

Consolidated County and Schools Debt Service Fund

Focus

As of the FY 2006 Adopted Budget Plan the County and Schools debt service funds became combined into a single fund to improve staff efficiency for budgeting, payment and accounting for debt service. In the past, the Department of Finance manually consolidated these funds for the Comprehensive Annual Financial Report in order to fulfill audit requirements. Rather than maintain two separate funds, one combined fund which separately reports the County and Schools debt service information has been implemented. This consolidation was reviewed and approved by the State Auditor of Public Accounts, Fairfax County Public Schools financial management staff, as well as the staff from the County's financial management departments. This merger of the debt service information more clearly presents total debt service requirements while still maintaining a complete picture of County and School funding requirements.

The Consolidated Debt Service Fund accounts for the general obligation bond debt service of the County as well as general obligation bond debt and loans of the Literary Funds of Virginia for the Fairfax County Public Schools (FCPS). In addition, debt service expenditures are included for the Lease Revenue bonds and Certificates of Participation (COPS) associated with County government 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 2007 as well as the sources of funding supporting these costs:

| | | FY 2007 Adopted Budget Plan |
|---|----------------------|-----------------------------------|
| Expenses | | |
| County Debt Service | | \$97,425,725 |
| Lease Revenue Bonds | | 14,680,130 |
| School Administration Building | | 3,773,823 |
| Park Authority (Laurel Hill Golf Course) | | 762,363 |
| Fiscal Agent Fees/Cost of Issuance | | 524,340 |
| | Total | \$117,166,381 |
| School Debt Service | | \$139,361,921 |
| Lease Revenue Bonds (South County High School) | | 2,460,787 |
| Fiscal Agent Fees/Cost of Issuance | | 446,660 |
| | Total | \$142,269,368 |
| Total Expenses | | \$259,435,749 |
| Funding | | |
| General Fund Transfer | | \$248,441,908 |
| Beginning Balance Applied | | 3,721,927 |
| School Operating Fund Transfer | | 3,773,823 |
| FCRHA Lease Revenue | | 4,518,621 |
| Park Authority (Laurel Hill Golf Course) | | 762,363 |
| Fairfax City Revenue | | 51,810 |
| Bond Proceeds to offset Cost of Issuance | | 971,000 |
| | Total Funding | \$262,241,452 |
| Ending Balance Reserved for Arbitrage Rebate | | \$2,805,703 |

Consolidated County and Schools Debt Service Fund

General Obligation Bonds

Funding has been included for a General Obligation bond sale in FY 2007 corresponding to the FY 2007 – FY 2011 Adopted Capital Improvement Program (With Future Years to 2016) (CIP) requirements for FY 2007. It should be noted that an additional \$75.0 million in sales has been assumed beyond the Adopted FY 2006 CIP projections of \$213.15 million for FY 2007 to implement a recommended increase in sales as included in the FY 2007 CIP. All sales are estimated at an interest rate of 5.0 percent for planning purposes.

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 | \$ 8,087,250 |
| South County Government Center | 2,074,259 |
| South County High School | 2,460,787 |
| Laurel Hill Golf Course | 762,363* |
| School Administration Building | <u>3,773,823**</u> |
| Subtotal | \$17,158,482 |

Fairfax County Redevelopment and Housing Authority:

| | |
|---|--------------------|
| Mott & Gum Springs Community Centers | \$531,508 |
| Baileys Community Center | 414,108 |
| Herndon Harbor Adult Day Health Care Center | 67,819 |
| Gum Springs Head Start Facility | 176,429 |
| James Lee Community Center | 1,098,112 |
| Herndon Senior Center | 1,051,785 |
| Little River Glen Adult Day Health Care Center (planned 2006) | 592,967 |
| Southgate Community Center (planned 2006) | <u>585,893</u> |
| Subtotal | \$4,518,621 |

| | |
|--------------|---------------------|
| Total | \$21,677,103 |
|--------------|---------------------|

