

## 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 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 2012 as well as the sources of funding supporting these costs:

|  |                 | FY 2012<br>Adopted<br>Budget |
|--|-----------------|------------------------------|
| <b>Expenses</b>                                |                 |                              |
| <b>County Debt Service</b>                     |                 | \$104,191,995                |
| Lease Revenue Bonds                            |                 | 14,470,639                   |
| Park Authority (Laurel Hill Golf Course)       |                 | 853,313                      |
| Fiscal Agent Fees/Cost of Issuance             |                 | 910,000                      |
|  | <b>Subtotal</b> | <b>\$120,425,947</b>         |
| <b>School Debt Service</b>                     |                 | \$157,441,264                |
| Lease Revenue Bonds (South County High School) |                 | 5,594,300                    |
| School Administration Building                 |                 | 3,773,523                    |
| Fiscal Agent Fees/Cost of Issuance             |                 | 615,000                      |
|  | <b>Subtotal</b> | <b>\$167,424,087</b>         |
| <b>Total Expenses</b>                          |                 | <b>\$287,850,034</b>         |
| <b>Funding</b>                                 |                 |                              |
| General Fund Transfer                          |                 | \$280,452,139                |
| School Operating Fund Transfer                 |                 | 3,773,523                    |
| FCRHA Lease Revenue                            |                 | 2,392,289                    |
| Park Authority (Laurel Hill Golf Course)       |                 | 853,313                      |
| Fairfax City Revenue                           |                 | 78,770                       |
| Bond Proceeds to Offset Cost of Issuance       |                 | 300,000                      |
| <b>Total Funding</b>                           |                 | <b>\$287,850,034</b>         |

### General Obligation Bonds

The debt service payments associated with FY 2011 bond sales have been incorporated into the FY 2012 projections.

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## 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   | \$ 8,084,000        |
| Mott, Gum Springs, Baileys, & James Lee Community Centers,<br>Herndon Harbor Adult Day Care Center, South County<br>Government Center | 3,994,350           |
| South County High School  | 5,594,300           |
| Laurel Hill Golf Course   | 853,313*            |
| School Administration Building  | <u>3,773,523**</u>  |
| <b>Subtotal</b>   | <b>\$22,299,486</b> |

### **Fairfax County Redevelopment and Housing Authority:**

|  |                    |
|--|--------------------|
| Gum Springs Head Start Facility                            | 176,429            |
| Herndon Senior Center                                      | 924,210            |
| Braddock Glen Senior Center and Southgate Community Center | <u>1,291,650</u>   |
| <b>Subtotal</b>  | <b>\$2,392,289</b> |

|              |                     |
|--------------|---------------------|
| <b>Total</b> | <b>\$24,691,775</b> |
|--------------|---------------------|

\* 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.

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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.

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. On October 19, 2010 the Board of Supervisors approved a renewal of the LOC in the amount of \$100,000,000. Any line of credit borrowings will be in conformance with the *FY 2011 Revised Budget Plan* and the FY 2011-FY 2015 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 January 19, 2011, Fairfax County is one of only 8 states, 37 counties, and 37 cities to hold a triple-A rating from all three services.

The FY 2012 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 2012 capital program supported by general obligation bonds was reviewed in conjunction with the FY 2012 - FY 2016 Adopted Capital Improvement Program (With Future Years to 2021).



## Consolidated County and Schools Debt Service Fund

The following are ratios and annual sales reflecting debt indicators for FY 2008 - FY 2012:

### Net Debt as a Percentage of Market Value of Taxable Property

| <u>Fiscal Year Ending</u> | <u>Net Bonded Indebtedness<sup>1</sup></u> | <u>Estimated Market Value<sup>2</sup></u> | <u>Percentage</u> |
|---------------------------|--|---|-------------------|
| 2008                      | 2,264,295,513                              | 241,313,000,000                           | 0.94%             |
| 2009                      | 2,281,335,444                              | 242,500,000,000                           | 0.94%             |
| 2010                      | 2,318,699,150                              | 218,549,000,000                           | 1.06%             |
| 2011 (est.)               | 2,340,933,998                              | 199,503,000,000                           | 1.17%             |
| 2012 (est.)               | 2,434,002,351                              | 205,949,000,000                           | 1.18%             |

<sup>1</sup> 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.

