

Debt Management and
the Capital Improvement Program



FY 2010 LOBS Presentation
December 15, 2008

Agency Mission



To provide financial and analytical consultant services; develop, implement, and monitor a financial plan; and produce information for Fairfax County agencies, the Board of Supervisors, the County Executive and citizens in order to maintain the County's fiscal integrity and accountability, as well as to support effective decision-making.

Debt Management Mission: The practice of planning, executing and monitoring of governmental borrowing activities in conformance with established federal, state and local laws, policies, rules and regulations.

- FY 2009 Debt Service is \$278.6 million or 8.1% of General Fund Disbursements

Capital Improvement Planning: Coordinate and develop the Capital Improvement Program (CIP), which is the County's 5-year roadmap for creating, maintaining and funding present and future infrastructure requirements. The CIP is supported largely through long-term borrowing that is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.

Paydown Budget: Develop an annual Capital Paydown Program. Paydown, also referred to as "pay-as-you go", includes capital projects which are funded with current year General Fund revenues as opposed to being financed through the issuance of bonds.

- FY 2009 Paydown Budget is \$20.8 million or 0.62% of General Fund Disbursements

LOBS Highlights:

LOB 20-01 (A): Debt Management/CIP

- ◆ **What We Do:** The Debt Management section within the Department of Management and Budget (DMB) is responsible for the sound fiscal administration of the debt management program in support of the Capital Improvement Program (CIP).
- ◆ **Who We Serve:** All decision makers both internal and external to Fairfax County planning for future capital construction needs which impact the County – Federal, State, Regional, Local Authorities, and Special Districts as well as County agencies.
- ◆ **Why We Do It:** This LOB is essential for Exercising Corporate Stewardship.
- ◆ **Benefits and Value of LOB:** The County realizes Return on Investment through lower borrowing rates resulting from a Triple-A bond rating and identifying the most appropriate means and structure for special financings. Since 1978, the County has saved approximately \$257.93 million on bond sales due to its Triple A rating on new public improvement bonds. Including refunding sales, the County has saved over \$364.39 million as a result of the AAA rating.

Agency Strategic Focus



The following principles are the strategic focus for debt management from the Board's Ten Principles of Sound Financial Management:

- ◆ Net Debt shall not exceed 3 percent of total assessed value (Currently less than 1.0 percent).
- ◆ Debt Service shall not exceed 10 percent of total General Fund disbursements (Currently 8.1 percent).
- ◆ 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.
- ◆ Debt of conduit issuers secured by the General Fund subject to annual appropriation shall be treated on par with General Obligation debt in the calculation of debt ratios. (e.g., EDA Laurel Hill Properties (SCSS), 2003)
- ◆ General Fund payments, or payments from other component units, for equipment leases shall not exceed 3 percent of disbursements. (e.g., School buses, computers)

Agency Growth Since FY 2001



- ◆ **FY 2009:** 3 bond sales (G.O., EDA, FCRHA) - \$359.5 million; 39 active projects; Debt Service = \$278.6 million or 8.1% of General Fund Disbursements
- ◆ **FY 2001:** 2 G.O. bond sales - \$174.65 million; 14 active projects; Debt service = \$195.6 million or 9.1% of General Fund Disbursements
- ◆ **Which areas have seen the most growth?**
 - Public-Private Education Facilities and Infrastructure Act of 2002 (PPEA) projects
 - The Penny for Affordable Housing
 - Complex projects (multiple sources of revenue/asset exchange)
- ◆ **What factors are driving the growth?**
 - Aging Infrastructure
 - Increased pressure for creative solutions due to limited resources
 - Board of Supervisor Priorities

New Programs Since FY 2001



◆ Significant PPEA/Complex projects:

- Dulles Rail
- Wiehle Avenue Metro Development
- Woodburn Mental Health Center
- Kingstowne Library/Workforce housing proposal
- Government Center Residences
- East County Human Services Center (Bailey's area)
- Laurel Hill Redevelopment
- Laurel Hill Sportsplex
- South County Secondary School and Laurel Hill Golf Course (2005)
- Route 28 six interchange expansion (2002)
- Route 28 final four interchange expansion (2007)
- Fairfax City Library (2007)
- South County Middle School

New Programs Since FY 2001

(continued)



- ◆ **The Penny for Affordable Housing** – Crescent & Wedgewood
- ◆ **Significant Non-PPEA Projects:**
 - Lorton Arts Foundation
 - School Administration I
 - Fairfax City Contract
 - Industrial Development Authority Support
- ◆ **Line of Credit** (\$200 million established 2007)
- ◆ **Revitalization Issues**
 - Merrifield Redevelopment
 - Springfield Redevelopment
 - Community Development Authorities/Tax Increment Financing
 - Principles for Public Investment

