Bonds 101

Prepared by the Fairfax County
Department of Management and Budget

Revised September 2008

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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, usually of 1 to 30 year duration, at a fixed interest rate
- Interest 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 capital 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?

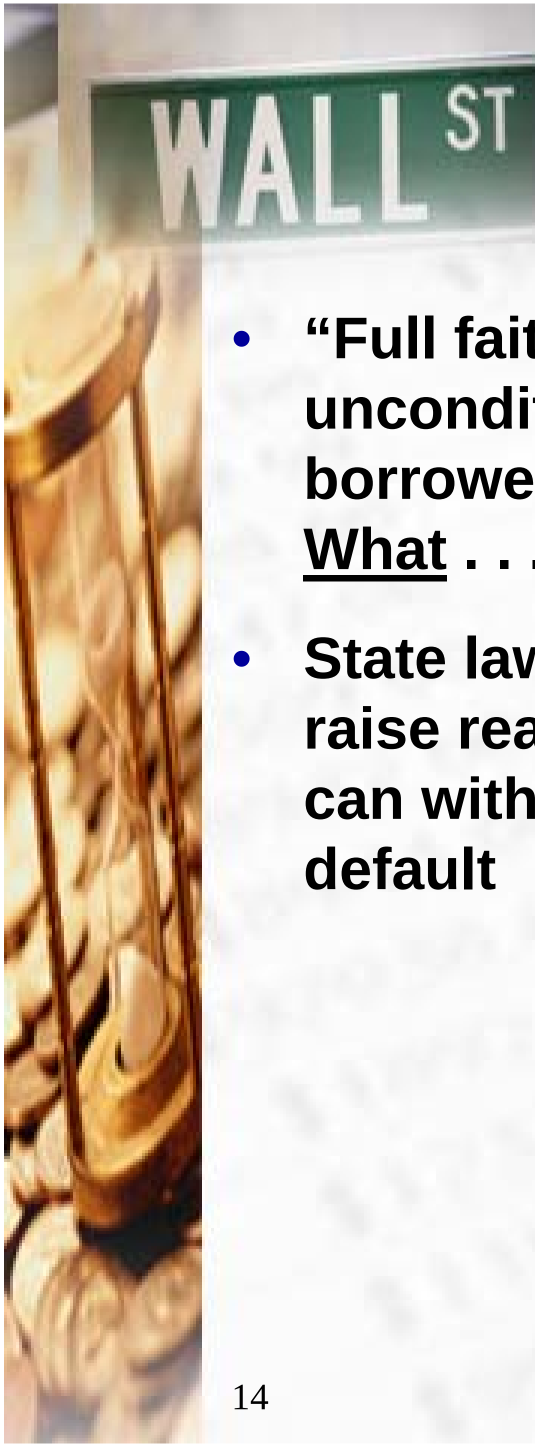
- **When a facility or equipment is very expensive and may represent an excessive burden on current taxpayers or rate payers**
- **When the useful life of a facility will extend for a long time (over 10 years)**
- **When asset value received equals value invested (i.e., capital construction, land acquisition)**

When Is Borrowing <u>NOT</u> 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**

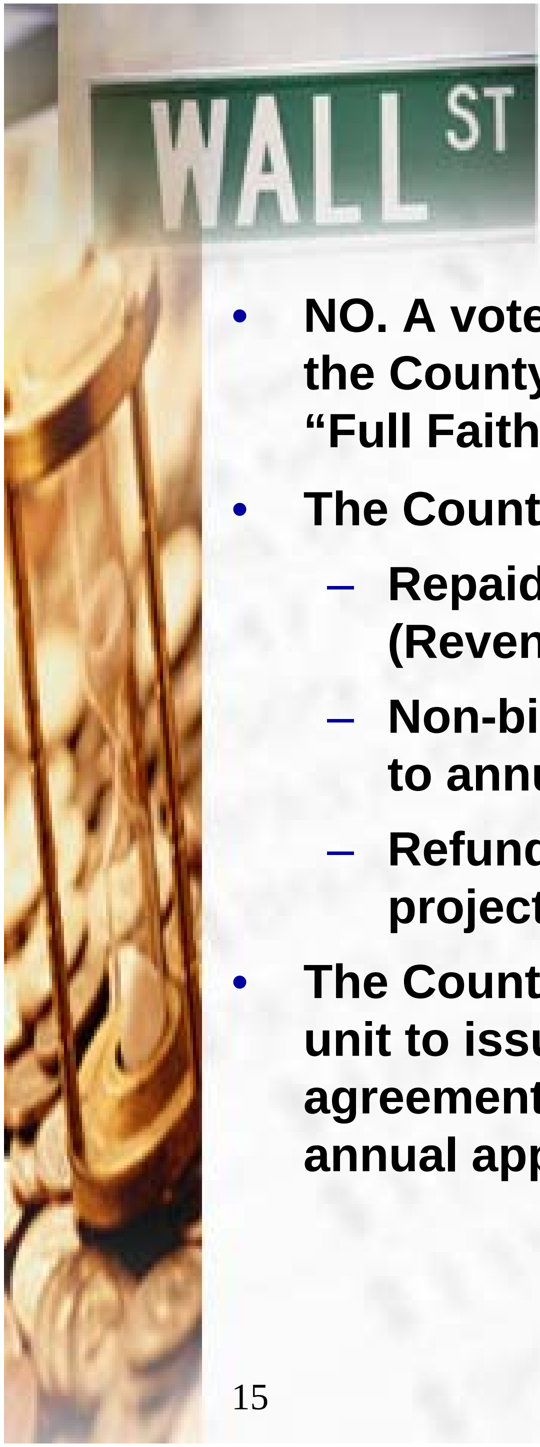
Critical Questions to Consider When Borrowing

