



# Financing the Capital Improvement Program

## Joint Board of Supervisors & School Board Capital Improvement Program Committee

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## Financing Capital Projects

- Need to address current and future capital needs
- Capital funding comes from the same source as operating funding
- Pay As You Go (PAYGO) / Paydown – requires cash from operating budget
  - Annual cash provided to fund select projects
  - Limits subject to budget outlook
- Issuing Bonds – requires cash for debt service payments from operating budget
  - A form of borrowing commonly used by municipal and state governments and large corporations
  - Amortization period of 20-30 years
  - Interest on municipal and state bonds may be tax-exempt from federal and state taxes
- Equity Principle – spread debt repayment over multiple generations of users
- County Financing Options –
  - General Obligation Bonds
  - Economic Development Authority Revenue Bonds
  - Other – Sewer Revenue Bonds, Virginia Resources Authority

# CIP Board Approval Process

The **General Fund Capital Program** is developed as part of the Advertised Budget and included in the CIP.

The Board approves the General Fund Capital Program as part of the budget adoption process.

The **Capital Sinking Fund** is approved by the Board as part of the Carryover Review by committing 20 percent of Carryover balances for critical infrastructure replacement and upgrades projects throughout the County.

Since FY 2014, the County has allocated \$64 million to the capital sinking fund.

**Rates for self-supporting funds** are developed (Stormwater, Wastewater, Solid Waste) as part of the Advertised Budget and support projects in the CIP.

The Board approves these rates as part of the budget adoption process.

The **General Obligation Bond Referendum Plan** is developed as part of the CIP.

The Board approves the plan and bond resolutions each summer prior to the fall referendum.

The Board reviews and approves a citizen informational pamphlet on the proposed bond referendum projects.

GO Bond sales typically occur annually in January following Board approval.

**Economic Development Authority Bonds** provide opportunities for the County to leverage public and private sector funds to advance major capital investments in infrastructure.

These projects are proposed annually in the CIP, discussed in budget committee meetings and in individual Board member briefings. A formal plan of finance is then formally approved by the Board.

All CIP project funding and schedules are adjusted annually based on the most current information; however, changes in appropriation levels are approved by the Board at quarterly reviews or as part of the annual budget process.

# General Obligation Bonds

# County Referenda Overview

- Dates back to 1966
- Strategic Planning - Capital Improvement Program (CIP)
  - Framework for guidance from County Executive and Board of Supervisors for out year project planning and bond sales
  - Details the long-range plan, outlining specific projects and schedules
  - Approved annually as part of the budget process
- Bonds approved for one purpose may not be used for another
  - For example: Park bonds cannot be used to fund Public Safety Facilities
- Use of bonds keyed to original question
  - If broad question, not tied to specific project
  - If narrow question, limited flexibility

# County Referenda Examples – Ballot Questions

## **Schools 2019 Question:**

Shall Fairfax County, Virginia, contract a debt, borrow money, and issue capital improvement bonds in the maximum aggregate principal amount of \$360,000,000 for the purposes of providing funds, in addition to funds from school bonds previously authorized, to finance, including reimbursement to the County for temporary financing for, the costs of school improvements, including acquiring, building, expanding and renovating properties, including new sites, new buildings or additions, renovations and improvements to existing buildings, and furnishings and equipment, for the Fairfax County public school system?

## **Library 2020 Question:**

Shall Fairfax County, Virginia, contract a debt, borrow money, and issue bonds in addition to the public library facilities bonds previously authorized, in the maximum aggregate principal amount of \$90,000,000 for the purpose of providing funds, with any other available funds, to finance the cost to provide public library facilities, including the construction, reconstruction, enlargement, and equipment of existing and additional library facilities and the acquisition of necessary land?

