#254
Consolidated Debt
Service

Fund Overview

This LOB provides for the debt service expenditures for the general obligation bonds of the County as well as the general obligation bonds for the Fairfax County Public Schools (FCPS). In addition, debt service expenditures are included for the Fairfax County Economic Development Authority (EDA) Lease Revenue Bonds and School facilities, payments for Fairfax County Redevelopment and Housing Authority (FCRHA) Lease Revenue Bonds, payments to the Virginia Resources Authority (VRA), and direct loans to banking institutions. Revenues for the debt service funds are derived principally from a transfer from the General Fund.

Fund Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
FUNDING			
Expenditures:			
Bond Expenses	$295,655,952	$311,178,438	$321,900,342
Total Expenditures	$295,655,952	$311,178,438	$321,900,342
Transfers Out:			
Transfer Out to General Fund	$8,000,000	$0	$0
Transfers Out to Other Funds	0	8,000,000	0
Total Transfers Out	$8,000,000	$8,000,000	$0
Revenues:			
Build America Bonds Subsidy	$2,929,299	$2,951,575	$2,100,000
Miscellaneous Revenue	9,148	8,554	0
Bond Proceeds	544,122	994,078	500,000
Revenue from Fairfax City	64,522	119,527	80,000
Total Revenue	$3,547,091	$4,073,734	$2,680,000
Transfers In:			
Transfer In from General Fund	$291,165,641	$310,883,333	$314,950,773
Transfers In from Other Funds	4,520,055	3,914,163	4,269,569
Total Transfers In	$295,685,696	$314,797,496	$319,220,342

Lines of Business Summary

		FY 2016 Adopted	
LOB #	LOB Title	Disbursements	Positions
254	Consolidated Debt Service	$321,900,342	0
Total		$321,900,342	0

Lines of Business

LOB #254:

CONSOLIDATED DEBT SERVICE

Purpose

The purpose of this LOB, through the Consolidated County and Schools Debt Service Fund (Fund 20000), is to budget and make payments for the County's annual debt service. In addition to the County and Schools Debt Service, the County makes other debt service payments for the specific purposes of the Dulles Rail Phases I and II Tax Districts.

Description

This LOB provides for the debt service expenditures for the general obligation bonds of the County as well as the general obligation bonds for the Fairfax County Public Schools (FCPS). In addition, debt service expenditures are included for the Fairfax County Economic Development Authority (EDA) Lease Revenue Bonds and School facilities, payments for Fairfax County Redevelopment and Housing Authority (FCRHA) Lease Revenue Bonds, payments to the Virginia Resources Authority (VRA), and direct loans to banking institutions. Revenues for the debt service funds are derived principally from a transfer from the General Fund. Debt service expenditures on Sewer Revenue Bonds are reflected in the Integrated Sewer System, which is separate from the General Fund and classified as a self-supporting Enterprise Fund.

In addition to the more traditional methods of long-term financing through General Obligation Bonds, the County has been able to accomplish major capital improvements through the use of alternative financing while maintaining the County's fiscal integrity as required by the *Ten Principles of Sound Financial Management (Ten Principles)*. Accomplishments such as Metro station parking garages, construction improvement on Route 28, the opening of a commuter rail and construction of government facilities have all been attained in addition to a robust bond construction program. In 2003, the County was able to accelerate the construction of a new high school by three years through the creative use of revenue bonds in connection with the joint development of a senior care facility and a golf course. From 1999 through 2015, the County has approved $3.93 billion of new debt via referendum, with $2.62 billion for Schools and $1.31 billion for the County.

The Board of Supervisors has adopted specific debt indicators within the *Ten Principles* to effectively manage the County's bonded indebtedness. The *Ten Principles* state that the County's debt ratios shall be maintained at the following levels:

- Net debt as a percentage of estimated market value should always remain less than 3.0 percent; and
- The ratio of debt service expenditures as a percentage of Combined General Fund disbursements should remain under 10.0 percent.

During the adoption of the FY 2008 budget, the *Ten Principles* were revised to allow for the use of variable rate debt. Variable rate obligations are debt obligations that are used for short-term or interim debt financing and have an interest rate that is reset periodically, usually for periods of less than one year. Variable rate debt is typically used to take advantage of low short-term rates in anticipation of converting to longer-term fixed rate financing for complex projects or to mitigate the impact of volatile markets. Also, variable rate debt reduces interest costs and typically provides the ability to redeem bonds without a prepayment penalty. The use of variable rate debt often provides opportunities for interest rate savings, reduces arbitrage payments and promotes more accurate sizing for long-term bond issues.

On November 19, 2007, the Board of Supervisors approved the Master Trust Agreement, Bank Note and related documents associated with acquisition of a $200,000,000 revolving line of credit (LOC) from Bank of America. On October 19, 2010, the Board of Supervisors approved a renewal of the LOC in the amount of $100,000,000. On December 3, 2013, the Board of Supervisors again renewed the LOC in the amount of $100,000,000 for an additional three-year contract term.