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



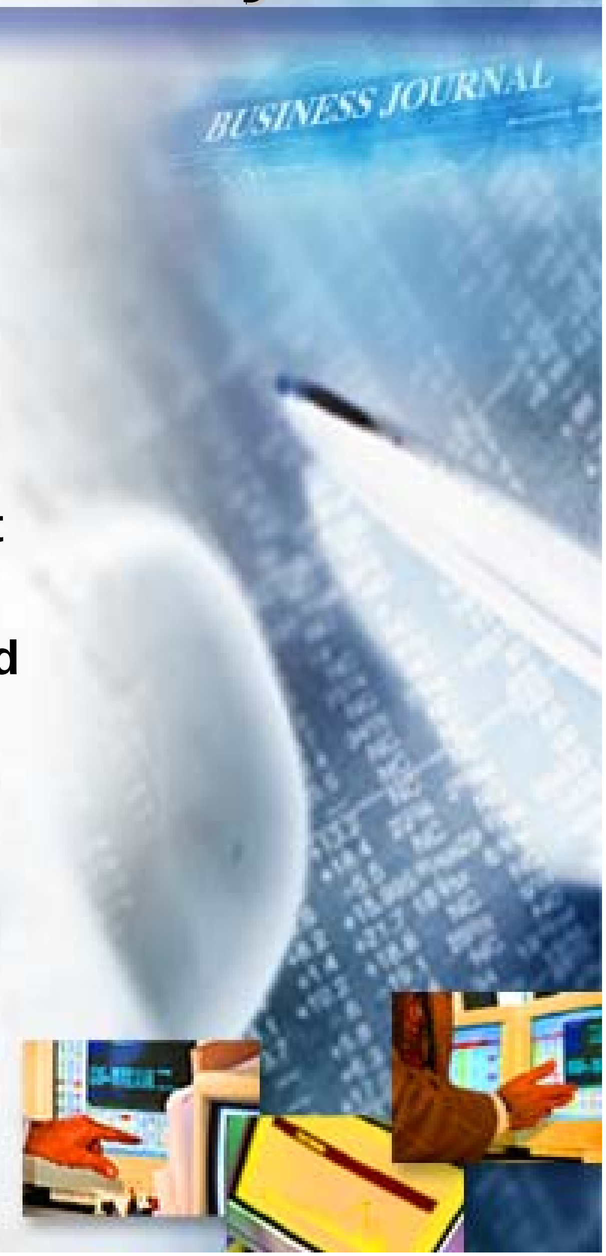
What Is the Security for County Bondholders?

- **"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 County's unconditional guarantee, i.e., "Full Faith and Credit"
- The County may issue debt that is:
  - Repaid by specific project revenue (Revenue Bonds, Anticipation Notes)
  - Non-binding on future taxpayers (subject to annual appropriation
  - Refunding bonds for previously approved projects
- The County may use another governmental unit to issue debt on its behalf (backed by agreements, pledged revenue, subject to annual appropriation)



Why Would Fairfax County Use Other Entities to Issue Debt?

- **To use a revenue source that may not be available to the County**
  - Example: Economic Development Authority (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 or Reston Community Center Bonds
- **To limit liability to a special revenue source**
  - Example: Sewer Revenue Bonds and the Laurel Hill Golf Course
- **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; Fairfax County Redevelopment and Housing Authority (FCRHA) Community Center Lease Revenue Bonds; South County High School

Why a Bond?
(And Not Some Other Form of Debt)

- **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?

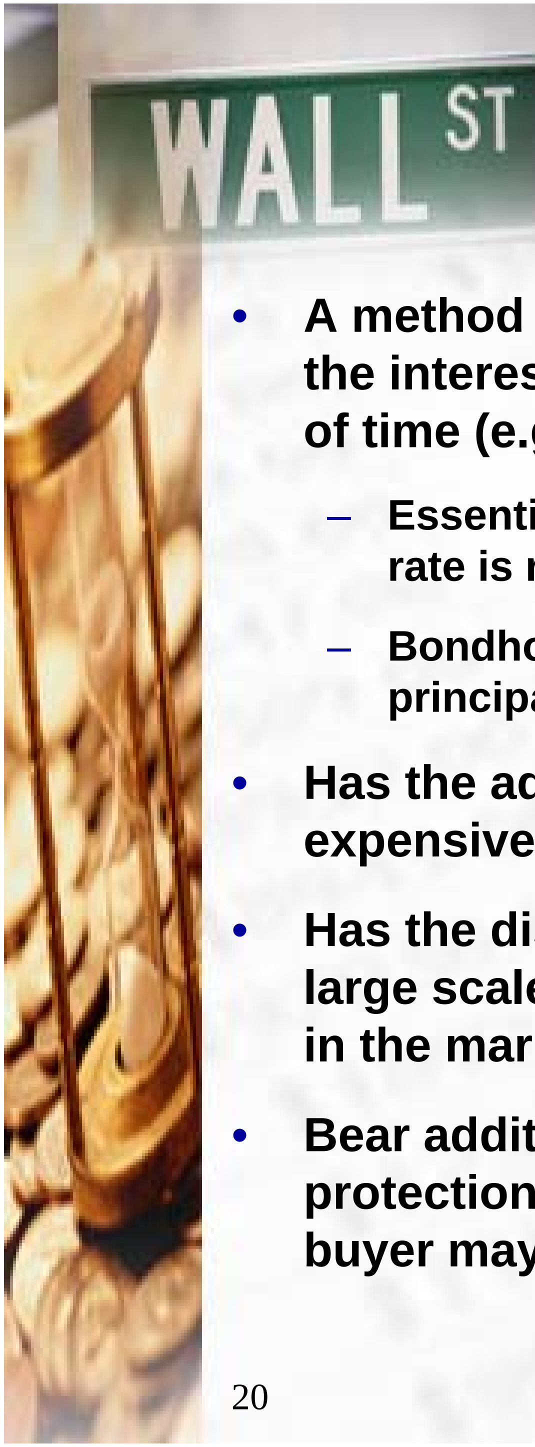
There are many types of bonds. Bonds are usually defined by the security that backs them.