* 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 FY 2007 – FY 2011 Adopted Capital Improvement Plan includes an increase of \$75.0 million per year for increased bond sale capacity with \$50.0 million dedicated for County projects and \$25.0 million for Schools. The additional capacity is needed in order to keep pace with rising construction costs and to provide flexibility in completing approved referenda projects. Correspondingly, the target on annual sales is increased from \$200 million or \$1 billion over a five-year period to \$275 million or \$1.375 billion over a five-year period, with a technical limit of \$300 million in any given year. The ratio of debt to taxable property value is projected to remain less than 3.0 percent and the ratio of debt service to Combined General Fund disbursements is projected to remain less than 10.0 percent.

Consolidated County and Schools Debt Service Fund

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.

As a result of these 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 April 28, 2006, Fairfax County is one of only 6 states, 22 counties and 21 cities to hold a triple-A rating from all three services.

The FY 2007 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 2007 capital program supported by general obligation bonds will be reviewed in conjunction with the FY 2007 - FY 2011 Advertised Capital Improvement Program (With Future Years to 2016).

The following are ratios and annual sales reflecting debt indicators for FY 2003 - FY 2007:

Net Debt as a Percentage of Market Value of Taxable Property

| <u>Fiscal Year Ending</u> | <u>Net Bonded Indebtedness</u> ^{1,2} | <u>Estimated Market Value</u> ² | <u>Percentage</u> ² |
|---------------------------|---|--|--------------------------------|
| 2003 | 1,779,461,575 | 128,927,100,000 | 1.38% |
| 2004 | 1,814,517,662 | 143,225,100,000 | 1.27% |
| 2005 | 1,931,008,940 | 158,261,900,000 | 1.22% |
| 2006 (est.) | 1,963,217,876 | 191,342,100,000 | 1.03% |
| 2007 (est.) | 1,975,217,181 | 232,410,200,000 | 0.85% |

¹ The amount includes outstanding General Obligation Bonds and other tax supported debt obligations as of June 30 in the year shown.

² FY 2003 through FY 2005 source is the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005. FY 2006 and FY 2007 estimates are from the Department of Management and Budget.

Net Debt Service Requirements as a Percentage of Combined General Fund Disbursements

| <u>Fiscal Year Ending</u> | <u>Debt Service Requirements</u> ^{1,2} | <u>General Fund Disbursements</u> ² | <u>Percentage</u> ² |
|---------------------------|---|--|--------------------------------|
| 2003 | 212,106,642 | 2,447,015,916 | 8.7% |
| 2004 | 213,027,136 | 2,597,650,034 | 8.2% |
| 2005 | 224,543,583 | 2,799,591,368 | 8.0% |
| 2006 (est.) | 239,176,157 | 3,173,773,289 | 7.5% |
| 2007 (est.) | 258,464,749 | 3,213,678,996 | 8.0% |

¹ The amount includes debt service expenditures from July 1-June 30 for each year shown above, excluding bond issuance costs and other expenses.

² FY 2003 through FY 2005 source is the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005. FY 2006 and FY 2007 estimates are from the Department of Management and Budget.

Consolidated County and Schools Debt Service Fund

Annual Bond Sales

| <u>Fiscal Year Ending</u> | <u>Sales (millions)</u> | <u>Total for the Five-Year Period Ending FY 2007</u> |
|---------------------------|-----------------------------|--|
| 2003 | 195.17 | - |
| 2004 | 183.75 | - |
| 2005 | 185.40 | - |
| 2006 | 190.34 | - |
| 2007 (est.) ¹ | 163.47 | 918.13 |

¹ For projection purposes, a sale of \$163.47 million in FY 2007 has been included as reflected in the *FY 2007 – FY 2011 Adopted Capital Improvement Program*. 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 million per year or \$1.375 billion over a five-year period with a technical limit of \$300 million in any given year.