For FY 2016, changes to the Ten Principles were reflected in the Board's commitment to increasing the County's reserve policies to continue to strengthen the County's financial position. As a result, the Managed Reserve will increase from 2 to 4 percent of General Fund Disbursements, the Revenue Stabilization Reserve will increase from 3 to 5 percent of General Fund Disbursements, and a new Economic Opportunity Reserve will be established at 1 percent of General Fund Disbursements. The revised total for these reserves will thus increase from 5 to 10 percent, and the County will continue to provide funding for other replacement reserves. As a result, the County reserve policy will be more in-line with jurisdictions with similar credit ratings. Funding of this increase will begin immediately; however, it will take several years to fully fund the new target level.

Dulles Rail
In addition, Metrorail service is planned to be extended approximately 23 miles from an area east of West Falls Church station, along the median of the Dulles Connector Road (DCR) through Tysons Corner, then further out the Dulles International Airport Access Highway (DIAAH), through Dulles International Airport, to Route 772 in Loudoun County. The total cost of the Rail to Dulles Project currently is estimated to be $5.9 billion. The total County 16.1 percent share of the Project is estimated to be approximately $915 million. Fairfax County will contribute $400 million from the Phase I tax district and $330 million from the Phase II tax district. The $185 million balance will be supported by proceeds from the TIFIA loan that will be repaid using the County's Commercial and Industrial real estate tax.

Benefits

As a result of robust financial policies, prudent fiscal management and a strong economy, the County has been awarded the strongest credit rating possible from the three major national rating services. The County holds a Aaa from Moody's Investors Service (awarded 1975), a AAA from Standard and Poor's Ratings Service (awarded 1978), and a AAA from Fitch Ratings (awarded 1997). As of May 2015, Fairfax County is one of only 10 states, 40 counties, and 30 cities to hold a triple-A rating from all three services. This high rating allows the county to finance borrowing at a lower cost, among other benefits.

Since 1975, the savings associated with the County's triple-A bond rating is estimated at $470.9 million. Including savings from the various refunding sales, the total benefit to the County equates to $702.5 million. Also, implementation of a Master Lease program and judicious use of short-term lease purchases for computer equipment, copier equipment, school buses and energy efficient equipment have permitted the County and Schools to maximize available technology while maintaining budgetary efficiency.

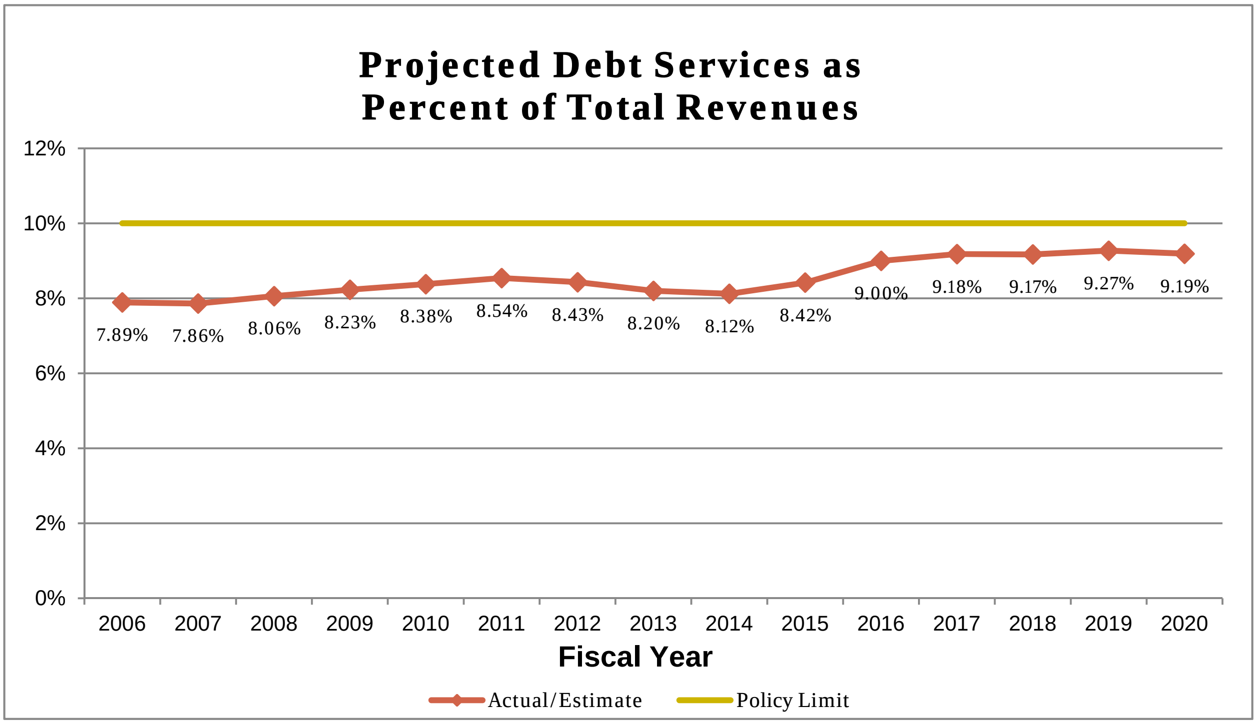
Mandates

This Line of Business is not mandated.