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?

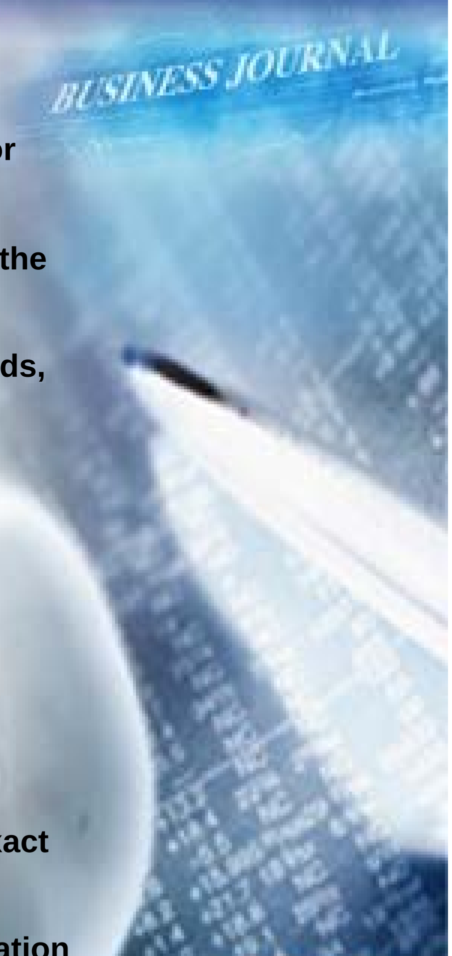
- Bonds issued to refinance a previous bond issue — usually to achieve a lower rate of interest or restructure for lower payments
- Uses the same security as the refunded debt (G.O. Bonds, Revenue Bonds, Leases, etc.)



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
- Bear additional costs from Letter of Credit protection and re-marketing fees, as a new buyer may be needed with each reset

When Is Long-Term vs. Short-Term Debt Appropriate?



- **Long-Term Debt**

  For the purchase of physical assets, physical facilities and improvements for "long-term" use (usually at least 20 years)

  For the purchase of expensive capital equipment items with a useful life for the period of the bonds

  Types of Long-Term Debt include: General Obligation Bonds, Revenue Bonds, and Lease Revenue Bonds

- **Short-Term Debt**

  Usually a note or debt issued for less than 365 days

  Used as bridge or interim financing prior to permanent financing becoming available

  Used when funds are needed quickly to take advantage of an opportunity to purchase a physical asset

  Used as a capital asset management strategy to assist in determining the exact amount of long-term bonds required

  Types of Short-Term Debt include: Revenue Anticipation Notes, Tax Anticipation Notes, Bond Anticipation Notes, Line of Credit (LOC) borrowing

Chapter Three:
Rules and Regulations

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

- **GENERAL OBLIGATION:**
  Essentially none under Federal and State law if approved at Voter Referendum. Local debt policies restrict the amount of debt issued.
- **REVENUE:**
  Legal covenants of specific borrowing. Limited to revenue of specific project and no other source (Virginia Constitution)
- **ALL OTHER TYPES:**
  Subject to annual appropriation (non-binding pledge) (Virginia Constitution). Local debt policies restrict the amount of debt issued.

What Is a Typical Bond Referendum Question?

Transportation Bonds Ballot Question 2007

- **Shall the Board of Supervisors contract a debt, borrow money and issue bonds of Fairfax County, Virginia, in the maximum aggregate principal amount of $110,000,000 for the purpose of providing funds for the cost of constructing, reconstructing, and improving and acquiring transportation improvements, including improvements to primary and secondary State highways, off-street parking, pedestrian improvements, and ancillary related improvements and facilities, and including capital costs of necessary land, transit facilities, rolling stock and equipment in the Washington metropolitan area allocable to the County pursuant to the provisions of the Washington Metropolitan Area Transit Authority Compact?**

❑ **Yes**

❑ **No**

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 school 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**

What Is Arbitrage?