Agency Reduction Priorities



Reduction Philosophy

- ◆ **Maintain the AAA bond rating by adhering to the 10 Principles of Sound Financial Management**
 - Maintain debt service expenditures below 10 percent of General Fund Disbursements

- ◆ **Opportunities for Reductions in Debt Service/CIP:**
 - **Refundings:** All outstanding bonds are monitored for refunding opportunities to obtain lower interest rates. Currently, there is one bond issue that potentially falls within the County's typical refunding threshold of savings greater than 4 percent and aggregate Net Present Value savings of \$1.0 million or more in order for a refunding to be recommended to provide interest rate savings. Potential FY 2010 savings from Series 1999A = \$1.3 million.

 - **Reduce Size of Future Bond Sales:** Cash flow requirements for current capital construction projects in progress funded with general obligation bonds results in a 2009A bond sale of \$204 million. The total General Fund transfer requirement for debt service is estimated to be \$276.1 million, for a net increase of \$8.3 million or 3.1 % in FY 2010. No further reductions are possible in FY 2009.

Agency Reduction Priorities

Reduction Philosophy

- **Reduce Size and Scope of Future Capital Construction Program** – in order to reduce Debt Service Fund expenditures for FY 2011 and beyond, Capital Improvement Program (CIP) and PPEA programs would need to be reduced or curtailed by the Board of Supervisors. A review of logical stopping points for the current program is underway and will be included in the FY 2010 CIP recommendations.
 - As identified in the October 31, 2008 memo to the Board of Supervisors, the County Executive has already deferred the following bond funded projects for one year based on: workload, the impact of possible LOB reductions, the credit crunch in the municipal market, and/or the inability to fund the operating costs associated with opening new facilities.
 - Fair Oaks Police Station Renovation: delay construction bid from Winter 2009 to Winter 2010
 - McLean Police Station Renovation: delay design start from Winter 2009 to Winter 2010
 - Wolftrap Fire Station: delay construction bid from Winter 2009 to Winter 2010
 - Herndon Fire Station Replacement: delay design start from Fall 2008 to Fall 2009
 - Concept studies on five of the oldest libraries which were anticipated to be completed prior to a future Library Bond Referendum: delay studies from Fall 2008 to Fall 2009

DEBT CAPACITY ANALYSIS

FY 2010 - FY 2014 Projected Capital Improvement Program

(\$ in millions)

PURPOSE	UNISSUED ¹	FY 2009						2010-2014	2015-2019	REMAINING
			FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	TOTAL	PROJ.	BALANCE
Libraries (2004)	26.08	4.50	17.08	4.35	0.15	0.00	0.00	21.58	0.00	0.00
Roads (2004, 2007)	137.06	14.50	22.56	25.00	25.00	25.00	25.00	122.56	0.00	0.00
NVRPA (2008)	12.00	3.60	2.10	2.10	2.10	2.10	0.00	8.40	0.00	0.00
Metro (2004)	63.28	0.00	29.70	22.90	10.68	0.00	0.00	63.28	0.00	0.00
Storm Drainage (none outstanding)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transportation (non-road) (2004)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Human Services (2004)	26.50	8.50	12.05	5.95	0.00	0.00	0.00	18.00	0.00	0.00
Public Safety Facilities (2002, 2006)	108.18	1.00	12.00	32.00	32.50	20.60	10.08	107.18	0.00	0.00
Commercial Revitalization(1988)	6.63	0.00	2.50	1.00	1.80	1.33	0.00	6.63	0.00	0.00
Parks (2004, 2006, 2008)	81.64	15.30	27.12	23.22	11.26	4.22	0.51	66.33	0.00	0.00
Schools (Bus garage) (2007)	50.00	1.60	1.83	18.41	18.31	9.85	0.00	48.40	0.00	0.00
Public Safety Renewal (2006)	9.00	0.00	3.00	3.00	3.00	0.00	0.00	9.00	0.00	0.00
Subtotal County	520.365	49.00	129.94	137.93	104.80	63.10	35.59	471.35	0.00	0.01
Fund 390, Schools (2003)	69.040	69.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2005)	246.325	0.00	155.00	91.32	0.00	0.00	0.00	246.32	0.00	0.00
(2007)	315.200	85.96	0.00	63.68	155.00	10.56	0.00	229.24	0.00	0.00
Subtotal Schools	630.565	155.00	155.00	155.00	155.00	10.56	0.00	475.56	0.00	0.00
Total General Obligation Bonds	1,150.930	204.00	284.94	292.93	259.80	73.66	35.59	946.91	0.00	0.00
FCRHA Lease Revenue ²		0.00	60.00	0.00	0.00	0.00	0.00	60.00	0.00	
EDA Lease Revenue (PPEA Projects) ³		0.00	0.00	0.00	0.00	130.00	215.00	345.00	0.00	
Subtotal PPEA/FCRHA Support		0.00	60.00	0.00	0.00	130.00	215.00	405.00	0.00	
Total Current Program	1,150.930	204.00	344.94	292.93	259.80	203.66	250.59	1351.91	0.00	0.00

