

Fund 20000

Consolidated County and Schools Debt Service Fund

Focus

Fund 20000, Consolidated County and Schools 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 2015 as well as the sources of funding supporting these costs:

		FY 2015 Advertised Budget
Expenses		
County Debt Service		\$110,661,091
Lease Revenue Bonds		22,269,299
Park Authority (Laurel Hill Golf Course)		770,349
Fiscal Agent Fees/Cost of Issuance		1,200,000
	Subtotal	\$134,900,739
School Debt Service		\$171,540,036
Lease Revenue Bonds (South County High School)		4,992,907
School Administration Building		3,775,323
Fiscal Agent Fees/Cost of Issuance		800,000
	Subtotal	\$181,108,266
Total Expenses		\$316,009,005
Funding		
General Fund Transfer		\$309,867,743
School Operating Fund Transfer		3,775,323
FCRHA Lease Revenue		1,015,590
Park Authority (Laurel Hill Golf Course)		770,349
Bond Proceeds to Offset Cost of Issuance		500,000
Fairfax City Revenue		80,000
Total Funding		\$316,009,005

General Obligation Bonds

Preliminary expenses for debt service payments associated with FY 2014 bond sales have been incorporated into the FY 2015 projections.

Fund 20000

Consolidated County and Schools Debt Service Fund

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	\$8,082,500
Mott, Gum Springs, Baileys, & James Lee Community Centers, Herndon Harbor Adult Day Care Center, South County Government Center	3,921,300
Mid-County Mental Health Center / Providence Comm. Center	3,826,775
Capital Renewal	4,275,263
Lincolnia Center	1,147,872
South County High School	4,992,907
Laurel Hill Golf Course	770,348*
School Administration Building	<u>3,775,323**</u>
Subtotal	\$30,792,288

Fairfax County Redevelopment and Housing Authority:

Gum Springs Head Start Facility	\$176,430
Herndon Senior Center	<u>839,160</u>
Subtotal	\$1,015,590

Total	\$31,807,878
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* 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.

Fund 20000

Consolidated County and Schools Debt Service Fund

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 Bank of America. On October 19, 2010, the Board of Supervisors approved a renewal of the LOC in the amount of \$100,000,000. On December 3, 2013, the Board of Supervisors again renewed the LOC in the amount of \$100,000,000 for an additional three year contract term. 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 County financial policies, prudent fiscal management and a strong economy, the County has been awarded the strongest credit rating 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 2014, Fairfax County is one of only 9 states, 39 counties, and 32 cities to hold a triple-A rating from all three services. In January 2014, the County authorized a draw on the Line of Credit in the amount of \$30 million to provide interim financing for the acquisition of the leasehold interest of the Lorton Arts Foundation at the Workhouse Arts Center. County staff is reviewing options for the conversion of this interim financing to a permanent financing plan, and will return to the Board of Supervisors with a recommendation in late spring 2014.

The FY 2015 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 2015 capital program supported by general obligation bonds was reviewed in conjunction with the FY 2015 - FY 2019 Adopted Capital Improvement Program (With Future Years to 2024).



Fund 20000

Consolidated County and Schools Debt Service Fund

The following are ratios and annual sales reflecting debt indicators for FY 2011 - FY 2015:

Net Debt as a Percentage of Market Value of Taxable Property

<u>Fiscal Year Ending</u>	<u>Net Bonded Indebtedness¹</u>	<u>Estimated Market Value²</u>	<u>Percentage</u>
2011	2,554,051,000	200,523,239,485	1.27%
2012	2,734,135,000	207,327,568,596	1.32%
2013	2,575,596,000	214,232,636,323	1.20%
2014 (est.)	2,704,330,933	221,488,326,157	1.22%
2015 (est.)	2,740,074,681	233,471,090,691	1.17%

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

<u>Fiscal Year Ending</u>	<u>Debt Service Requirements¹</u>	<u>General Fund Disbursements²</u>	<u>Percentage</u>
2011	290,585,694	3,344,902,997	8.69%
2012	290,776,904	3,418,544,048	8.51%
2013	292,243,676	3,533,287,183	8.27%
2014 (est.)	303,890,790	3,663,471,547	8.30%
2015 (est.)	324,051,471	3,704,218,835	8.75%

¹ 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.

² Source: Fairfax County Department of Management and Budget.

Annual Bond Sales

<u>Fiscal Year Ending</u>	<u>Sales (millions)</u>	<u>Total for the Five-Year Period Ending FY 2015</u>
2011	\$171.39	-
2012	217.66	-
2013	206.34	-
2014 (est.) ¹	264.33	-
2015 (est.) ¹	250.55	\$1,110.27

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. These amounts exclude refunding bond sales.

