FAIRFAXCOUNTY
VIRGINIA

County and Schools Capital Paydown and Bond Programs

Joint Board of Supervisors/School Board CIP Committee

September 2, 2021

Current County and Schools Capital Challenges

- Backlog of infrastructure replacement projects based on limited funding for Paydown
- Increased sales requirements for Metro
- More complex project colocation plans
- Occupied and phased renovations
- Requirement to sell bonds in 8 years (2-year extension available)
- Project delays, supply shortages, and cost increases due to COVID-19 Pandemic
- Environmental/energy initiatives impacting capital projects

Staff Recommendations

- Increase Bond Sale limit from $300 million to $400 million annually
  - Recognizes that sales limits have not increased since 2007 (County) and 2019 (FCPS)
  - Would recommend gradual increase in sales over several years
  - Ultimately both County and FCPS would receive an additional $50 million
  - Ultimate total of $170m for County and $230m for FCPS
- Dedicate the equivalent value of one penny on the Real Estate tax to capital program
  - Recommend as part of the FY 2023 budget
  - Would support both Paydown and future debt service
  - First year would focus on Paydown and increases would be split evenly between County and FCPS
  - Second year would include first debt service payment with the balance in paydown
  - Investment would need to grow gradually over time as debt service costs increase
- Increase percentage allocated to Sinking Fund at year-end and include FCPS in allocation
  - Overall allocation would increase from 20% to 30% of balances not needed for critical year-end items
  - FCPS would receive 25% of this allocation

Cumulative Impact of Increased Bond Sales

- Example assumes a $50 million General Obligation Bond Sale increase beginning in January 2023 ($25 million each for County and Schools) and $100 million increase beginning in January 2025 ($50 million each)
- Debt service payments begin in the fiscal year following each bond sale
- Assumes 3% interest rate

Fiscal Year	January 2023	January 2024	January 2025	January 2026	Total
FY 2023	$50,000,000				
FY 2024	4,000,000	$50,000,000			**$4,000,000**
FY 2025	3,925,000	4,000,000	$100,000,000		**7,925,000**
FY 2026	3,850,000	3,925,000	8,000,000	$100,000,000	**15,775,000**
FY 2027	3,775,000	3,850,000	7,850,000	8,000,000	**23,475,000**

Allocation of Additional Resources

- In FY 2023, as no debt service payments would be required, the entire dedicated 'penny' would be directed to Capital Paydown
  - If assume penny at $28 million, would equal $14 million each for County/Schools
- In FY 2024, assuming debt service requirements of $2 million each, approximately $12 million would be directed to County/Schools for Paydown
- As debt service requirements grow, Paydown would be reduced until reaching a baseline amount (assumed $10 million)
- Debt/Paydown needs would gradually exceed value of one penny, but would be adjusted as part of annual budget process

Projected Allocations*
(in millions)

	County		Schools		Total
	Debt	**Paydown**	**Debt**	**Paydown**	**Total**
FY 2023	$0.0	$14.0	$0.0	$14.0	**$28.0**
FY 2024	$2.0	$12.0	$2.0	$12.0	**$28.0**
FY 2025	$4.0	$10.0	$4.0	$10.0	**$28.0**
FY 2026	$7.9	$10.0	$7.9	$10.0	**$35.8**
FY 2027	$11.7	$10.0	$11.7	$10.0	**$43.4**
FY 2028	$15.5	$10.0	$15.5	$10.0	**$51.0**

** Assumes $25 million increase each for County and Schools in January 2023 and January 2025; Assumes 3% interest rate*

Benefits of Additional Investment

- Additional investment will allow the County to:
  - Support more critical infrastructure replacements projects and address backlog
  - Support increasing Metro capital obligation
  - Account for increased construction costs and impact of potential Prevailing Wage Ordinance
- Additional investment will allow the Schools to:
  - Design and construct 1-2 additional school capital improvement projects per year
  - Address backlog of critical needs – infrastructure and maintenance
  - Enhance sustainability initiatives
  - Account for increased construction costs and impact of potential Prevailing Wage Ordinance

CIP Process Changes for Consideration

- Timing and size of future referenda – County may want to move away from referendum by purpose every 4 years
- County may consider delaying 2022 County Referendum ($97m)
- Review assumptions used in future year CIP projections
- Account for complexity of co-location projects, provide more flexibility in bond questions
- Provide Paydown funding for feasibility studies to better define colocation opportunities, identify project needs and costs

Timeline for Change

- Mid-November: Finalize Committee Report with recommendations
- November 23rd: Discuss Report at Joint BOS/School Board meeting
- December 2021: Discuss proposed changes with rating agencies in advance of January 2022 bond sale (one year in advance of increased sale)
- December 2021: School Board discussion regarding Boundary Change Report and potential next steps
- Spring 2022: BOS approves FY 2023 Budget with change to *10 Principles of Sound Financial Management* Bond Sale limits and increased Paydown
- January 2023: First Bond sale with higher sales
- FY 2024: First year of debt service requirements for higher sales