Trends and Challenges

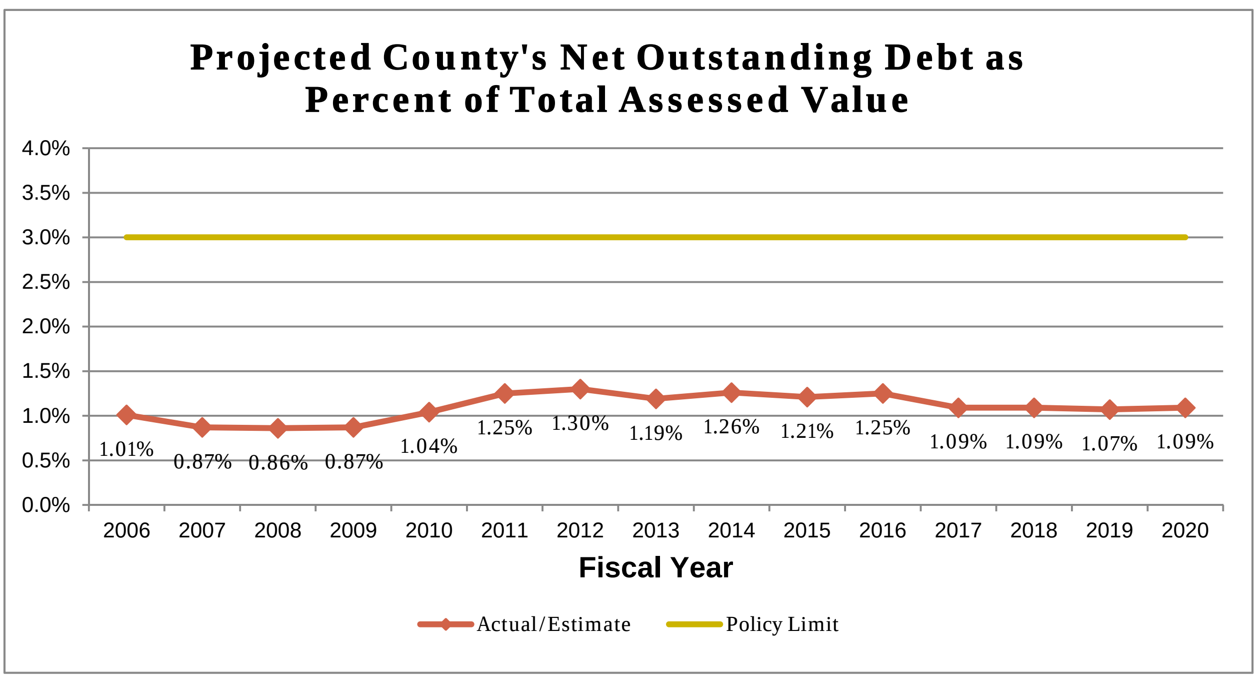
The County's Capital Improvement Program addresses out year capital needs through the use of annual bond referendums that detail proposed capital investments for the County and FCPS. Bond proceeds provide a majority of the funding required to address aging infrastructure and requirements for new facilities. As a result, this LOB will continue to provide diligent forecasting of out year debt ratio projections utilizing conservative assumptions with respect to annual growth in revenue and assessed values, and projected interest rates.

The following chart highlights the County's out year projection of its debt service as a percent of projected revenues in the context of its 10 percent limit.



Source: County Comprehensive Annual Financial Report from FY 2006 to FY 2015 (actuals); County Capital Improvement Program FY 2016-2020 (estimates). Projections assume an annual revenue increase of 2.5 percent.

The following chart highlights the County's out year projection of its net outstanding debt as a percent of total assessed value in the context of its 3 percent limit:



Source: County Comprehensive Annual Financial Report from FY 2006 to FY 2015 (actuals); County Capital Improvement Program FY 2016-2020 (estimates). Projections assume an annual revenue increase of 2.5 percent.

Resources

As this line of business encompasses all activities of the fund, please refer to the table in the Fund Resources section above.

