock Glen Senior Center and Southgate Community Center	1,442,213
Subtotal	**$4,699,514**
Total	**$25,303,553**

* Reimbursed by a transfer in from the Park Authority.

**Reimbursed by a transfer in from the School Operating Fund.

Debt Service Ratios

The Board of Supervisors has adopted specific debt indicators within the *Ten Principles of Sound Financial Management* to effectively manage the County's bonded indebtedness. The *Ten Principles* state that the County's debt ratios shall be maintained at the following levels:

- Net debt as a percentage of estimated market value should always remain less than 3.0 percent; and

- The ratio of debt service expenditures as a percentage of Combined General Fund disbursements should remain under 10.0 percent.

The Board of Supervisors annually reviews the cash requirements for capital project financing to determine the capacity to incur additional debt for construction of currently funded projects as well as capital projects in the early planning stages. In FY 1992 and FY 1994, bond projects were deferred in order to reduce planned sales and remain within capacity guidelines.

During the adoption of the FY 2008 Adopted Budget Plan, the Ten Principles of Sound Financial Management were revised to allow for the use of variable rate debt. Variable rate obligations are debt obligations that are quite frequently used for short-term or interim debt financing and have an interest rate that is reset periodically, usually for periods of less than one year. Variable rate debt is typically used to take advantage of low short-term rates in anticipation of converting to longer-term fixed rate financing for complex projects or to mitigate the impact of volatile markets. Also, variable rate debt reduces interest costs and typically provides the ability to redeem bonds without a prepayment penalty. It is anticipated that the use of variable rate debt will provide opportunities for interest rate savings, reduce arbitrage payments and promote more accurate sizing for long-term bond issues.

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On November 19, 2007 the Board of Supervisors approved the Master Trust Agreement, Bank Note and related documents associated with acquisition of a $200,000,000 revolving line of credit (LOC) from the Bank of America. Any line of credit borrowings will be in conformance with the FY 2008 Adopted Budget Plan, the FY 2008-FY 2012 Capital Improvement Program, or specific Board of Supervisors action approving such use. Variable rate debt will be used when it is most advantageous to the County in comparison to other financing options. A Variable Rate Debt Committee will carefully review each County department's request for use of the LOC and monitor the usage. The County has developed policies and procedures related to the use of variable rate debt and will monitor LOC usage closely.

As a result of the County financial policies, prudent fiscal management and a strong economy the County has been awarded the strongest credit ratings possible from the three major national rating services. The County holds a Aaa from Moody's Investors Service (awarded 1975), a AAA from Standard and Poor's Ratings Service (awarded 1978), and a AAA from Fitch Ratings (awarded 1997). As of October 25, 2007, Fairfax County is one of only 7 states, 22 counties, and 23 cities to hold a triple-A rating from all three services.

The FY 2009 debt service budget has been prepared on the basis of the construction and bond sale limitations set in place by the Board of Supervisors. The FY 2009 capital program supported by general obligation bonds will be reviewed in conjunction with the FY 2009 - FY 2013 Advertised Capital Improvement Program (With Future Years to 2018).

The following are ratios and annual sales reflecting debt indicators for FY 2005 - FY 2009:

Net Debt as a Percentage of Market Value of Taxable Property

Fiscal Year Ending	Net Bonded Indebtedness[1]	Estimated Market Value[2]	Percentage
2005	1,931,008,940	158,261,300,000	1.22%
2006	1,963,217,876	192,187,300,000	1.02%
2007	2,057,354,681	232,347,000,000	0.89%
2008 (est.)	2,159,460,511	241,111,400,000	0.90%
2009 (est.)	1,979,810,443	242,076,000,000	0.82%

[1] The amount includes outstanding General Obligation Bonds and other tax supported debt obligations as of June 30 in the year shown and is from the Fairfax County Department of Management and Budget.

[2] Source: Fairfax County Department of Tax Administration and the Department of Management and Budget.

Debt Service Requirements as a Percentage of Combined General Fund Disbursements

Fiscal Year Ending	Debt Service Requirements[1]	General Fund Disbursements[2]	Percentage
2005	224,543,583	2,799,591,368	8.0%
2006	234,392,854	3,113,897,426	7.5%
2007	253,433,433	3,223,705,072	8.0%
2008 (est.)	277,935,863	3,376,369,445	8.2%
2009 (est.)	277,820,934	3,322,726,158	8.4%

[1] The amount includes debt service expenditures from July 1-June 30 for each year shown above, excluding bond issuance costs and other expenses and is from the Fairfax County Department of Management and Budget.

[2] Source: Fairfax County Department of Tax Administration and the Department of Management and Budget.

Annual Bond Sales

Fiscal Year Ending	Sales (millions)	Total for the Five-Year Period Ending FY 2009
2005	185.40	-
2006	190.34	-
2007	234.60	-
2008	234.475	-
2009 (est.)[1]	266.93	1,111.745

[1] Actual County and School bond sale amounts are based on the cash requirements for each project and municipal bond market conditions. Based on board policy, annual sales will be $275.0 million per year or $1.375 billion over a five-year period with a technical limit of $300.0 million in any given year.