<sup>2</sup> 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

| <u>Fiscal Year Ending</u> | <u>Debt Service Requirements<sup>1</sup></u> | <u>General Fund Disbursements<sup>2</sup></u> | <u>Percentage</u> |
|---------------------------|--|---|-------------------|
| 2008                      | 268,725,268                                  | 3,320,946,120                                 | 8.1%              |
| 2009                      | 285,668,863                                  | 3,352,656,206                                 | 8.5%              |
| 2010                      | 288,850,468                                  | 3,308,948,661                                 | 8.7%              |
| 2011 (est.)               | 296,223,346                                  | 3,402,061,088                                 | 8.7%              |
| 2012 (est.)               | 296,987,685                                  | 3,377,479,384                                 | 8.8%              |

<sup>1</sup> The amount includes total principal and interest payments on the County's outstanding tax supported debt obligations, including general obligation bonds and other tax supported debt obligations budgeted in other funds. Source: Fairfax County Department of Management and Budget.

<sup>2</sup> Source: Fairfax County Department of Management and Budget.

# Consolidated County and Schools Debt Service Fund

## Annual Bond Sales

| <u>Fiscal Year Ending</u> | <u>Sales<br/>(millions)</u> | <u>Total for the Five-Year<br/>Period Ending<br/>FY 2012</u> |
|---------------------------|-----------------------------|--|
| 2008                      | 234.475                     | -  |
| 2009                      | 199.51                      | -  |
| 2010                      | 269.095                     | -  |
| 2011 (est.) <sup>1</sup>  | 171.39                      | -  |
| 2012 (est.) <sup>1</sup>  | 283.56                      | 1,158.03   |

<sup>1</sup> 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 2012 Funding Adjustments**

*The following funding adjustments from the FY 2011 Adopted Budget Plan are necessary to support the FY 2012 program. Included are all adjustments recommended by the County Executive that were approved by the Board of Supervisors, as well as any additional Board of Supervisors' actions, as approved in the adoption of the budget on April 26, 2011.*

- ◆ **Disbursement Adjustment**
**\$274,982**
- An increase in disbursements of \$274,982 or 0.09 percent is primarily attributable to scheduled requirements for existing debt service.

### **Changes to FY 2011 Adopted Budget Plan**

*The following funding adjustments reflect all approved changes in the FY 2011 Revised Budget Plan since passage of the FY 2011 Adopted Budget Plan. Included are all adjustments made as part of the FY 2010 Carryover Review, FY 2011 Third Quarter Review, and all other approved changes through April 12, 2011.*

- ◆ **Carryover Adjustments**
**\$11,862,828**
- As part of the FY 2010 Carryover Review, the Board of Supervisors approved funding of \$11,862,828 in Operating Expenses to provide funding for a possible fall bond sale. Also, it should be noted that \$593,500 was approved as a transfer out to pay off the outstanding mortgage balance for the County's purchase of two residential properties on West Ox Road as approved by the Board of Supervisors on February 9, 2010.
  
- ◆ **Third Quarter Adjustments**
**(\$451,318)**
- As part of the FY 2011 Third Quarter Review, the Board of Supervisors approved decreased funding of \$451,318 in Operating Expenses primarily as a result of interest rate savings associated with the Series 2011A General Obligation and Refunding bond sale held on January 25, 2011. The total interest savings were \$714,491 partially offset by an increase of \$250,939 as a result of the elimination of Fund 314, Neighborhood Improvement Program and a decrease of \$12,234 associated with audit adjustments.