FY 2007 Funding Adjustments

The following funding adjustments from the FY 2006 Revised Budget Plan are necessary to support the FY 2007 program:

- ◆ **Disbursement Adjustment** **\$21,919,698**
An increase in disbursements of \$21,919,698 is primarily attributed to scheduled requirements for existing debt service and anticipated debt service payments for projected bond sales.

Board of Supervisors' Adjustments

The following funding adjustments reflect all changes to the FY 2007 Advertised Budget Plan, as approved by the Board of Supervisors on May 1, 2006:

- ◆ **Reduction in Debt Service** **\$2,538,106**
Debt Service was reduced \$2,538,106 by the Board of Supervisor to allow for an eleven cent real estate tax rate reduction and to provide additional funding for the Fairfax County Public School System. This reduction was based on cash flow requirements indicating that only a Spring Bond sale will be required. County debt service was reduced \$1,624,388 and School debt service was reduced \$913,718. Also, \$492,188 in debt service was moved from County expenditures to School expenditures as the Board provided the Schools an increase of \$25.0 million in additional debt service capacity. As of the Advertised Budget, the entire \$75.0 million in debt service capacity was anticipated for use by the County.

Changes to FY 2006 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2006 Revised Budget Plan since passage of the FY 2006 Adopted Budget Plan. Included are all adjustments made as part of the FY 2005 Carryover Review and all other approved changes through December 31, 2005:

- ◆ There have been no revisions to this fund since approval of the FY 2006 Adopted Budget Plan.

The following funding adjustments reflect all approved changes to the FY 2006 Revised Budget Plan from January 1, 2006 through April 24, 2006. Included are all adjustments made as part of the FY 2006 Third Quarter Review:

- ◆ The Board of Supervisors made no adjustments to this fund.

Consolidated County and Schools Debt Service Fund

FUND STATEMENT

Fund Type G20, Debt Service Funds

Fund 200 and 201, Consolidated Debt Service

| | FY 2005 Actual | FY 2006 Adopted Budget Plan | FY 2006 Revised Budget Plan | FY 2007 Advertised Budget Plan | FY 2007 Adopted Budget Plan |
|--------------------------------------|----------------------|-----------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|
| Beginning Balance | \$14,167,721 | \$13,135,501 | \$11,857,428 | \$3,721,927 | \$3,721,927 |
| Revenue: | | | | | |
| Miscellaneous Revenue | \$4,618 | \$0 | \$0 | \$0 | \$0 |
| Bond Proceeds | 477,452 | 878,000 | 878,000 | 971,000 | 971,000 |
| Revenue from Fairfax City | 85,346 | 85,345 | 85,345 | 51,810 | 51,810 |
| Total Revenue | \$567,416 | \$963,345 | \$963,345 | \$1,022,810 | \$1,022,810 |
| Transfers In: | | | | | |
| County Debt Service: | | | | | |
| General Fund (001) for County | \$96,610,126 | \$95,660,539 | \$95,660,539 | \$108,289,116 | \$106,172,540 |
| FCRHA Lease Revenue Bonds | | | | | |
| (001) | 2,105,031 | 3,054,618 | 3,054,618 | 4,518,621 | 4,518,621 |
| School Admin Building (090) | 0 | 1,958,711 | 1,958,711 | 3,773,823 | 3,773,823 |
| Park Authority Lease Revenue | | | | | |
| Bonds (170) | 0 | 0 | 0 | 762,363 | 762,363 |
| McLean Community Center | | | | | |
| (113) | 424,769 | 0 | 0 | 0 | 0 |
| Neighborhood Improvement | | | | | |
| (314) | 100,000 | 0 | 0 | 0 | 0 |
| Subtotal County Debt Service | \$99,239,926 | \$100,673,868 | \$100,673,868 | \$117,343,923 | \$115,227,347 |
| General Fund (001) for Schools | \$126,528,053 | \$130,281,443 | \$130,281,443 | \$142,690,898 | \$142,269,368 |
| Subtotal Schools Debt Service | \$126,528,053 | \$130,281,443 | \$130,281,443 | \$142,690,898 | \$142,269,368 |
| Total Transfers In | \$225,767,979 | \$230,955,311 | \$230,955,311 | \$260,034,821 | \$257,496,715 |
| Total Available | \$240,503,116 | \$245,054,157 | \$243,776,084 | \$264,779,558 | \$262,241,452 |
| Expenditures: | | | | | |
| General Obligation Bonds: | | | | | |
| County Principal | \$59,480,313 | \$61,011,742 | \$61,011,742 | \$64,097,825 | \$64,097,825 |
| County Interest | 29,238,738 | 29,585,291 | 29,585,291 | 30,622,180 | 30,622,180 |
| Debt Service on Projected | | | | | |
| County Sales | 0 | 1,741,000 | 1,741,000 | 4,822,296 | 2,705,720 |
| Subtotal County Debt Service | \$88,719,051 | \$92,338,033 | \$92,338,033 | \$99,542,301 | \$97,425,725 |
| Schools Principal | \$78,031,112 | \$80,849,683 | \$80,849,683 | \$87,249,875 | \$87,249,875 |
| Schools Interest | 45,381,423 | 48,076,334 | 48,076,334 | 49,791,934 | 49,791,934 |
| Debt Service on Projected | | | | | |
| School Sales | 0 | 2,742,250 | 2,742,250 | 2,741,642 | 2,320,112 |
| Subtotal Schools Debt Service | \$123,412,535 | \$131,668,267 | \$131,668,267 | \$139,783,451 | \$139,361,921 |
| Subtotal General Obligation | | | | | |
| Bonds | \$212,131,586 | \$224,006,300 | \$224,006,300 | \$239,325,752 | \$236,787,646 |