FY 2009 Funding Adjustments

The following funding adjustments from the FY 2008 Revised Budget Plan are necessary to support the FY 2009 program:

- **Disbursement Adjustment** **($1,160,498)**
  A decrease in disbursements of $1,160,498 or 0.42 percent is primarily attributed to scheduled requirements for existing debt service and anticipated debt service payments for projected bond sales.

Changes to FY 2008 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2008 Revised Budget Plan since passage of the FY 2008 Adopted Budget Plan. Included are all adjustments made as part of the FY 2007 Carryover Review and all other approved changes through December 31, 2007:

- **Carryover Adjustments** **$12,058,292**
  As part of the *FY 2007 Carryover Review,* FY 2008 expenditures increased $12,058,292 or 4.5 percent over the FY 2008 Adopted Budget Plan associated due to increased debt service requirements related to the actual 2007 A Bond Sale debt service requirements and anticipated increased requirements for FY 2008 to support projected bond sale requirements during the fiscal year.

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FUND STATEMENT

Fund Type G20, Debt Service Funds **Fund 200 and 201, Consolidated Debt Service**

	FY 2007 Actual	FY 2008 Adopted Budget Plan	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan
Beginning Balance[1]	**$8,230,526**	**$0**	**$12,058,292**	**$5,000,000**
Revenue:				
Bond Proceeds	$342,867	$990,420	$990,420	$300,000
Revenue from Fairfax City	103,498	103,498	103,498	105,000
Total Revenue	$446,365	$1,093,918	$1,093,918	$405,000
Transfers In:				
County Debt Service:				
General Fund (001) for County	$106,172,540	$108,583,934	$108,583,934	$108,468,160
FCRHA Lease Revenue Bonds (001)	4,518,621	4,790,199	4,790,199	4,699,514
School Admin Building (090)	3,773,823	3,775,373	3,775,373	3,775,873
Park Authority Lease Revenue Bonds (170)	762,363	765,863	765,863	784,063
Subtotal County Debt Service	$115,227,347	$117,915,369	$117,915,369	$117,727,610
General Fund (001) for Schools	$142,269,368	$147,858,704	$147,858,704	$154,633,175
Subtotal Schools Debt Service	$142,269,368	$147,858,704	$147,858,704	$154,633,175
Total Transfers In	$257,496,715	$265,774,073	$265,774,073	$272,360,785
Total Available	**$266,173,606**	**$266,867,991**	**$278,926,283**	**$277,765,785**
Expenditures:				
General Obligation Bonds:				
County Principal	$64,097,825	$60,489,311	$60,489,311	$63,414,364
County Interest	30,921,137	27,819,553	27,819,553	29,467,832
Debt Service on Projected County Sales[1]	0	10,223,910	21,316,849	10,065,236
Subtotal County Debt Service	$95,018,962	$98,532,774	$109,625,713	$102,947,432
Schools Principal	$87,249,875	$85,603,389	$85,603,389	$88,060,636
Schools Interest	49,492,977	45,315,522	45,315,522	46,519,656
Debt Service on Projected School Sales[1]	0	11,984,606	12,949,959	13,909,508
Subtotal Schools Debt Service	$136,742,852	$142,903,517	$143,868,870	$148,489,800
Subtotal General Obligation Bonds	$231,761,814	$241,436,291	$253,494,583	$251,437,232

Consolidated County and Schools
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FUND STATEMENT

Fund Type G20, Debt Service Funds **Fund 200 and 201, Consolidated Debt Service**

	FY 2007 Actual	FY 2008 Adopted Budget Plan	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan
EDA Lease Revenue Bonds/COPS	$10,161,509	$10,154,659	$10,154,659	$10,155,728
FCRHA Lease Revenue Bonds	4,513,138	4,790,198	4,790,198	4,699,514
Park Authority Lease Revenue Bonds	762,362	765,863	765,863	784,063
Other Tax Supported Debt Service (Schools):				
EDA Schools Leased Revenue Bonds	6,234,610	8,730,560	8,730,560	9,664,248
Subtotal Other Tax Supported Debt Service	$21,671,619	$24,441,280	$24,441,280	$25,303,553
Other Expenses	$681,881	990,420	990,420	1,025,000
Total Expenditures	$254,115,314	$266,867,991	$278,926,283	$277,765,785
Total Disbursements	**$254,115,314**	**$266,867,991**	**$278,926,283**	**$277,765,785**
Ending Balance[2]	**$12,058,292**	**$0**	**$0**	**$0**
Unreserved Ending Balance	**$12,058,292**	**$0**	**$0**	**$0**

[1] At the *FY 2008 Third Quarter Review,* an increase of $5,000,000 in fund balance is anticipated for this fund based on revised debt service projections.

[2] The change in ending fund balance is the result of use of fund balance to offset projected debt service requirements.