- **Tax exempt bonds, lose their tax-exempt status if they are arbitrage bonds. Arbitrage is the direct or indirect investment of gross proceeds of an issue in higher yielding investments. The earning of arbitrage does not necessarily mean that the bonds are arbitrage bonds.**
- **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)**
- **There are spending exceptions to arbitrage rules if there is a rapid rate of expenditure (e.g., 75% within 18 months, 100 % within 24 months in order to avoid rebate)**

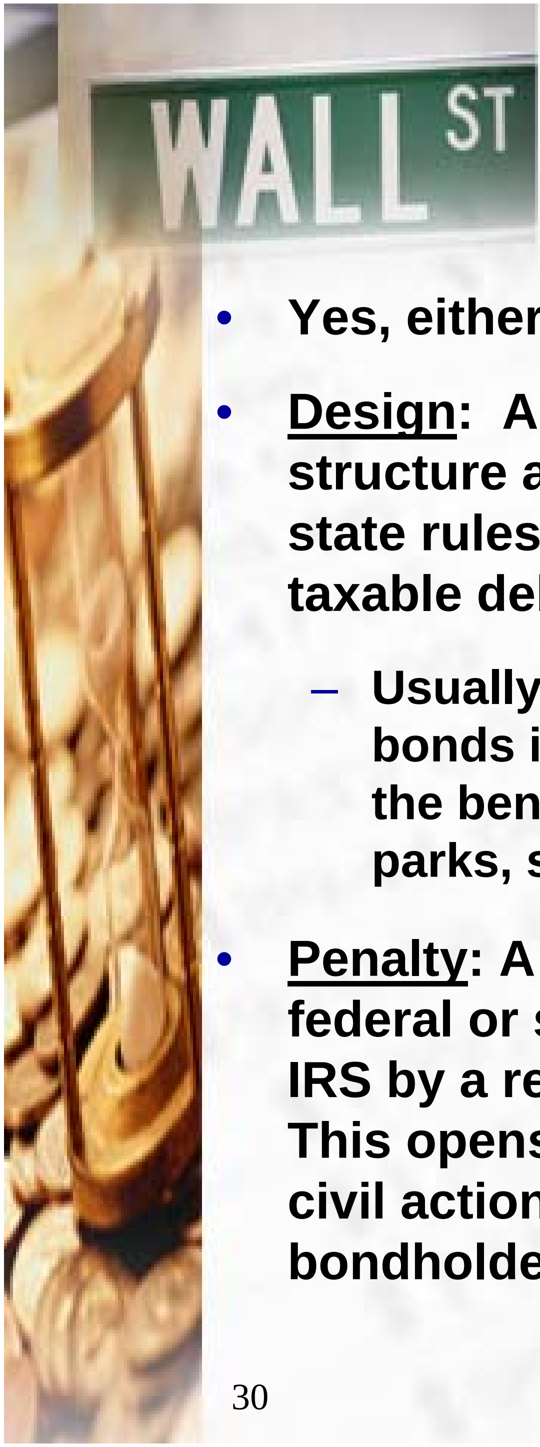
What Other Federal Rules Apply?

Securities and Exchange Commission (SEC)

- **Primarily disclosure related**
- **Official statement with each sale**
- **Continuing Disclosure:**
  - **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 for tax exemption**
- **Federal restrictions/State caps**
  - **Example: Energy Resource Recovery Facility**

Chapter Four:
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, Tax Counsel, Disclosure Counsel)
  - Financial Advisor and other financial consultants
  - 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 negotiating pricing and structuring bond 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**
- **Contract of firm commitment for sales and placement**
- **Two fees – charges 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**
- **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**
  - **Lowers interest cost of bonds**
- **Used if the cost of the bond insurance is less than the interest savings**
- **Premium plus new interest cost < (less than) interest rate without insurance**

What Are Investment & Non-Investment Grade Ratings?

Investment Grade Ratings

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa	AA	AA
A	A	A
Baa	BBB	BBB

Non-Investment Grade Ratings

Moody's	S&P	Fitch
Ba	BB	BB
B	B	B
Caa	CCC	CCC
Ca	CC	CC
C	C	C

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 Five: 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 consider four major areas when assigning credit ratings: finances, management, economy and debt.

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

- The three primary rating agencies are:
  - Standard & Poor's Ratings Services
  - Moody's Investors Service
  - Fitch Ratings
- 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-A?

- As of June 2008, Fairfax County is one of only 22 counties in the nation with Triple-A ratings from all three rating agencies.
- Who has earned this coveted rating?
  – Only 22 of the nation's 3,034 counties
  – Only 7 of the nation's 50 states
  – Only 23 of the nation's 19,431 cities

Who Has the Triple-A From All Three Major Rating Agencies?

AAA Jurisdictions (June 2008)	States	Cities	Counties
	Delaware	Bellevue, WA	Arlington, VA
	Georgia	Boca Raton, FL	Baltimore, MD
	Maryland	Cambridge, MA	Chesterfield, VA
	Missouri	Cary, NC	Cobb, GA
	North Carolina	Charlotte, NC	DuPage, IL
	Utah	Coral Springs, FL	Fairfax, VA
	Virginia	Durham, NC	Forsyth, NC
		Fairfield, CT	Greenville, SC
		Greensboro, NC	Gwinnet, GA
		Greenwich, CT	Hennepin, MN
		Hingham, MA	Henrico, VA
		Norwalk, CT	Howard, MD
		Overland Park, KS	King, WA
		Plano, TX	Loudoun, VA
		Raleigh, NC	Mecklenburg, NC
		Ridgefield, CT	Monmouth, NJ
		Santa Monica, CA	Montgomery, MD
		Scottsdale, AZ	New Castle, DE
		Seattle, WA	Palm Beach, FL
		Summit, NJ	Salt Lake, UT
		Troy, MI	St. Louis, MO
		Westlake, OH	Wake, NC
		Winston-Salem, NC	
Total	**7**	**23**	**22**

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 Six: Practical Limits to Debt

Why Have Debt Limits?