DEBT CAPACITY ANALYSIS

FY 2010 - FY 2014 Projected Capital Improvement Program

(\$ in millions)

	AUTH. BUT UNISSUED	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	2010-2014 TOTAL	2015-2019 PROJ.	REMAINING BALANCE
COUNTY PROGRAM										
CURRENT PROGRAM	520.37	49.00	129.94	137.93	104.80	63.10	35.59	471.35	0.00	0.01
New Referendums:										
Metro II/Public Facilities (2010)	120.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	120.00	0.00
Public Facilities (2012)										
Subtotal New Referendums	120.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	120.00	0.00
SUBTOTAL COUNTY	640.37	49.00	129.94	137.93	104.80	63.10	35.59	471.35	120.00	0.01
SCHOOLS PROGRAM										
CURRENT PROGRAM	630.57	155.00	155.00	155.00	155.00	10.56	0.00	475.56	0.00	0.00
New Referendums (2009) ¹	280.00	0.00	0.00	0.00	0.00	119.44	130.00	249.44	30.56	0.00
SUBTOTAL SCHOOLS	910.57	155.00	155.00	155.00	155.00	130.00	130.00	725.00	30.56	0.00
GRAND TOTAL	1550.93	204.00	284.94	292.93	259.80	193.10	165.59	1196.35	150.56	0.01
PPEA/FCRHA Support Impact		0.00	60.00	0.00	0.00	130.00	215.00	405.00		
Debt Service as % of General Fund			8.88%	9.45%	9.92%	10.01%	10.19%			
NECESSARY ADJUSTMENTS										
Policy Sales Limit ^{2,3}		279.59	275.00	275.00	275.00	275.00	275.00	1375.00		
Policy Sale Additions/(Reductions)		75.59	(69.94)	(17.93)	15.20	(48.10)	(105.59)	(226.35)		
Under/Over 10% Limit			35.06	17.19	2.49	(0.34)	(6.07)	48.33		

County-Schools Bond Sales (millions)

<u>Year</u>	<u>Annual Limit</u>			<u>5-year Limit</u>		
	<u>County</u>	<u>Schools</u>	<u>Total</u>	<u>County</u>	<u>Schools</u>	<u>Total</u>
FY 1997	\$75	\$75	\$150	\$250	\$500	\$750
FY 1999	\$50	\$100	\$150	\$250	\$500	\$750
FY 2000	\$50	\$130	\$180	\$250	\$530	\$780
FY 2001	\$50	\$130	\$180	\$250	\$560	\$810
FY 2003	\$70	\$130	\$200	\$350	\$650	\$1,000
FY 2007-2012	\$120	\$155	\$275	\$600	\$775	\$1,375

*Temporary increase in annual School sales of \$25 million per year for 6 years in exchange for return of surplus school property to County control. School sales revert to \$130 million per year in FY 2013.