Consolidated County and Schools Debt Service Fund

FUND STATEMENT

Fund Type G20, Debt Service Funds

Fund 200 and 201, Consolidated Debt Service

| | FY 2005 Actual | FY 2006 Adopted Budget Plan | FY 2006 Revised Budget Plan | FY 2007 Advertised Budget Plan | FY 2007 Adopted Budget Plan |
|---|----------------------|-----------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|
| Other Tax Supported Debt Service (County): | | | | | |
| EDA Lease Revenue | | | | | |
| Bonds/COPS | \$10,150,923 | \$12,115,239 | \$10,156,528 | \$10,923,872 | \$10,923,872 |
| FCRHA Lease Revenue Bonds | 2,232,581 | 3,054,618 | 3,054,618 | 4,518,621 | 4,518,621 |
| Other Tax Supported Debt Service (Schools): | | | | | |
| EDA Schools Leased Revenue | | | | | |
| Bonds | 0 | 0 | 1,958,711 | 6,234,610 | 6,234,610 |
| Small District Debt | 396,449 | 0 | 0 | 0 | 0 |
| Subtotal Other Tax Supported | | | | | |
| Debt Service | \$12,779,953 | \$15,169,857 | \$15,169,857 | \$21,677,103 | \$21,677,103 |
| Other Expenses | \$3,734,149 | \$878,000 | \$878,000 | \$971,000 | \$971,000 |
| Total Expenditures | \$228,645,688 | \$240,054,157 | \$240,054,157 | \$261,973,855 | \$259,435,749 |
| Total Disbursements | \$228,645,688 | \$240,054,157 | \$240,054,157 | \$261,973,855 | \$259,435,749 |
| Ending Balance¹ | \$11,857,428 | \$5,000,000 | \$3,721,927 | \$2,805,703 | \$2,805,703 |
| Reserve for Arbitrage Rebate | \$0 | \$0 | \$3,721,927 | \$2,805,703 | \$2,805,703 |
| Unreserved Ending Balance | \$11,857,428 | \$5,000,000 | \$0 | \$0 | \$0 |

¹ The change in ending fund balance is the result of use of fund balance to offset projected debt service requirements.