Fairfax County Debt Management

Presentation to Fairfax County Joint Budget Development Committee
Department of Management and Budget
July 30, 2014

Financing Capital Projects

- Pay As You Go (PAYGO) / Paydown
  - Annual cash provided to fund select projects
- Issuing 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 and state taxes

Options When Issuing Bonds

	Long Term Debt	Short Term Debt
Time Period	Tie to useful life of the facility or improvements (usually 20 years +)	Usually less than one year
Reason	Expensive construction cost or improvements and excessive burden on current tax payers or rate payers	Bridge or interim financing prior to permanent plan of finance established
Examples	General Obligation Bonds Revenue Bonds	Tax Anticipation Notes Line of Credit

Overview General Obligation Bonds

- Resolutions Approved by School Board and Board of Supervisors (Spring)
- Contingent Upon Voter Approval at Referendum
  - Fall 2013: FCPS $250m
  - Fall 2014: Transportation $100m
- Sunset Rule
  - Referenda Expire Eight years from date of voter approval
  - Two year extension permitted upon petition to Circuit Court
- County General Obligation Bond Sale
  - Issued annually (January) on cash basis only
  - Sell for County and Schools

Ten Principles of Sound Financial Management

- Adopted in 1975 – Cornerstone of County's financial policy
- Statement of Board's commitment to the County's financial policies; amended in FY 2008
- Essential for maintaining the Triple A credit rating
- Constant oversight and management of all Capital Projects in terms of timing and cash flow
- Principles are updated when applicable depending on the chancing nature of market conditions and other factors (e.g. regulations, GASB, Bond Rating Agencies)
- Establishes limits to borrowing & benchmarks for debt ratios

Ten Principles of Sound Financial Management – Debt Ratios

- New sales shall not exceed a target of $275 million per year, or $1.375 billion over five years, with a technical limit of $300 million in a single year
  - *Excludes refunding bonds, revenue bonds, and non General Fund Supported Debt*
- Net debt as percent of estimated real estate market value less than 3%
  - *FY 2014 estimate 1.22%*
- Debt service expenditures not to exceed 10% of general fund disbursements
  - *FY 2014 estimate 8.22%*

Comparative Debt Ratio Policy – Debt Service as % of Expenditures

Jurisdiction	Policy Limit
Chesterfield County, VA	11%
Howard County, MD*	10%
Prince William County, VA*	10%
City of Alexandria, VA	10%
Arlington County, VA	10%
Fairfax County, VA	***10%***
Hanover County, VA	10%
Loudoun County, VA	10%
Montgomery County, MD	10%
Virginia Beach, VA	10%
Henrico County, VA	7.75%

*Debt Service as % of Revenues;
Source: Comprehensive Annual Financial Report by jurisdiction

Ten Principles of Sound Financial Management – Debt Ratios Continued

- All other debt related to but **not** directly supported by the General Fund shall be closely controlled / monitored to the extent possible
  - Revenue Bonds of agencies supported by the General Fund (Park Authority Bonds)
  - Debt of component units of government (Sewer Revenue Bonds)
  - Underlying debt of towns (Herndon and Vienna) and special tax districts (Reston and McLean Community Center Districts)
  - Other debt financed projects (Dulles Rail Tax Districts, Route 28, Mosaic)
  - Source of Debt Service payment is **<u>NOT</u>** the County's General Fund
  - Above examples do **<u>NOT</u>** all necessarily carry Triple A Bond Ratings

County's Triple A Credit Rating

- Ratings History
  - Aaa from Moody's Investor Services since 1975
  - AAA from Standard & Poor's (S & P) since 1978
  - AAA from Fitch since 1997
- Elite Category that consists of the following as of May 2014
  - 9 out of 50 States
  - 37 out of 3,069 Counties
  - 32 out of 35,000+ Cities and Towns

General Obligation Credit Profile

Criteria	Comments
Financial Condition	• Sound financial position, adequate reserves, funding of long term liabilities
Debt	• Reasonable debt burden with manageable future borrowing • Rapid debt amortization
Economy & Demographics	• Wealthy, diverse, and sizable tax base • Diverse commercial activity • High performing public school system • Low Unemployment • Sequestration and impact on Federal contracts and local employment
Management	• Conservative approach to budgeting and financial management/policies & adherence to "Ten Principles" • Strong history of voter support for bond referendum

