

## Response to Questions on the FY 2005 Advertised Budget Plan

**Request By:** Chairman Connolly and Supervisor Gross

**Question:** What will be the impact to the County's bond rating if the State is downgraded? What impact will the State budget impasse have on the Fairfax County Bond rating?

**Response:** Fairfax County should not experience an immediate impact from either situation.

The County's economic fundamentals are very strong and not dependant on the State's rating. Lower rated jurisdictions in Virginia may experience some impact due to the State aid intercept provisions of the State code which automatically guarantee a local jurisdiction at least an A1/A rating from Moody's and Standard and Poor's, however, this factor has never been a benefit to the County. In fact there are a number of Triple-A jurisdictions in states that are themselves not rated AAA by all three rating agencies. Notable examples include DuPage County and Lake County, Illinois; Hennepin County, Minnesota and Monmouth County, New Jersey. These states do not have a AAA from any of the rating agencies. North Carolina has only a AAA from Fitch and Standard and Poor's, and not from Moody's (the position that Virginia could find itself in with a Moody's downgrade) and yet has 4 counties and 5 cities rated AAA from all three rating agencies.

Jurisdictions that do not receive significant state aid are not expected to see a direct or ongoing impact in the bond markets. The key will be how the County is perceived in adjusting and managing the impact both to County programs and the Schools. The relatively low amount of aid received from the state and the County's economic strength will help mitigate any concern in the short term. However, a significant loss of state revenue will result in some very difficult choices for the County that could include revenue enhancements and/or expenditure reductions based on the size of the revenue loss from the state.