## County Referenda Overview Continued

- Current Referenda Plan
  - Schools – odd numbered calendar years
  - County – even numbered calendar years
- Sunset Rule:
  - All referenda expire in eight years from date of voter approval
  - Two-year extension permitted upon petition to Circuit Court
- Citizen approval rates average in the mid-70% range

# Current Approved Out Year Bond Referenda

Date	Category	Amount	Description
2021	Schools	\$360 million	Capacity Enhancement, Renovation, Infrastructure Management
2022	County	\$97 million	Public Safety \$72 million Early Childhood Education Facilities \$25 million
2023	Schools	\$360 million	Capacity Enhancement, Renovation, Infrastructure Management
2024	County	\$381 million	Transportation (Metro) \$180 million Parks and Parks Facilities \$112 million Human Services \$64 million Early Childhood Education Facilities \$25 million
2025	Schools	\$360 million	Capacity Enhancement, Renovation, Infrastructure Management

Source: FY 2021-2025 Adopted Capital Improvement Program

# Project Cashflow & Bond Sale

- Referenda sold over multiple years
- For example, Schools referenda is \$360 million every two years; and sell \$180 million annually
- For County projects, staff review project cashflow needs and sell only those amounts required for the current fiscal year's needs
- Actual spenddown varies by category
  - Influenced from various factors such as project scope and construction timeline
- As another example, the County's current contribution to WMATA's CIP is projected as follows

		2021	2022	2023	2024	2025
County Source	2016 Bonds	\$19,100,000				
	2020 Bonds	\$22,900,000	\$41,500,000	\$43,000,000	\$44,00,000	\$8,600,000
	2024 Bonds					\$37,100,000
<b>Total</b>		<b>\$42,000,000</b>	<b>\$41,500,000</b>	<b>\$43,000,000</b>	<b>\$44,00,000</b>	<b>\$45,700,000</b>

# January 2021 General Obligation Bond Sale

- Authorization provided from 2020 and prior year bond referenda approvals
- Amounts are then included as part of the County's annual General Obligation Bond Sale held typically in January
- Planning for \$290 million bond sale (Series 2021) in late January 2021

Category	Amount
Schools	\$180,000,000
Transportation – WMATA	42,000,000
Transportation - Roads	15,000,000
Public Safety	30,000,000
Parks	18,000,000
Human Services	3,000,000
Libraries	2,000,000
<b>Total</b>	<b>\$290,000,000</b>

## County General Obligation Bonds

- The “Full Faith and Credit” of Fairfax County is irrevocably pledged
- 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 rating category that consists of the following as of January 2021:
  - 13 out of 50 States
  - 49 out of 3,069 Counties
  - 33 out of 35,000+ Cities and Towns
- Ten Principles of Sound Financial Management – Financial Blueprint
- Debt service issues of capacity & affordability

## Rating Agency Criteria – County General Obligation Bonds

Criteria	Comments
Financial Condition	<ul style="list-style-type: none"> <li>• Sound financial position</li> <li>• Funding reserve levels</li> <li>• Funding of long-term liabilities (pensions)</li> </ul>
Debt	<ul style="list-style-type: none"> <li>• Reasonable debt burden with manageable future borrowing</li> <li>• Rapid debt amortization</li> </ul>
Economy & Demographics	<ul style="list-style-type: none"> <li>• Wealthy, diverse, and sizable tax base</li> <li>• Diverse commercial activity</li> <li>• High performing public-school system</li> <li>• COVID-19 impact on County economy and financials</li> </ul>
Management	<ul style="list-style-type: none"> <li>• Profile and experience of County leadership team</li> <li>• Conservative approach to budgeting and financial management/policies &amp; adherence to “Ten Principles of Sound Financial Management”</li> <li>• Strong history of voter support for bond referendum</li> </ul>

# Economic Development Authority Revenue Bonds

## Background

- Voter referendum only required for General Obligation Bonds with the “Full Faith and Credit” unconditional guarantee
- Political Subdivision of the EDA as defined in state law is able to serve as a vehicle to issue bonds
  - Allows BOS additional flexibility relative to timing and complicated issuances
- County EDA Bond ratings typically one notch below Triple A (Aa1/AA+/AA+)
- County has utilized EDA financings for several years
- Approach has not displaced County and School projects programmed in out-year bond referenda

