

Fairfax County Paydown (Pay-as-you-go) Program

Fairfax County, Virginia
Department of Management and Budget
August 7, 2013

Definition of Capital Paydown

- Capital construction funded with current year General Fund revenues as opposed to construction financed through the issuance of bonds
- Also referred to as “paygo” or “pay-as-you-go” construction
- Projects funded by cash

Advantages and Disadvantages of Capital Paydown

Disadvantages:

- Cost of a long term asset is paid for by current users/taxpayers only
- Project delivery is limited to current year resources
- Inflation may erode buying power over time
- It is difficult to accumulate funds for large projects

Advantages:

- Avoids interest costs and other financing costs
- Can be reduced or scaled back if revenue sources are not available

General Capital Project Budgeting Advantages:

- Capital budgets support on-going projects or projects that span multiple years
- All capital project balances automatically carry forward to next fiscal year

Paydown in 10 Principles of Sound Financial Management

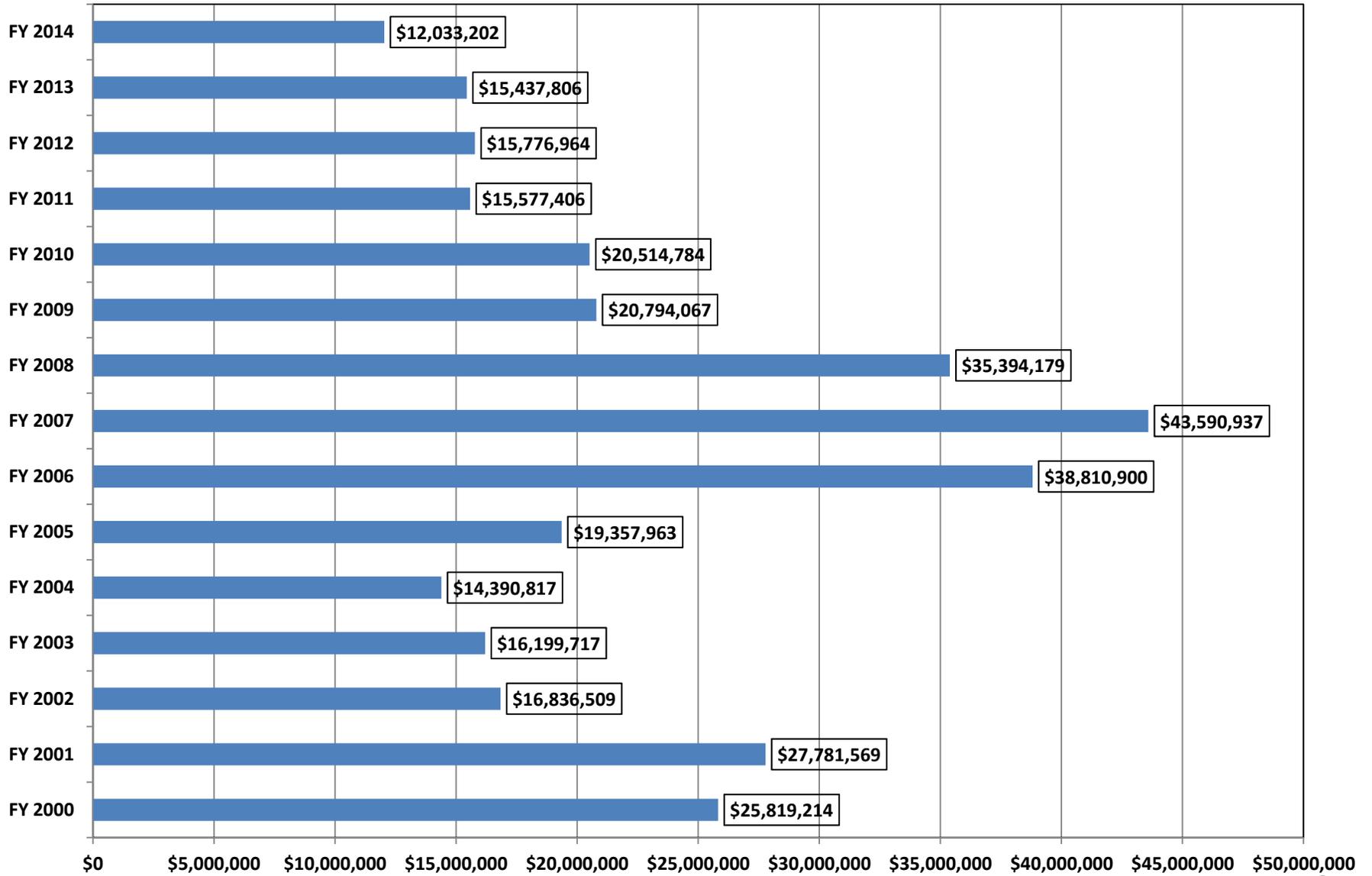
”Debt service expenditures as a percentage of General Fund disbursements shall not exceed 10 percent. **The County will continue to emphasize pay-as-you-go capital financing. Financing capital projects from current revenues is indicative of the County’s intent to use purposeful restraint in incurring long-term debt.** “

