# County of Fairfax, Virginia

**MEMORANDUM**

**DATE:** August 5, 2013

**TO:** Infrastructure Financing Committee (IFC)

**FROM:** Susan W. Datta, Chief Financial Officer

**SUBJECT:** Responses to Committee Questions (Package 1)

Attached for your information are responses to questions presented at the June 5th Infrastructure Financing Committee (IFC) meeting. If you need additional information, please contact me.

The following responses are included in this package:

| Question Number | Question | Pages |
|---|---|---|
| 1 | Why is maintenance being paid for out of school general obligation bonds (to be answered by FCPS staff) | TBD |
| 2 | Provide a chart that includes actual ratio of debt to disbursements for neighboring jurisdictions (include their bond rating) | 1 |
| 3 | Present a chart showing forecasted bond sales and capacity | 2 |
| 4 | Present the pros and cons of short vs. long term bond maturities | 3 |
| 5 | Provide information on the history of the 10% debt ratio, showing how capacity can disappear when expenditures are reduced | 4 |

Attachment

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# Response to Questions from the Infrastructure Financing Committee June 5, 2013

**Question #2:** Provide a chart that includes actual ratio of debt to disbursements for neighboring jurisdictions (include their bond rating).

**Response:** Comparative information is noted in the following chart:

**Debt Service as a Percent of General Fund Disbursements**

| Jurisdiction | Bond Rating | Policy Limit | FY 2012 Actual |
|---|---|---|---|
| Chesterfield County, VA | Aaa/AAA/AAA | 11% | 9.20% |
| Howard County, MD | Aaa/AAA/AAA | 10% | 9.49% |
| Prince William County, VA | Aaa/AAA/AAA | 10% | 8.10% |
| City of Alexandria, VA | Aaa/AAA/- | 10% | 5.87% |
| Arlington County, VA | Aaa/AAA/AAA | 10% | 8.14% |
| Fairfax County, VA | Aaa/AAA/AAA | 10% | 8.43% |
| Hanover County, VA | Aaa/AAA/AAA | 10% | 6.70% |
| Loudoun County, VA | Aaa/AAA/AAA | 10% | 9.95% |
| Montgomery County, MD | Aaa/AAA/AAA | 10% | 10.10% |
| Virginia Beach, VA | Aaa/AAA/AAA | 10% | 8.20% |
| Henrico County, VA | Aaa/AAA/AAA | 7.75% | 8.17% |

Source: Comprehensive Annual Financial Reports by jurisdiction

The debt ratios vary by jurisdiction given the amount of debt outstanding by fiscal year. All but two jurisdictions were within their debt policy limits. It is important to note the bond rating agencies review the credit profile of a jurisdiction that includes four main criteria: financial condition, economy and demographics, and management. The financial condition category for the County would include the Ten Principles of Sound Financial Management that incorporates the debt ratios whereby debt service is to be less than 10% of general fund disbursements and outstanding debt is to be less than 3% of total assessed value. As part of their ongoing review, the bond rating agencies consistently review these ratios compared to current County financial policy.

# Response to Questions from the Infrastructure Financing Committee June 5, 2013

**Question #3: Present a chart showing forecasted bond sales and capacity**.

**Response:** The following table provides an out year forecast of bond sales and capacity, and is included as part of the County's FY 2014-FY 2018 Capital Improvement Program.

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | Total |
|---|---|---|---|---|---|---|
| **County** | | | | | | |
| Libraries | $6,140,000 | $5,000,000 | $10,000,000 | $10,000,000 | $0 | $31,140,000 |
| Roads | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 | 100,000,000 |
| NVRPA | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 15,000,000 |
| WMATA | 26,540,000 | 28,200,000 | 26,200,000 | 27,300,000 | 27,100,000 | 135,340,000 |
| Flood Control | - | - | 10,000,000 | 10,000,000 | 10,000,000 | 30,000,000 |
| Public Safety Facilities | 30,000,000 | 35,000,000 | 31,490,000 | 10,000,000 | 10,000,000 | 116,490,000 |
| FCPA | 13,300,000 | 13,300,000 | 13,300,000 | 13,300,000 | 13,300,000 | 66,500,000 |
| Bus garage | 5,000,000 | 5,000,000 | 5,000,000 | 4,290,000 | - | 19,290,000 |
| **Subtotal County** | **$103,980,000** | **$109,500,000** | **$118,990,000** | **$97,890,000** | **$83,400,000** | **$513,760,000** |
| **Schools** | **$155,000,000** | **$155,000,000** | **$155,000,000** | **$155,000,000** | **$155,000,000** | **$775,000,000** |
| **Other Financing** | | | | | | |
| Capital Renewal | $5,000,000 | $10,000,000 | $10,000,000 | $10,000,000 | $0 | $35,000,000 |
| Lincolnia | - | 15,000,000 | - | - | - | 15,000,000 |
| Public Safety Headquarters | - | - | - | 185,000,000 | - | 185,000,000 |
| **Subtotal Other Financing** | **$5,000,000** | **$25,000,000** | **$10,000,000** | **$195,000,000** | **$0** | **$235,000,000** |
| **TOTAL** | **$263,980,000** | **$289,500,000** | **$283,990,000** | **$447,890,000** | **$238,400,000** | **$1,523,760,000** |
| *Projected Debt Ratio* | *8.57%* | *8.50%* | *8.68%* | *8.74%* | *9.02%* | |