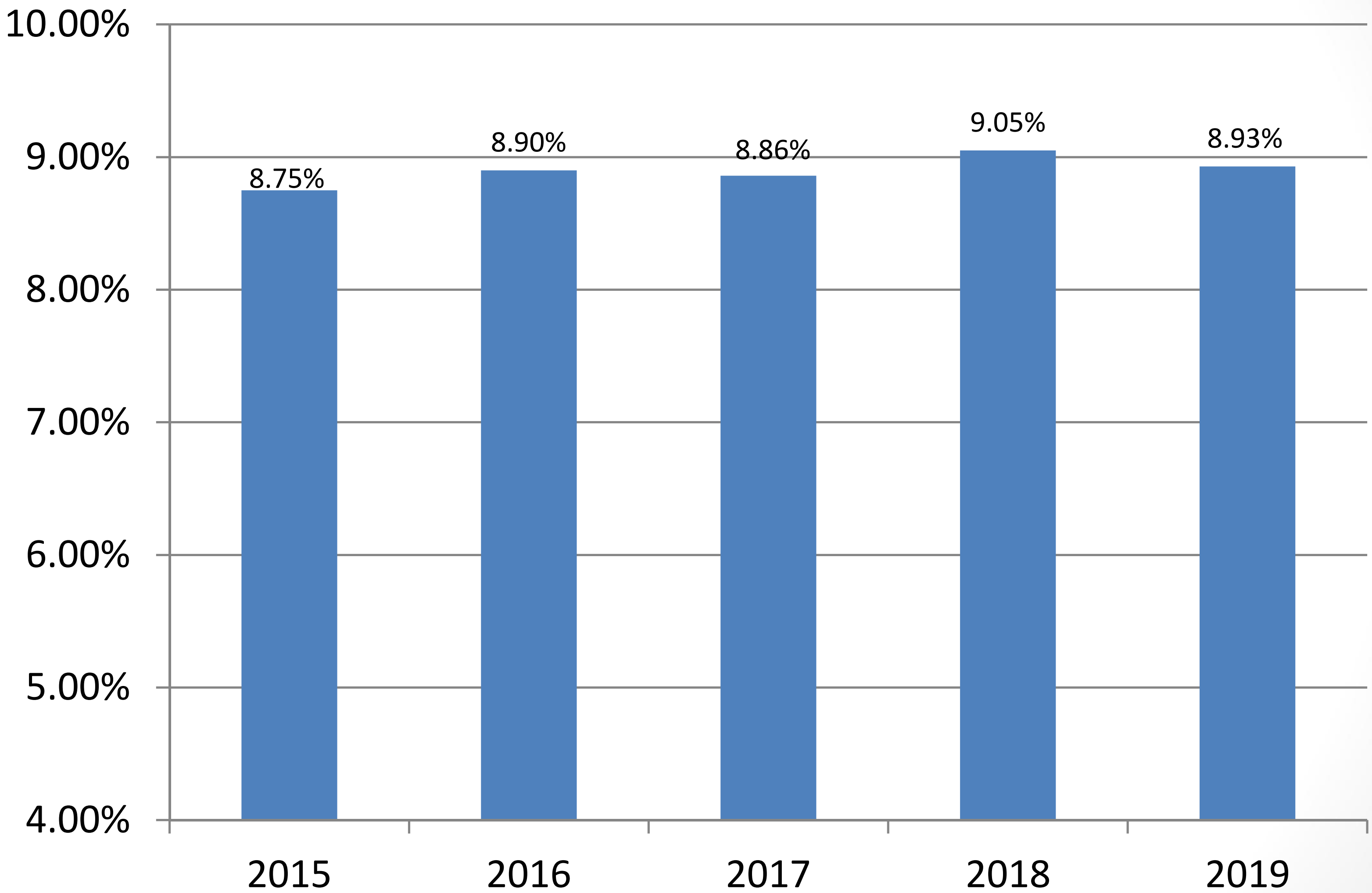
Triple A Bond Rating Importance

- Benchmark Rate Comparison – Bond Buyer Index (BBI)
  - Estimate of past and projected trends in municipal bond rates
  - 30 year differential between County bonds and BBI averaged 0.77%
- County continues to capitalize on Refunding (refinancing) opportunities of outstanding debt – low interest rate environment
- County savings from Triple A rating estimated $646.48 million (through Series 2014A&B EDA Bonds)