## Background Continued

- Some projects have included complex financing structures and extensive development agreements
- Other financings driven by petitions by landowners to provide transportation improvements for select project areas in the County
  - Non-General Fund impact
- Current and future proposed projects are referenced in the County's Capital Improvement Program
- Debt service issues of capacity & affordability
- Debt service repayment options:
  - County General Fund
  - Surcharge on real estate tax
  - Pledged revenues

# General Fund - County / Schools Use of EDA Bonds

Year	Project	Amount Financed (PAR)	Comment	Debt Service Repayment
2003	South County High School & Laurel Hill Golf Course	\$70,830,000	Land purchase agreement with the Federal Government of former prison site; construction of school and golf course	County General Fund (High School portion) Park Authority transfer to County General Fund (golf course portion)
2005	School Administration Building	\$60,690,000	Purchase of an office building; consolidation of operations of space owned and leased by the School Board	Schools transfer to County
2012	Merrifield Center & Providence Community Center	\$65,965,000	Real Estate land exchange with Inova; replacement of Woodburn Mental Health Center and consolidation of other CSB leased space; Community Center constructed via proffered and bond funds	County General Fund
2014	Public Safety Headquarters & Workhouse Arts Center	\$126,690,000; \$30,175,000	New construction of headquarters facility on Government Center campus; leasehold acquisition at the Workhouse Campus in Lorton, VA	County General Fund
2017	Lewinsville Project	\$19,060,000	Construction of a new senior center, adult day health care center, and child daycare center; and senior independent living residences paid by developer	County General Fund

## Non-General Fund - Transportation Related

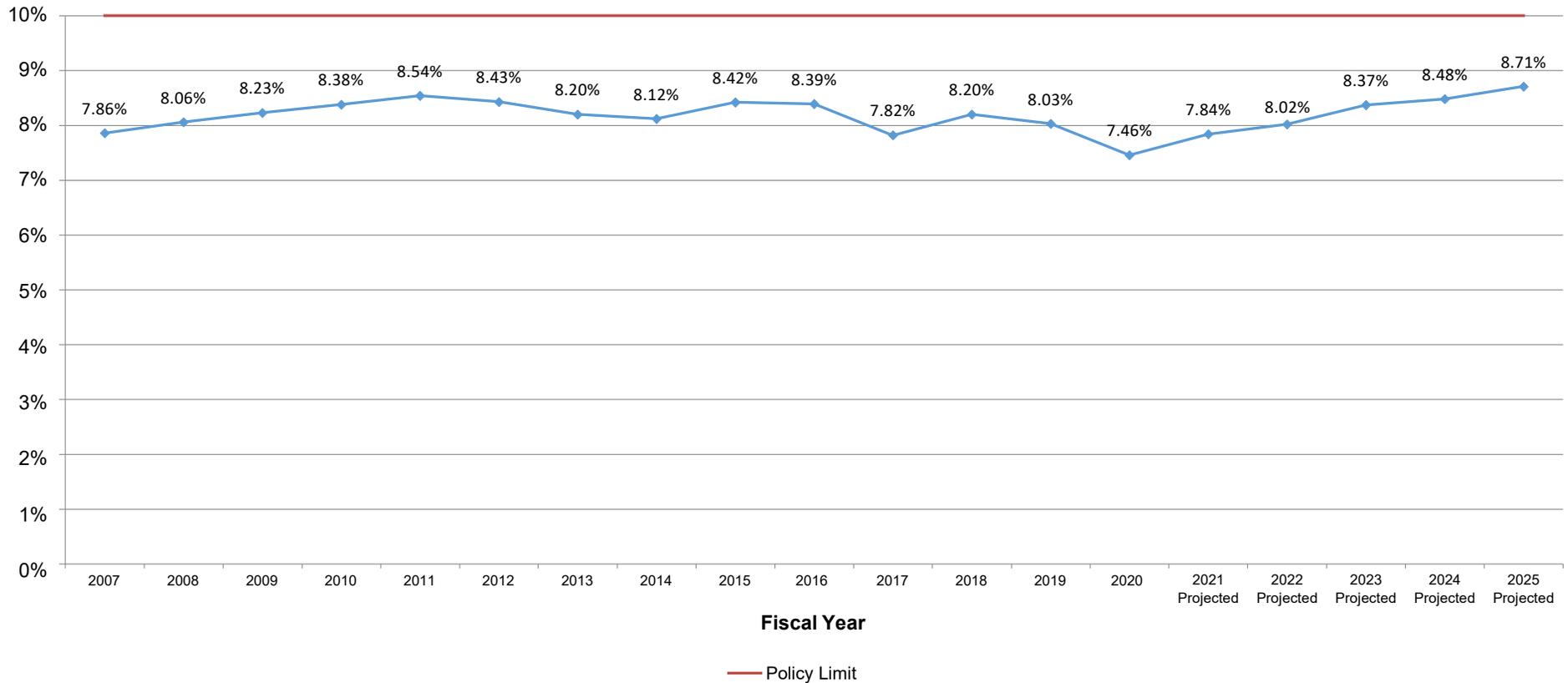
Year	Project	Amount Financed (PAR)	Comment	Debt Service Repayment
2011	Wiehle Reston-East Metrorail Station Parking Garage	\$99,430,000	County agreement to construct as part of the Silver Line Phase 1	Parking fees, Ground Rent, and local transportation revenues
2011 & 2012	Fairfax County Contribution for Silver Line Phase 1*	\$248,095,000	Landowner petition to meet Phase 1 funding obligation	Real estate tax rate surcharge on commercial & industrial properties
2014	Fairfax County Contribution for Silver Line Phase 2 - Transportation Infrastructure Financing and Innovation Act (TIFIA) Loan*	\$403,275,000	Landowner petition & County transportation revenues to meet Phase 2 funding obligation	Real estate tax rate surcharge on commercial & industrial properties; local transportation revenues
2017	Herndon and Innovation Center Metrorail Station Parking Garages	\$69,645,000	County agreement to construct as part of the Silver Line Phase 2	Parking fees generated at County owned and WMATA Metrorail Parking facilities in the County