# Consolidated County and Schools Debt Service Fund

## FUND STATEMENT

Fund Type G20, Debt Service Funds

Fund 200 and 201, Consolidated Debt Service

|   | FY 2010<br>Actual    | FY 2011<br>Adopted<br>Budget Plan | FY 2011<br>Revised<br>Budget Plan | FY 2012<br>Advertised<br>Budget Plan | FY 2012<br>Adopted<br>Budget Plan |
|---|----------------------|-----------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|
| <b>Beginning Balance</b>                    | <b>\$10,334,630</b>  | <b>\$0</b>                        | <b>\$12,468,562</b>               | <b>\$0</b>                           | <b>\$0</b>                        |
| Revenue:                                    |                      |                                   |                                   |                                      |                                   |
| Build America Bonds Subsidy                 | \$1,352,474          | \$0                               | \$0                               | \$0                                  | \$0                               |
| Miscellaneous Revenue                       | 44,121               | 0                                 | 0                                 | 0                                    | 0                                 |
| Bond Proceeds                               | 536,595              | 300,000                           | 300,000                           | 300,000                              | 300,000                           |
| Revenue from Fairfax City                   | 78,770               | 90,000                            | 90,000                            | 78,770                               | 78,770                            |
| <b>Total Revenue</b>                        | <b>\$2,011,960</b>   | <b>\$390,000</b>                  | <b>\$390,000</b>                  | <b>\$378,770</b>                     | <b>\$378,770</b>                  |
| Transfers In:                               |                      |                                   |                                   |                                      |                                   |
| County Debt Service:                        |                      |                                   |                                   |                                      |                                   |
| General Fund (001) for County               | \$106,333,392        | \$117,380,449                     | \$117,166,102                     | \$116,981,575                        | \$116,981,575                     |
| FCRHA Lease Revenue Bonds (001)             | 4,598,503            | 4,494,041                         | 4,494,041                         | 2,392,289                            | 2,392,289                         |
| Neighborhood Imp.(Fund 314)                 | 186,553              | 0                                 | 250,939                           | 0                                    | 0                                 |
| Park Authority Lease Revenue<br>Bonds (170) | 806,563              | 827,813                           | 827,813                           | 853,313                              | 853,313                           |
| <b>Subtotal County Debt Service</b>         | <b>\$111,925,011</b> | <b>\$122,702,303</b>              | <b>\$122,738,895</b>              | <b>\$120,227,177</b>                 | <b>\$120,227,177</b>              |
| General Fund (001) for Schools              | \$163,767,929        | \$160,709,026                     | \$160,208,882                     | \$163,470,564                        | \$163,470,564                     |
| School Admin Building (090)                 | 3,775,323            | 3,773,723                         | 3,773,723                         | 3,773,523                            | 3,773,523                         |
| <b>Subtotal Schools Debt Service</b>        | <b>\$167,543,252</b> | <b>\$164,482,749</b>              | <b>\$163,982,605</b>              | <b>\$167,244,087</b>                 | <b>\$167,244,087</b>              |
| <b>Total Transfers In</b>                   | <b>\$279,468,263</b> | <b>\$287,185,052</b>              | <b>\$286,721,500</b>              | <b>\$287,471,264</b>                 | <b>\$287,471,264</b>              |
| <b>Total Available</b>                      | <b>\$291,814,853</b> | <b>\$287,575,052</b>              | <b>\$299,580,062</b>              | <b>\$287,850,034</b>                 | <b>\$287,850,034</b>              |