Fairfax County's Recent Paydown Program

FY 2014						
<u>Commitments</u>						
Salona Purchase	\$966,162					
Capital Contribution Northern Virginia Community College	\$2,192,046					
Contribution to FCPS for SACC	<u>\$750,000</u>					
Subtotal	\$3,908,208					
<u>Maintenance</u>						
Capital Renewal	\$0 (assumes short term borrowing to address backlog)					
Athletic Field Maintenance	\$4,647,535					
Parks Maintenance (buildings and grounds)	\$1,270,076					
Laurel Hill Maintenance and Security	\$552,383					
Trails/Road Maintenance	\$350,000					
Commercial Revitalization Maintenance	<u>\$405,000</u>					
Subtotal	\$7,224,994					
<u>Other</u>						
Developer Defaults	\$400,000					
Environmental Projects	<u>\$500,000</u>					
Subtotal	\$900,000					
Total	\$12,033,202					

Summary of Paydown Construction

FY 2000 - FY 2014



Fluctuations in Paydown

- Average amount funded in paydown over 15 years: \$22.5 million
- Average amount funded in last 5 years: \$15.8 million
 - FY 2006 Paydown included \$15 million for PSTOC
 - FY 2007 Paydown included \$8 million for a construction inflation reserve to offset increases in the cost of materials and labor reflected in market
 - FY 2008 Paydown included road spot improvements, land acquisition reserve, additional revitalization and environmental projects

Other Jurisdictions

<u>Jurisdiction</u>	<u>Paydown Policy</u>
City of Alexandria	Uses current revenues to finance short-lived, or maintenance oriented projects. Year-end balances are considered for Pay-as-you-go capital.
Arlington County	Attempt to balance Paygo with Bond financing
Loudoun County	Fund minimum of 10% of current CIP costs with Paygo
Prince William County	Consider project and its useful life to determine financing method. Fiscal policy is to invest minimum of 10% of general revenues in the CIP.
Montgomery County	Paygo used to offset the cost of borrowing
Town of Herndon	Long term goal is to dedicate 10% of General Fund revenues to CIP projects
Town of Leesburg	Goal is to finance 25% of capital costs through Pay-go

Fairfax County: Average Paydown as percentage of the Capital Budget

Average 15 years: 7.2%

Average last 5 years: 5.3%

Contingencies/Reserves

- Example of Project Contingency
 - New Building projects (10% of bid contingency and 10% construction contingency built into project cost estimate)
 - Renovation projects (10% bid contingency and 15% construction contingency)
- Capital Construction Fund Contingencies
 - Composed of funds that remain after completion of a project – used to fund minor shortfalls in active projects
 - Range from less than 1% to 5% for most funds (Wastewater Capital and Parks Capital have contingencies that range from 8-10%)
- Reserves
 - Capital Renewal Reserve (Emergency System Failures): Used for emergency corrective action on building subsystems (pre-carryover balance \$5.6 million, of which \$2.1 million is committed for work underway)

Next Steps

- Staff to review options to increase annual Paydown funding and develop policies or guidelines for Paydown budgets
- Recommendations can be discussed after the County's facility assessments are presented