\*Refers to financings only and excludes equity contributions from respective Phase 1 & 2 total funding obligations

# Ten Principles of Sound Financial Management

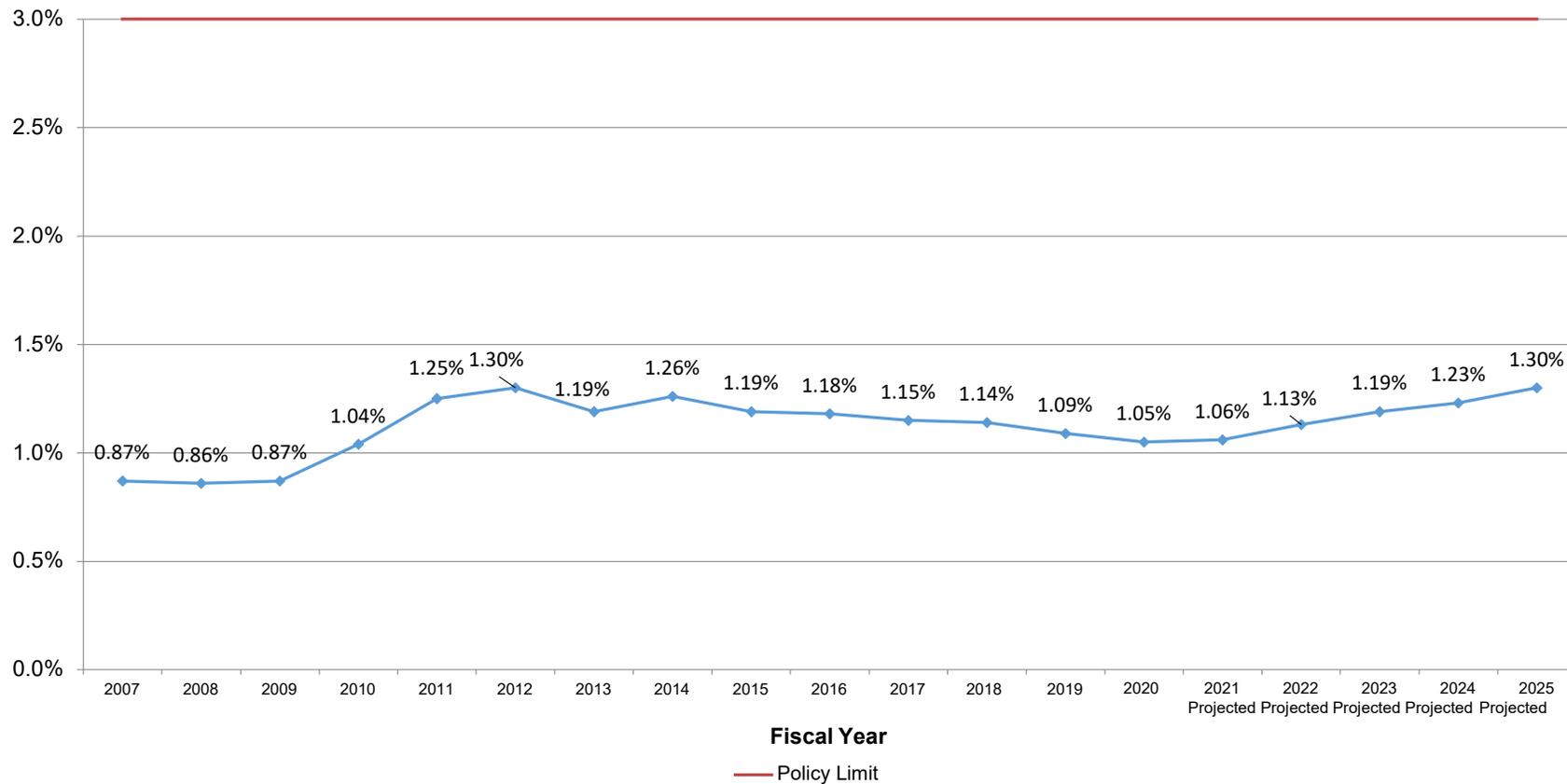
- Adopted in 1975 – Cornerstone of County’s financial policy
- Statement of Board’s commitment to the County’s financial policies
- Reaffirmed and amended in FY 2016 with revised reserve funding levels
- FY 2019 revised annual General Obligation bond sale limits
  - Increase from \$275 million to \$300 million per year
  - Schools \$180 million and County \$120 million
- Establishes limits to borrowing & benchmarks for debt ratios
  - Annual Debt Service less than 10% of total disbursements
  - Net outstanding debt not to exceed 3% of total assessed value
  - Includes all General Obligation Bonds & Economic Development Authority Bonds with debt service paid from the General Fund