- To protect from over committing resources to debt when those resources may be needed for something else
- To protect investors by ensuring adequate resources exist to pay 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 $275 million per year or $1.375 billion in a five-year period, with a technical limit of $300 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, 2007)**

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[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.)	2,264,295,513	241,220,300,000	0.94%
2009 (est.)	1,979,160,445	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.

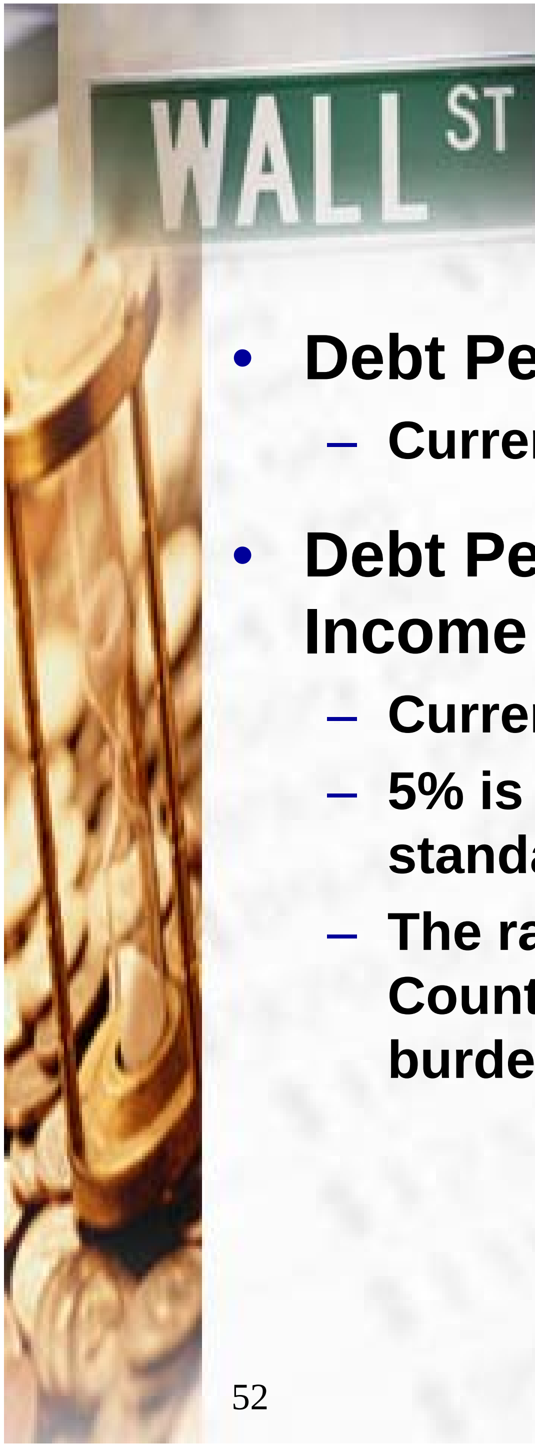
[2] Source: Fairfax County Department of Tax Administration and the Department of Management and Budget.

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	3,383,364,669	8.2%
2009 (est.)	277,820,934	3,352,592,697	8.3%

[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.



Other Limits To Which The County Pays Attention

- **Debt Per Capita (DPC)**
  - **Currently $1,978 (FY 2007 Actual)**
- **Debt Per Capita as Percent of Income (DPC/PCI)**
  - **Currently 2.90% (FY 2007 Actual)**
  - **5% is the maximum “industry standard”**
  - **The rating agencies indicate that the County has relatively moderate debt burdens.**

What Is Overlapping Debt?

- **Overlapping Debt is debt issued by overlapping or underlying jurisdictions, such as towns, special districts, regional authorities, or redevelopment agencies (e.g., community development authorities) and is distinguished from the direct debt obligations of a jurisdiction.**

- **Rating agencies calculate overlapping debt to measure the total debt burden on a given tax base. Overlapping debt is less significant to the rating process than an issuer's direct debt.**