Fund 20000

Consolidated County and Schools Debt Service Fund

FY 2015 Funding Adjustments

The following funding adjustments from the FY 2014 Adopted Budget Plan are necessary to support the FY 2015 program.

- ◆ **Disbursement Adjustment** **\$11,943,307**
An increase in disbursements of \$11,943,307 or 3.9 percent is primarily attributable to scheduled requirements for existing debt service.

Changes to FY 2014 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2014 Revised Budget Plan since passage of the FY 2014 Adopted Budget Plan. Included are all adjustments made as part of the FY 2013 Carryover Review, and all other approved changes through December 31, 2013:

- ◆ **Carryover Adjustments** **\$6,910,463**
As part of the FY 2013 Carryover Review, the Board of Supervisors approved funding of \$6,910,463 in Operating Expenses to provide funding for bond sales scheduled during FY 2014.

Fund 20000

Consolidated County and Schools Debt Service Fund

FUND STATEMENT

Fund 20000, Consolidated Debt Service

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2015 Advertised Budget Plan
Beginning Balance	\$14,882,141	\$8,000,000	\$14,910,463	\$0
Revenue:				
Build America Bonds Subsidy	\$3,182,291	\$0	\$0	\$0
Miscellaneous Revenue	12,054	0	0	0
Bond Proceeds	569,894	300,000	300,000	500,000
Revenue from Fairfax City	78,683	80,000	80,000	80,000
Total Revenue	\$3,842,922	\$380,000	\$380,000	\$580,000
Transfers In:				
County Debt Service:				
General Fund (10001) for County	\$114,536,534	\$117,754,052	\$117,754,052	\$132,726,567
FCRHA Lease Revenue Bonds (10001)	2,316,539	1,043,940	1,043,940	1,015,590
Park Authority Lease Revenue Bonds (80000)	453,169	743,134	743,134	770,349
Subtotal County Debt Service	\$117,306,242	\$119,541,126	\$119,541,126	\$134,512,506
Schools Debt Service:				
General Fund (10001) for Schools	\$164,757,064	\$172,367,649	\$172,367,649	\$177,141,176
School Admin Building (S10000)	3,776,321	3,776,923	3,776,923	3,775,323
Subtotal Schools Debt Service	\$168,533,385	\$176,144,572	\$176,144,572	\$180,916,499
Total Transfers In	\$285,839,627	\$295,685,698	\$295,685,698	\$315,429,005
Total Available	\$304,564,690	\$304,065,698	\$310,976,161	\$316,009,005

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FUND STATEMENT

Fund 20000, Consolidated Debt Service

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2015 Advertised Budget Plan
Expenditures:				
General Obligation Bonds:				
County Principal	\$70,881,900	\$66,909,700	\$66,909,700	\$68,132,000
County Interest	31,512,593	29,464,494	29,464,494	29,086,676
Debt Service on Projected County Sales	0	8,698,200	11,371,561	13,442,415
Subtotal County Debt Service	\$102,394,493	\$105,072,394	\$107,745,755	\$110,661,091
Schools Principal	\$103,488,100	\$99,060,300	\$99,060,300	\$103,588,000
Schools Interest	56,102,174	52,880,685	52,880,685	52,944,478
Debt Service on Projected School Sales	0	14,292,100	18,529,202	15,007,558
Subtotal Schools Debt Service	\$159,590,274	\$166,233,085	\$170,470,187	\$171,540,036
Subtotal General Obligation Bonds	\$261,984,767	\$271,305,479	\$278,215,942	\$282,201,127
Other Tax Supported Debt Service (County):				
EDA Lease Revenue Bonds	\$17,412,641	\$12,024,100	\$12,024,100	\$21,253,709
FCRHA Lease Revenue Bonds	2,316,539	1,043,940	1,043,940	1,015,590
Park Authority Lease Revenue Bonds	453,169	743,134	743,134	770,349
Other Tax Supported Debt Service (Schools):				
EDA Schools Lease Revenue Bonds	5,452,144	8,949,045	8,949,045	8,768,230
Subtotal Other Tax Supported Debt Service	\$25,634,493	\$22,760,219	\$22,760,219	\$31,807,878
Other Expenses	\$2,034,967	\$2,000,000	\$2,000,000	\$2,000,000
Total Expenditures	\$289,654,227	\$296,065,698	\$302,976,161	\$316,009,005
Transfers Out:				
General Fund (10001)	\$0	\$8,000,000	\$8,000,000	\$0
Total Transfers Out	\$0	\$8,000,000	\$8,000,000	\$0
Total Disbursements	\$289,654,227	\$304,065,698	\$310,976,161	\$316,009,005
Ending Balance¹	\$14,910,463	\$0	\$0	\$0
Unreserved Ending Balance	\$14,910,463	\$0	\$0	\$0

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