# Debt Service To General Fund Disbursements\* - 10% Limit



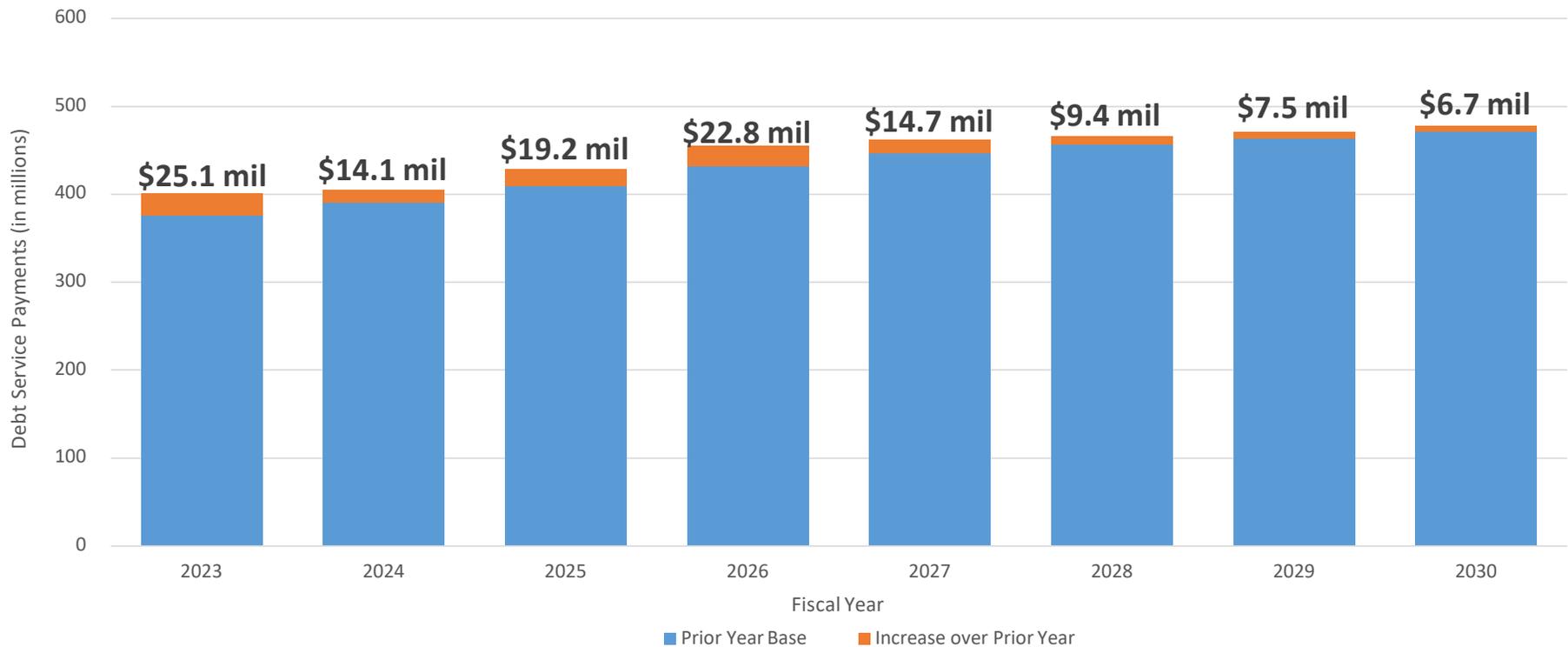
Source: CAFR from FY 2007 to FY 2020; FY 2021 – FY 2025 per Adopted Capital Improvement Program; \*Benchmarked against 2% annual revenue growth.

# Net Debt to Total Assessed Value\* – 3% Limit



Source: CAFR from FY 2007 to FY 2020; FY 2021 – FY 2025 per Adopted Capital Improvement Program; \*Benchmarked against 2% annual growth in assessed value.

# Affordability: Projected Increased Debt Service Payments



Source: FY 2021 – FY 2025 Adopted Capital Improvement Program

## Affordability: \$25 million General Obligation Bond Sale Impact

- The following chart assumes a \$25 million General Obligation Bond Sale (**Highlighted**) beginning in FY 2021 and annually thereafter
- Debt service payments (*italicized*) begin fiscal year following each bond sale
- Initial year of debt service is \$2.25 million and cumulative fiscal impact of \$22 million through FY 2025.

Fiscal Year					Total
2021	<b>\$25,000,000</b>				
2022	<i>2,250,000</i>	<b>\$25,000,000</b>			<i>\$2,250,000</i>
2023	<i>2,200,000</i>	<i>2,250,000</i>	<b>\$25,000,000</b>		<i>\$4,450,000</i>
2024	<i>2,150,000</i>	<i>2,200,000</i>	<i>2,250,000</i>	<b>\$25,000,000</b>	<i>\$6,600,000</i>
2025	<i>2,100,000</i>	<i>2,150,000</i>	<i>2,200,000</i>	<i>2,250,000</i>	<i>\$8,700,000</i>
<b>Debt Service</b>	<b><i>\$8,700,000</i></b>	<b><i>\$6,600,000</i></b>	<b><i>\$4,450,000</i></b>	<b><i>\$2,250,000</i></b>	<b><i>\$22,000,000</i></b>

Questions?