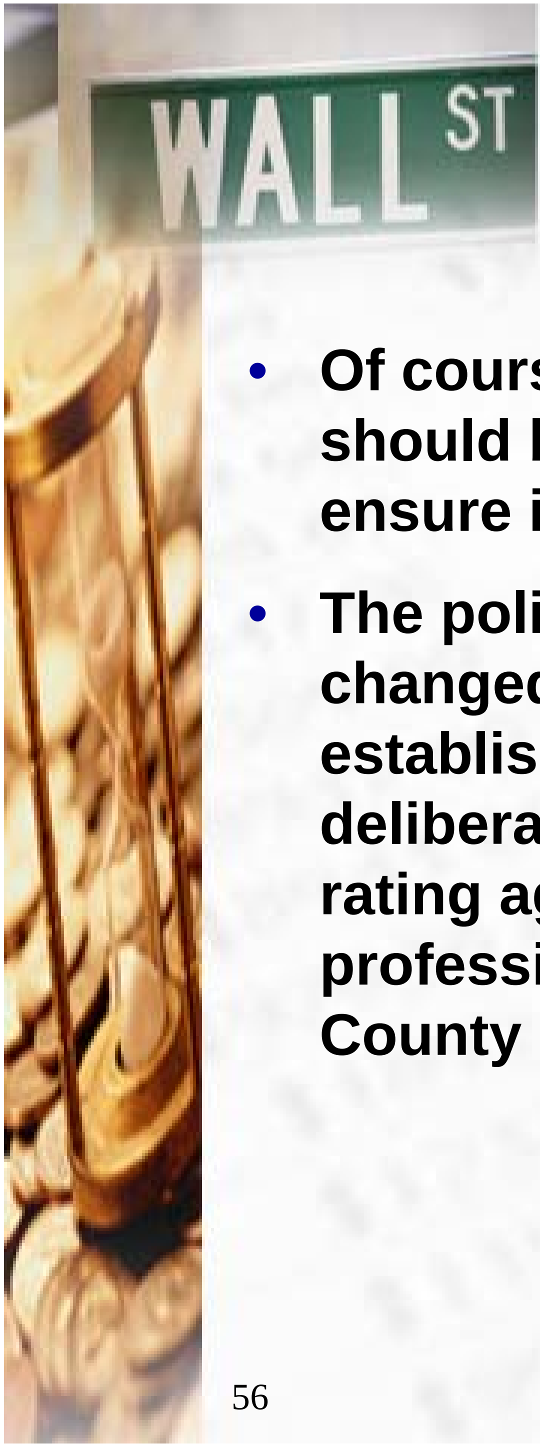
Who Determines That These Limits Are Still Valid?

- **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?

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 low to moderate 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 and approval by the County Board of Supervisors**

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 Seven:
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):**
  - 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 61
  - Prioritizes projects
    - See summary of all bond program requirements on slide 62

Project Cost Summary

PROJECT COST SUMMARIES
HUMAN SERVICES
($000's)

Project Title/ Project Number	Source of Funds	Budgeted or Expended Through FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total FY2009-FY2013	Total FY2014-FY2018	Total Project Estimate
1 School Age Child Care Centers / 007012	G	***C***	***750***	750	750	750	750	3,750	3,750	7,500
2 Mt. Vernon Mental Health Center / 04A004	B, G	***4,800***	***7,000***	***1,600***				8,600		13,400
3 Woodburn Mental Health Center / 04A003	B	***250***	***2,000***	***4,000***	***1,530***			7,530		7,780
4 Gregory Drive Facility / 04A002	B, G	***578***	***3,857***	***1,015***				4,872		5,450
5 County Health Laboratory Relocation / 009520	G	***6,500***						0		6,500
6 North County Human Services Center Feasibility Study / 009505	G	***25***						0		25
7 East County Human Services Center	U	***125***						0		125
TOTAL		***$12,278***	$13,607	$7,365	$2,280	$750	$750	$24,752	$3,750	$40,780

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

Notes:
Numbers in ***bold italics*** represent funded amounts.
A "***C***" in the 'Budgeted or Expended' column denotes a continuing project.

Key: Source of Funds

B	Bonds
G	General Fund
S	State
F	Federal
X	Other
U	Undetermined

Bond Program Summary

FY 2008 - FY 2012
Adopted Capital Improvement Program
($ in millions)

DEBT CAPACITY ANALYSIS
FY 2009 - FY 2013 Adopted Capital Improvement Program
($ in millions)

PURPOSE	UNISSUED[1]	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	2009-2013 TOTAL	2014-2018 PROJ.	REMAINING BALANCE
Libraries (2004)	29.08	3.00	11.52	12.52	2.04	0.00	0.00	26.08	0.00	0.00
Roads (2004, 2007)	138.29	1.23	23.10	33.59	30.37	25.00	25.00	137.06	0.00	0.00
NVRPA (2004)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Metro (2004)	100.84	37.56	29.70	22.90	10.68	0.00	0.00	63.28	0.00	0.00
Storm Drainage (none outstanding)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transportation (non-road) (2004)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Human Services (2004)	16.50	0.00	6.65	9.85	0.00	0.00	0.00	16.50	0.00	0.00
Juvenile Detention (2004)	10.00	0.00	5.40	4.60	0.00	0.00	0.00	10.00	0.00	0.00
Public Safety Facilities (2002, 2006)	112.52	4.34	12.00	32.00	32.50	20.60	11.08	108.18	0.00	0.00
Commercial Revitalization(1988)	6.63	0.00	2.50	1.00	1.80	1.33	0.00	6.63	0.00	0.00
Parks (2004, 2006)	66.66	50.03	13.06	3.57	0.00	0.00	0.00	16.63	0.00	0.00
Schools (Bus garage) (2007)	50.00	0.00	5.00	5.00	20.00	20.00	0.00	50.00	0.00	0.00
Public Safety Renewal (2006)	12.00	3.00	3.00	3.00	3.00	0.00	0.00	9.00	0.00	0.00
Subtotal County	**542.520**	**99.16**	**111.93**	**128.03**	**100.39**	**66.93**	**36.08**	**443.36**	**0.00**	0.00
Fund 390, Schools (2003)	204.360	135.32	60.08	8.96	0.00	0.00	0.00	69.04	0.00	0.00
(2005)	246.325	0.00	94.92	146.04	5.37	0.00	0.00	246.33	0.00	0.00
(2007)	315.200	0.00	0.00	0.00	149.63	155.00	10.57	315.20	0.00	0.00
Subtotal Schools	**765.885**	**135.32**	**155.00**	**155.00**	**155.00**	**155.00**	**10.57**	**630.57**	**0.00**	0.00
Total General Obligation Bonds	**1308.405**	**234.48**	**266.93**	**283.03**	**255.39**	**221.93**	**46.65**	**1073.93**	**0.00**	0.00
FCRHA Lease Revenue[2]		37.62	60.00	0.00	0.00	0.00	0.00	60.00	0.00	
EDA Lease Revenue (PPEA Projects)[3]		0.00	0.00	0.00	0.00	85.00	20.00	105.00	0.00	
Subtotal PPEA/FCRHA Support		**37.62**	**60.00**	**0.00**	**0.00**	**85.00**	**20.00**	**165.00**	**0.00**	
Total Current Program	**1308.405**	**272.10**	**326.93**	**283.03**	**255.39**	**306.93**	**66.65**	**1238.93**	**0.00**	**0.00**