# Response to Questions from the Infrastructure Financing Committee June 5, 2013

**Question #4: Present the Pros and Cons of Short Term vs. Long Term Bond Maturities**

**Response:**

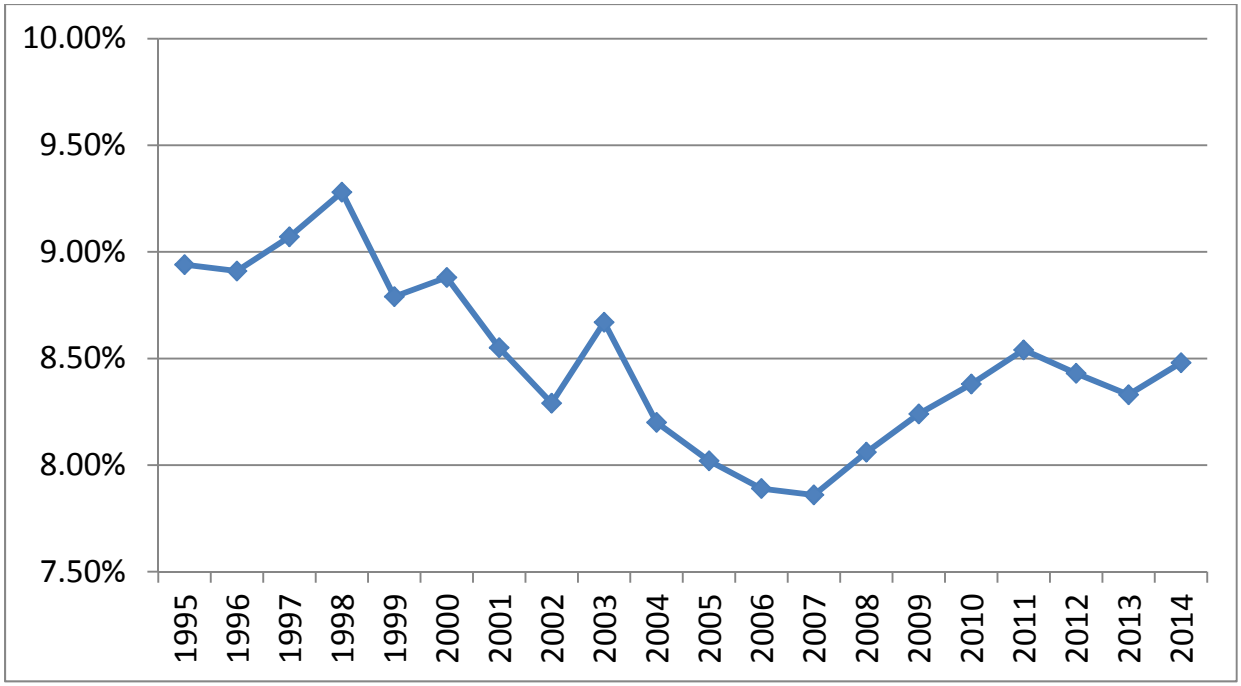
**Short Term Debt**

| **Advantages** | **Disadvantages** |
|---|---|
| Lower interest rates compared to long term financing | Interest rate risk adjustment depending on market conditions |

**Long Term Debt**

| **Advantages** | **Disadvantages** |
|---|---|
| Spreads financing of infrastructure over current and future generations | Creates fixed, non-discretionary & ongoing financial payment obligation for the amortization period |
| Financing to tie to useful life of the infrastructure | Incur interest and financing charges |
| Rapid debt amortization is viewed favorably by bond rating agencies. Most Triple A Rated jurisdictions in the region amortize General Obligation debt service over 20 years | Requirement of ongoing management and oversight of debt service coordination |

# Response to Questions from the Infrastructure Financing Committee June 5, 2013

**Question #5: Provide information on the history of the 10% debt ratio, showing how capacity can disappear when expenditures are reduced.**

**Response:** The following chart provides a history of the County's 10% debt ratio from 1995 to the 2014 estimate. As debt service expenditures increase incrementally on an annual basis, reductions or slight increases in general fund disbursements can cause the debt ratio percent to increase proportionately. An example of this is the FY 2011 increase in the ratio following the 1% decrease in disbursements for FY 2010 and the 1% growth in disbursements in FY 2011. Staff continues to explore all options for refunding outstanding county debt that assists in lowering projected annual debt service requirements and providing ongoing relief to out year debt ratios.