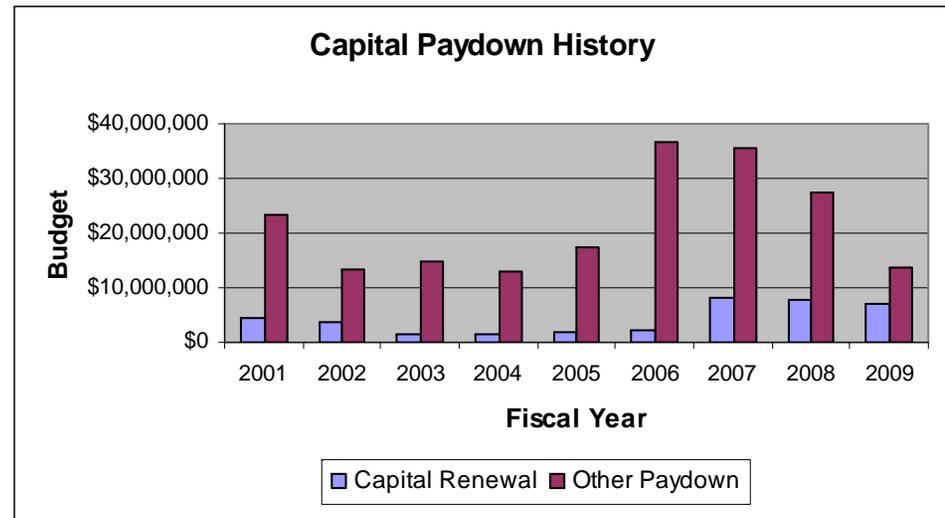
Agency Reduction Priorities

Reduction Philosophy

- **Paydown Program** – Review the Paydown program on a project by project basis to identify savings in the existing program and develop a limited FY 2010 program. Fairfax County's Paydown Program typically funds:
 - General Maintenance/Commitments:
 - Athletic Field Maintenance (Park Authority and FCPS fields)
 - General Park Maintenance (buildings and grounds)
 - Development and Maintenance at Laurel Hill
 - Annual Capital Contribution to NVCC
 - Developer Default Program
 - Environmental Initiatives
 - Revitalization Initiatives
 - Capital Renewal of County Facilities
 - Heating/Ventilation and Air Conditioning (HVAC) replacement
 - Elevator Repair/Replacement
 - Roof Repair/Replacement
 - Parking Lot/Garage Repairs
 - Emergency Generator Replacement
 - Carpet Replacement

History of the Paydown Program

Fiscal Year	General/ Commitments	Capital Renewal	Total
2001	\$23,341,569	\$4,440,000	\$27,781,569
2002	\$13,226,509	\$3,610,000	\$16,836,509
2003	\$14,763,717	\$1,436,000	\$16,199,717
2004	\$13,005,817	\$1,385,000	\$14,390,817
2005	\$17,513,963	\$1,844,000	\$19,357,963
2006	\$36,628,900	\$2,182,000	\$38,810,900
2007	\$35,500,937	\$8,090,000	\$43,590,937
2008	\$27,469,858	\$7,924,321	\$35,394,179
2009	\$13,869,746	\$6,924,321	\$20,794,067