# Consolidated County and Schools Debt Service Fund

## FUND STATEMENT

### Fund Type G20, Debt Service Funds

### Fund 200 and 201, Consolidated Debt Service

|   | FY 2010<br>Actual    | FY 2011<br>Adopted<br>Budget Plan | FY 2011<br>Revised<br>Budget Plan | FY 2012<br>Advertised<br>Budget Plan | FY 2012<br>Adopted<br>Budget Plan |
|---|----------------------|-----------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|
| Expenditures:                                       |                      |                                   |                                   |                                      |                                   |
| General Obligation Bonds:                           |                      |                                   |                                   |                                      |                                   |
| County Principal                                    | \$65,031,486         | \$72,422,055                      | \$72,422,055                      | \$68,552,621                         | \$68,552,621                      |
| County Interest <sup>1</sup>                        | 34,433,767           | 34,105,204                        | 34,356,143                        | 30,911,374                           | 30,911,374                        |
| Debt Service on Projected County Sales <sup>1</sup> | 0                    | 0                                 | 4,533,367                         | 4,728,000                            | 4,728,000                         |
| <b>Subtotal County Debt Service</b>                 | <b>\$99,465,253</b>  | <b>\$106,527,259</b>              | <b>\$111,311,565</b>              | <b>\$104,191,995</b>                 | <b>\$104,191,995</b>              |
| Schools Principal                                   | \$98,233,514         | \$98,622,945                      | \$98,622,945                      | \$94,517,378                         | \$94,517,378                      |
| Schools Interest                                    | 57,273,534           | 55,951,181                        | 55,951,181                        | 51,332,886                           | 51,332,886                        |
| Debt Service on Projected School Sales <sup>1</sup> | 0                    | 0                                 | 6,614,970                         | 11,591,000                           | 11,591,000                        |
| <b>Subtotal Schools Debt Service</b>                | <b>\$155,507,048</b> | <b>\$154,574,126</b>              | <b>\$161,189,096</b>              | <b>\$157,441,264</b>                 | <b>\$157,441,264</b>              |
| <b>Subtotal General Obligation Bonds</b>            | <b>\$254,972,301</b> | <b>\$261,101,385</b>              | <b>\$272,500,661</b>              | <b>\$261,633,259</b>                 | <b>\$261,633,259</b>              |
| Other Tax Supported Debt Service (County):          |                      |                                   |                                   |                                      |                                   |
| EDA Lease Revenue Bonds/COPS                        | \$9,121,989          | \$10,153,190                      | \$10,153,190                      | \$12,078,350                         | \$12,078,350                      |
| FCRHA Lease Revenue Bonds                           | 2,886,202            | 4,494,041                         | 4,494,041                         | 2,392,289                            | 2,392,289                         |
| Park Authority Lease Revenue Bonds                  | 806,563              | 827,813                           | 827,813                           | 853,313                              | 853,313                           |
| Other Tax Supported Debt Service (Schools):         |                      |                                   |                                   |                                      |                                   |
| EDA Schools Lease Revenue Bonds                     | 9,580,823            | 9,473,623                         | 9,473,623                         | 9,367,823                            | 9,367,823                         |
| <b>Subtotal Other Tax Supported Debt Service</b>    | <b>\$22,395,577</b>  | <b>\$24,948,667</b>               | <b>\$24,948,667</b>               | <b>\$24,691,775</b>                  | <b>\$24,691,775</b>               |
| Other Expenses <sup>2</sup>                         | \$1,978,413          | \$1,525,000                       | \$1,537,234                       | \$1,525,000                          | \$1,525,000                       |
| <b>Total Expenditures</b>                           | <b>\$279,346,291</b> | <b>\$287,575,052</b>              | <b>\$298,986,562</b>              | <b>\$287,850,034</b>                 | <b>\$287,850,034</b>              |
| Transfers Out:                                      |                      |                                   |                                   |                                      |                                   |
| Fund 303, Capital Projects Funds                    | \$0                  | \$0                               | \$593,500                         | \$0                                  | \$0                               |
| <b>Total Transfers Out</b>                          | <b>\$0</b>           | <b>\$0</b>                        | <b>\$593,500</b>                  | <b>\$0</b>                           | <b>\$0</b>                        |
| <b>Total Disbursements</b>                          | <b>\$279,346,291</b> | <b>\$287,575,052</b>              | <b>\$299,580,062</b>              | <b>\$287,850,034</b>                 | <b>\$287,850,034</b>              |
| <b>Ending Balance</b> <sup>3</sup>                  | <b>\$12,468,562</b>  | <b>\$0</b>                        | <b>\$0</b>                        | <b>\$0</b>                           | <b>\$0</b>                        |
| <b>Unreserved Ending Balance</b>                    | <b>\$12,468,562</b>  | <b>\$0</b>                        | <b>\$0</b>                        | <b>\$0</b>                           | <b>\$0</b>                        |

<sup>1</sup> At the FY 2011 Third Quarter Review debt service funding was decreased by \$714,491 with \$214,347 for County and \$500,144 for Schools due to interest rate savings from the Series 2011A General Obligation and Refunding bond sale held on January 25, 2011. This decrease was partially offset by an increase of \$250,939 from Fund 314, Neighborhood Improvement Program due to the close out of this fund.

<sup>2</sup> In order to account for revenues and expenditures in the proper fiscal year, audit adjustments result in a net increase of \$12,234.38 in FY 2010 based on an increase of \$14,234.38 in FY 2010 to reflect revenue accruals, and an increase of \$2,000 in FY 2010 expenditures to record accrued expenses. FY 2011 revenues and expenditures were adjusted by commensurate amounts. These audit adjustments have been included in the FY 2010 Comprehensive Annual Financial Report (CAFR). Details of the FY 2010 audit adjustments were included in the FY 2011 Third Quarter Package.

<sup>3</sup> The change in ending fund balance is the result of use of fund balance to offset projected debt service requirements.