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
General Obligation Bond Sales or Refundings Conducted	1	1	3	2	1
Dollar Value of General Obligation Bond Sales (millions)	$206.34	$264.30	$248.10	$249.72	$274.14
Dollar Value of General Obligation Refunding Bond Sales (millions)	$128.00	$51.98	$631.20	$115.00	N/A
Special Financings Conducted	2	3	1	2	2
Dollar Value of Special Financings (millions)	$67.04	$273.71	$403.30	$280.92	$112.00
Bond Referenda	4	1	1	2	4
Cost per $1,000 bonds issued	$2.45	$2.15	$3.90	$5.00	$5.00
Bond Rating of AAA/Aaa/AAA	Yes	Yes	Yes	Yes	Yes
Interest rate for General Obligation Bond Sale (new money)	2.51%	2.84%	2.68%	TBD	TBD
Savings on New Money Bond Sales compared to Bond Buyer Index (millions)	$25.14	$46.07	$22.04	TBD	TBD
Net Present Value Savings associated with refundings (millions)	$12.21	$4.38	$18.48	TBD	TBD

Outputs

General Obligation Bond Sales or Refundings Conducted, and corresponding dollar value:
General Obligation bond sales (new money) are conducted following voter approved referendum for specific categories such as schools, public safety, transportation, parks, libraries, and human services. The County also monitors its outstanding debt for potential refunding (e.g., refinancing) opportunities for lower interest rates and debt service payments. In FY 2015, the County successfully completed three refunding bond sales, totaling $631.2 million. For FY 2016, the County anticipates a new money bond sale and a refunding bond sale of $364.72 million. For FY 2017, the County is forecasting a new money bond sale of $274.14 million.

Special Financings Conducted and Dollar Value of Special Financings:
Special financings are traditionally non-general obligation bond sales that employ the use of a financing conduit such as the Fairfax County Economic Development Authority or Residential Housing Authority. For FY 2016, this refers to the anticipated refunding bond sales of $280.92 million for the Dulles Rail Phase 1 Tax District and the County's Integrated Sewer System. For FY 2017, this refers to anticipated new money bond sales of $112 million for the Lewinsville project and the Herndon and Innovation Center Station Parking Garages.

Bond Referenda:
In FY 2016, Fairfax County voters approved two bond referendum for Public Safety in the amount of $151 million and for the Fairfax County Public Schools in the amount of $310 million. For FY 2017, the County has assumed four bond referendum to be presented to voters for the following categories: Human Services; Community Development; Parks, which includes the County's capital contributions to the Northern Virginia Regional Park Authority; and Transportation for the County's capital contributions to the Washington Metropolitan Area Transit Authority (WMATA). Amounts for each category are being finalized and will be included as part of the County's FY 2017-FY 2021 Advertised/Adopted Capital Improvement Program.

Efficiency

Cost per $1,000 bonds issue:
Costs of issuance include all expenses associated with the planning efforts leading up to a bond sale (e.g., ratings, marketing, printing, legal and financial review) and the resulting requirements to provide for financial closing following the bond sale. The County uses a conservative projection of $5 per $1,000 bonds issued.

Service Quality

Bond Rating of AAA/Aaa/AAA:
The County holds a Aaa from Moody's Investors Service (awarded 1975), a AAA from Standard and Poor's Ratings Service (awarded 1978), and a AAA from Fitch Ratings (awarded 1997). As of May 2015, Fairfax County is one of only 10 states, 40 counties, and 30 cities to hold a triple-A rating from all three services.

Outcome

Interest Rate for Bond Sale:
The County assumes a 4 percent interest rate for all out-year debt forecasting for future bond sales. This conservative assumption ensures that the County remains under its debt ratio limit whereby annual debt service is not to exceed 10 percent of annual disbursements. In recent years, the County has benefitted from the low interest rate environment as illustrated by the rates received in FY 2013 (2.51 percent), FY 2014 (2.84 percent), and FY 2015 (2.68 percent). As the Federal Reserve makes adjustments to interest rates, the County will consider adjustments to out year interest rate assumptions.

Savings on New Money Bond Sales Compared to Bond Buyer Index:
The Bond Buyer Index is published daily to track the interest rates received by all issuers of municipal bonds. The resulting composite of those rates is then compared to the rate received by the County, which has historically been much lower due to its strong triple A bond rating. The County is then able to calculate the corresponding lower debt service savings that its triple A bond rating helped it achieve than it would have otherwise received when compared to the Bond Buyer Index. Over the last thirty years, the differential between the rate on the County's bonds and the Bond Buyer Index has averaged 0.77 percent, which translates to a cumulative interest savings of $470.9 million over the life of the bonds.

Savings associated with refundings:
The County has benefitted from a low interest rate environment as reflected in the net present value savings of $35.1 million between FY 2013 and FY 2015. County refundings do not extend the original maturity of any bonds. The County monitors the opportunity to refund its outstanding debt obligations monthly.

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