[1] Effective December 1, 2007, includes all bonds authorized as of the November 6, 2007 referenda.
[2] Permanent financing for the Crescent and Wedgewood property acquisitions.
[3] Potential financing support for PPEA Projects under consideration or in negotiation (Wiehle Ave., Woodburn, Kingstowne).

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

PROJECTED REVENUE GROWTH RATES

Category	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Real Estate Tax - Assessment Base	4.15%	0.51%	-6.50%	-0.30%	1.75%
Equalization	2.47%	-1.02%	-7.50%	-1.20%	0.85%
Residential	-0.33%	-3.38%	-10.00%	-2.00%	0.00%
Nonresidential	13.57%	7.00%	0.00%	1.00%	3.00%
Normal Growth	1.68%	1.53%	1.00%	0.90%	0.90%
Personal Property Tax - Current[1]	0.21%	-0.77%	-0.50%	0.75%	1.50%
Local Sales Tax	2.36%	2.34%	2.50%	3.00%	3.00%
Business, Professional and Occupational, License (BPOL) Taxes	4.80%	4.50%	4.50%	5.00%	5.00%
Recordation/Deed of Conveyance	-33.70%	20.59%	0.00%	0.00%	0.00%
Interest Rate Earned on Investments	4.29%	1.50%	2.25%	2.50%	2.75%
Building Plan and Permit Fees	-12.15%	-1.00%	0.00%	1.00%	1.00%
Charges for Services	0.25%	7.28%	2.00%	2.00%	2.00%
State/Federal Revenue[1]	-1.05%	-12.45%	0.00%	0.00%	0.00%
TOTAL REVENUE	**1.55%**	**1.03%**	**-3.35%**	**0.60%**	**1.95%**

[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 sources are required.

Debt Capacity

- **Analysis tool projects bond 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 ANALYSIS
FY 2009 - FY 2013 Adopted Capital Improvement Program
($ in millions)

	AUTH. BUT UNISSUED	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	2009-2013 TOTAL	2014-2018 PROJ.	REMAINING BALANCE
COUNTY PROGRAM										
CURRENT PROGRAM	**542.52**	**99.16**	**111.93**	**128.03**	**100.39**	**66.93**	**36.08**	**443.36**	**0.00**	**0.00**
New Referendums:										
Parks & NVRPA (2008)	77.00	0.00	2.60	5.00	18.00	20.00	20.00	65.60	11.40	0.00
Metro Matters ($90M)/Public Fac.(2010)	120.00	0.00	0.00	0.00	20.00	20.00	20.00	60.00	60.00	0.00
Subtotal New Referendums	197.00	0.00	2.60	5.00	38.00	40.00	40.00	125.60	71.40	0.00
SUBTOTAL COUNTY	**739.52**	**99.16**	**114.53**	**133.03**	**138.39**	**106.93**	**76.08**	**568.96**	**71.40**	**0.00**
SCHOOLS PROGRAM										
CURRENT PROGRAM	**765.89**	**135.32**	**155.00**	**155.00**	**155.00**	**155.00**	**10.57**	**630.57**	**0.00**	**0.00**
New Referendums (2009)[1]	280.00	0.00	0.00	0.00	0.00	0.00	119.43	119.43	160.57	0.00
SUBTOTAL SCHOOLS	**1045.89**	**135.32**	**155.00**	**155.00**	**155.00**	**155.00**	**130.00**	**750.00**	**160.57**	**0.00**
GRAND TOTAL	**1785.41**	**234.48**	**269.53**	**288.03**	**293.39**	**261.93**	**206.08**	**1318.96**	**231.97**	**0.00**
NECESSARY ADJUSTMENTS										
Maximum Sales Permissible[2,3]		276.88	279.59	275.00	275.00	275.00	275.00	1379.59		
Sale Additions/(Reductions)		42.40	10.06	(13.03)	(18.39)	13.07	68.92	**60.63**		
PPEA/FCRHA Support Impact		37.62	60.00	0.00	0.00	85.00	20.00	165.00		

[1] On May 1, 2006, the Board of Supervisors approved a 6-year temporary allocation increase from $130.0 million to $155.0 million per year. FY 2012 represents the last year at the higher level.