County Long Term Financial Model

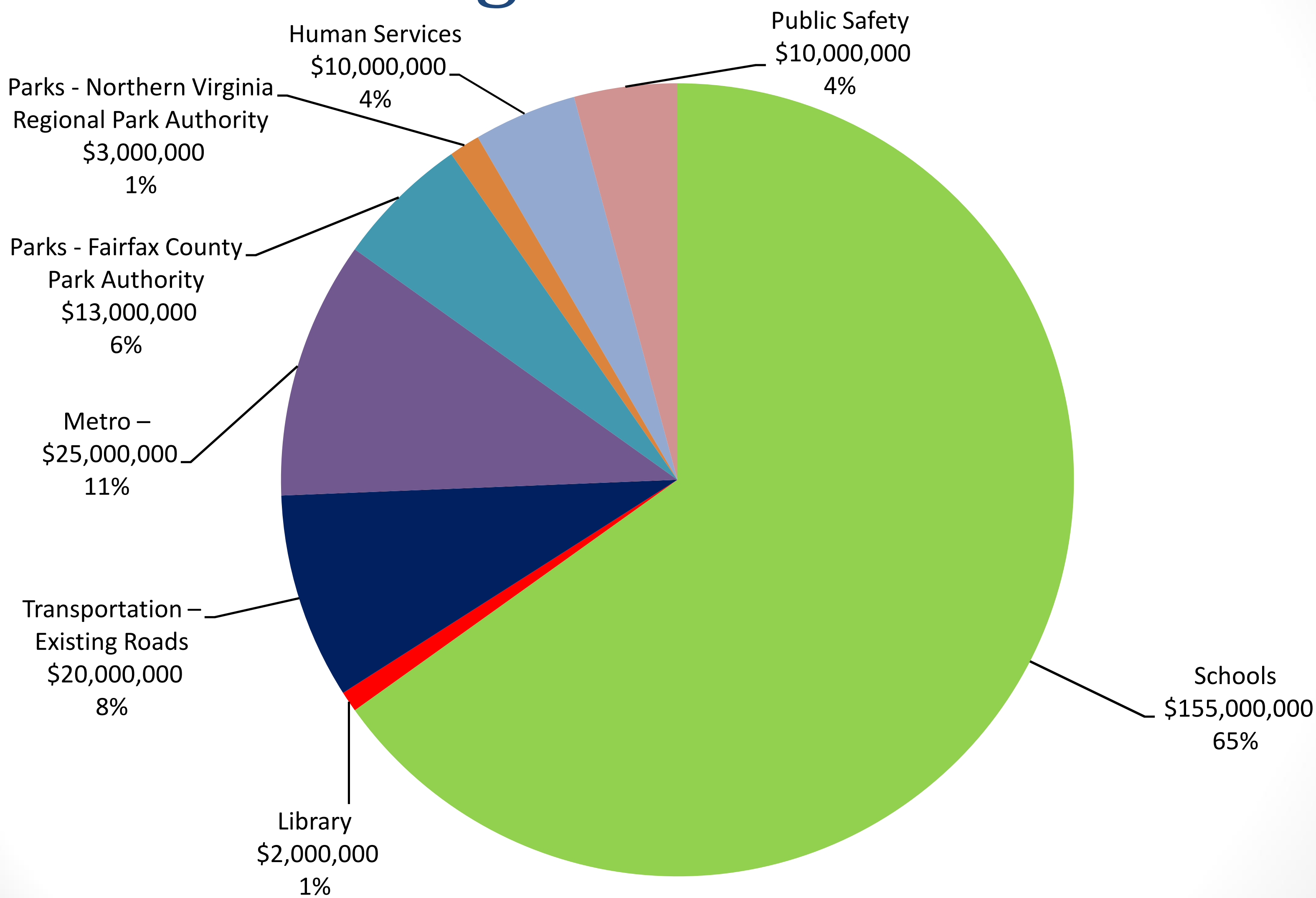
- Analysis of debt capacity and policy limits per the Ten Principles Sound Financial Management
- Forecast debt capacity against out year disbursement & revenue growth
- Projections indicate County is approaching its 10% Debt Limit & minimal ability to add beyond its current annual GO bond sale program
- Maintain annual baseline $238m GO bond sale short term program
  - Traditional funding categories (e.g. Schools, Transportation, Metro, Libraries, Parks, Human Services, etc.)
  - Other projects included: Merrifield Center & Public Safety Headquarters (PSHQ)
- Adjust bond sales / CIP as necessary to remain below the 10% limit of general fund disbursements
- **Debt Context**: Capacity and Affordability

Projected Debt Ratio Limit 10%



Source: FY 2015- FY 2019 Adopted Capital Improvement Program

Projected Example Out Year Annual General Obligation Bond Sale $238m



Municipal Bonds – Current Issues

- Moody's Investor Services placed the County on "Negative Outlook" in January 2014 due to reserve balances and pension liabilities
- Uncertainty of Federal Tax Exemption Status
  - Presidential & Congressional legislation seeking to cap or repeal this provision
  - Variety of groups representing local and state governments (e.g. NaCO, USCM, NLC, GFOA) lobbying for retention of the tax exempt status
- Build America Bonds (BABs) - reimbursement from IRS for 35% annual interest payments
  - Sequestration resulted in loss of 8.7% ($277k) annually

Questions?