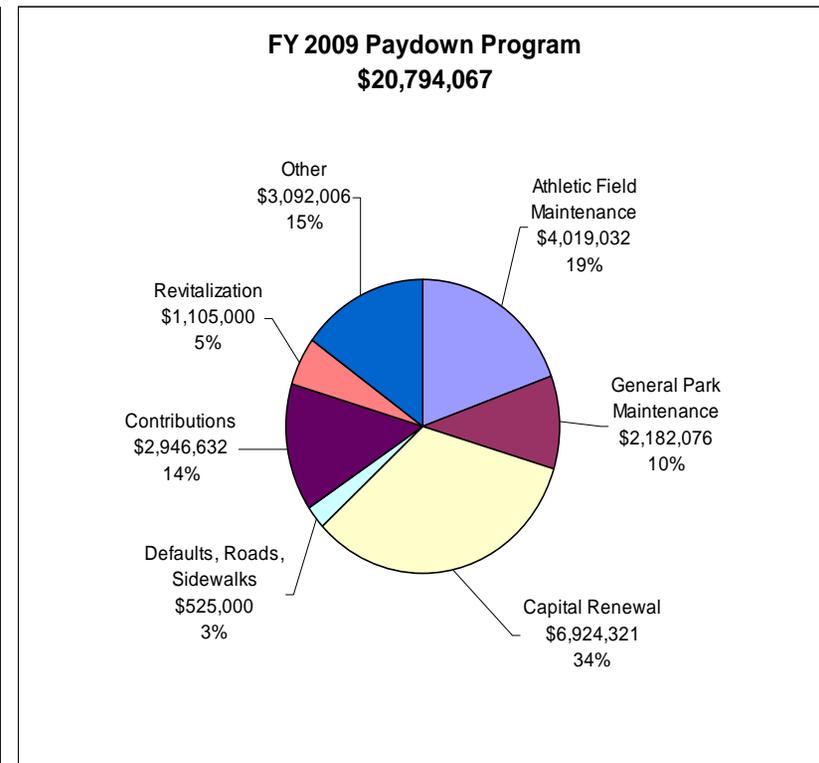
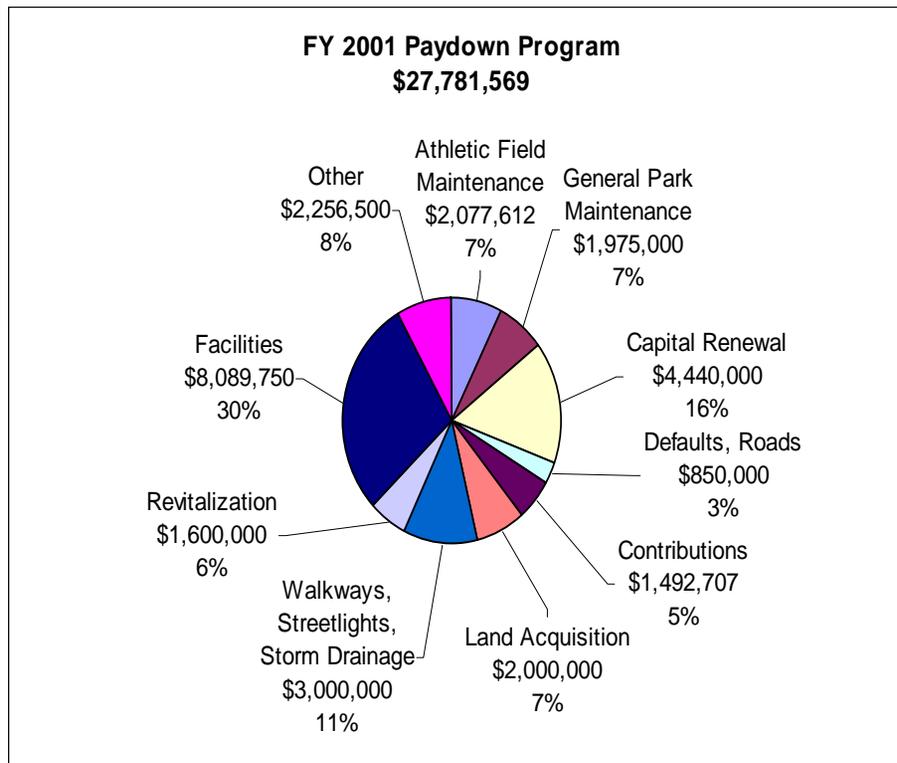


Notes:

FY 2006 included \$15 million for MPSTOC

FY 2007 included nearly \$5 million for IT and equipment to support opening of the expanded Courthouse and \$8 million for the Construction Inflation Reserve

Major Paydown Components: FY 2001/FY 2009



FY 2009 Program

- ◆ FY 2009 Adopted Paydown Program was limited at \$20.8 million
 - Only most critical category "F" projects for capital renewal (\$6.9 million)
 - Level funding for Athletic Field Maintenance (\$4.0 million supported by the General Fund and \$950,000 supported by Athletic Services Fee)
 - Level Funding for Parks Maintenance (\$2.2 million)
 - Commitments to Laurel Hill, NVCC, Salona property payment, developer defaults, SACC, stub-street repairs, revitalization (\$7.1 million)
 - Environmental Initiatives (\$600,000)

FY 2009 Reductions

- ◆ FY 2009 reductions of \$12 million to be returned to the General Fund as part of the *FY 2009 Third Quarter Review*:
 - Eliminate funding for expansion of the Mott Community Center (\$1.4 million)
 - Eliminate General Fund support for 6 transitional housing units at the Kate Hanley Family Shelter (\$1.0 million)
 - Reduce land acquisition reserve (\$1.7 million)
 - Eliminate funding for District Supervisor's office at Dolley Madison Library (\$1.25 million)
 - Reduce General Fund support of the Mt Vernon Mental Health Center (\$2.5 million based on favorable construction contract award)
 - Eliminate funding for energy efficient and/or renewal energy projects within the Environmental Initiatives project (\$100,000)
 - Reduce General Fund support for bus shelter enhancements and improvements (\$650,000)
 - Return project balances associated with completed projects to the General Fund (\$3.4 million)

FY 2010 Paydown Program

A project by project review will be conducted to identify the most essential projects for funding

- Most critical Category "F" capital renewal projects
- Minimal Park Maintenance and Athletic Field Maintenance support
- Legal commitments

Issues to be Addressed in FY 2010

- ◆ Consolidate general obligation and PPEA priorities
- ◆ Review affordability of the CIP
- ◆ Expand financial tools to respond to capital market changes
- ◆ Develop long term strategy to address capital renewal program

Questions and Answers