[2] Authorized maximum sale of General Obligation Bonds of $275 million plus $50 million for the Board's Transportation Plan authorized at referendum on November 2, 2004 scheduled for issue FY 2005 - FY 2009 as a temporary increase to authorized sales limits.

[3] School sales in FY 2008 were adjusted for the impact of the sale of EDA Revenue Bonds advanced for the construction of South County High School in June 2003.

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 Eight:
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 at competitive bidding, typically receiving 4-6 bids from underwriting firm
- Bonds are awarded to lowest interest cost bid

What Is a Typical Fairfax County Bond?

- $5,000 face value
- 1-20 year term
- 20-year final maturity (ensures rapid repayment)
- Fixed rate, payable semi-annually
- Level principal payments (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 to 10 years
- Multiple purposes bundled into single large Public Improvement Bond sale, typically $150 million to $275 million total value
- Sold competitively (non-negotiable bond offering) for total amount to single bank, broker, other financial consortium

Why Do a Competitive Bond Sale vs. Negotiated Sale?

- **Reasons for Competitive Sales**
  - **Market is familiar with the issuer, and the issuer is a stable and regular borrower in the public market**
  - **The issue has an unenhanced credit rating of A or above**
  - **Debt structure is backed by full faith and credit or strong, known or historically performing revenue stream**
  - **The issue is neither too large nor too small for the market to absorb**
  - **The issue has no complex or innovative features**
  - **Interest rates are stable**
  - **Transparent process that assures lowest borrowing costs via competition**

- **Reasons for Negotiated Sales**
  - **Market is not familiar with the issuer**
  - **The amount may be too high or too low for market absorption**
  - **Unusual bond structure or purpose**
  - **Low credit rating, bond placement may require more effort**
  - **Social goals**

Negotiated Bond Sales Using an Underwriter

- On occasion Fairfax County sells bonds via a negotiated sale
- This approach may be used for non-General Fund Obligations and initial financing for Special Districts
- 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

Metro Parking Garage Lease Revenue Bonds and Route 28 Highway Improvement Bonds are currently sold competitively

What Are Book Entry Bonds?

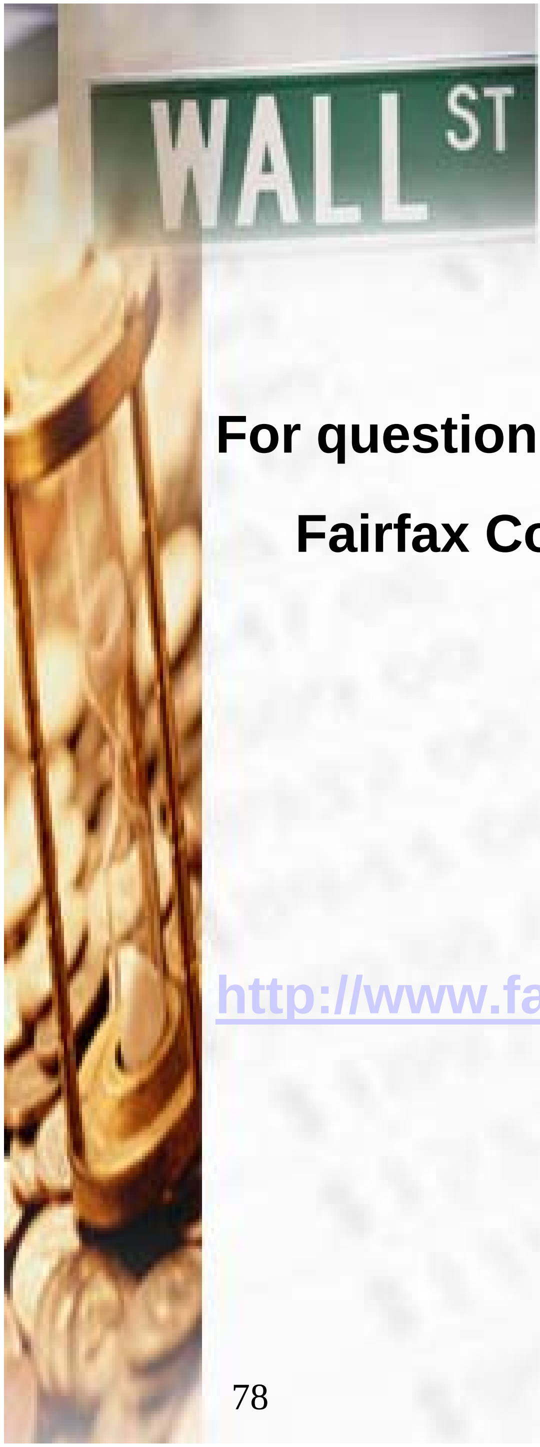
- Registered bonds that permit electronic transfer of funds with no exchange of paper
- Bonds are registered and held in the name of the Depository Trust Company (DTC)
- Bonds are sub-registered on DTC's books in the name of the broker executing the purchase
- Bonds are recorded in the name of the actual 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.



For Questions or Further Information

For questions or further information, contact:

Fairfax County Department of Management and Budget

at

703-324-2391 or

visit the website at:

http://www.fairfaxcounty.gov/dmb/bonds.html