LOB #50:

Capital and Debt Programs

Purpose

The Capital and Debt Program LOB provides leadership to a multi-agency team developing the County's annual Capital Improvement Program (CIP). The CIP addresses the County's needs associated with the acquisition, expansion, and rehabilitation of facilities and other infrastructure. The CIP serves as a planning instrument to identify needed capital projects and coordinate the financing and timing of improvements in a way that maximizes the return to the public.

In addition, the Debt Program portion of this LOB provides oversight of the County's current and projected debt service payments. The Debt Program LOB administers the planning and analytical efforts associated with the various County municipal bond sales which support the CIP.

Description

The Capital portion of this LOB provides coordination and analysis associated with the development of the County's CIP. The CIP serves as a long-range plan and is reviewed and revised annually based on current circumstances and opportunities. Priorities may be changed due to funding opportunities or as the needs of the community become more defined. The development of the CIP includes communication and support to the Planning Commission, Board of Supervisors and other boards, authorities and commissions; education regarding the CIP process for user agencies; research to identify CIP best practices; prioritization of capital projects annually; and improvements to the organization, content and presentation of the CIP document. Staff develops the CIP as a planning instrument to identify needed capital projects and coordinates the financing and timing of improvements in a way that maximizes the return to the public. The Board-adopted Principles of Sound Capital Improvement Planning are integral in the development of the annual CIP.

The CIP is supported largely through long-term borrowing that is budgeted annually as debt service or from General Fund revenues on a pay-as-you-go basis. Staff develops and analyzes the annual pay-as you-go capital budget, presents capital construction issues, and develops funding recommendations. The Board of Supervisors continues to emphasize the importance of maintaining a balance between pay-as-you-go financing and bond financing for capital projects. Financing capital projects from current revenues indicates the County's intent to show purposeful restraint in incurring long-term debt.

The Debt Program portion of the LOB provides oversight of 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). These bond sales are conducted on an annual basis following voter approved referendum for specific categories such as schools, public safety, transportation, parks, libraries, and human services. 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.

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)*. 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 (EDA), Residential Housing Authority (RHA), or the Virginia Resources Authority (VRA), and direct loans with select banking institutions. Revenues for debt service payments are derived principally from a transfer from the General Fund.

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.

Staff also provides annual monitoring and review of other County debt financing and special tax districts that includes the following: Sewer Revenue Bonds as part of the Integrated Sewer System, which is a self-supporting Enterprise Fund; Dulles Rail Phase 1 Transportation Improvement District; Dulles Rail Phase 2 Transportation Improvement District; Tysons Service District; Route 28 Transportation Improvement District; and the Mosaic Community Development Authority. These financings have self-supporting revenue streams separate from the County's General Fund and have no impact on the County's aforementioned debt ratios.

Benefits

Programming capital facilities over time can promote better use of the County's limited financial resources and assist in the coordination of public and private development. In addition, the programming process is valuable as a means of coordinating and taking advantage of joint planning and development of facilities. The CIP process seeks to look beyond the current year at what, where, when, and how capital investments should be planned. Capital programming enables public organizations to maintain an effective level of service for both the present and future population.

As a result of County 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. 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.

Mandates

There is no federal of state mandate for the debt program portion of this LOB. However, the CIP is prepared pursuant to § 15.2-2239 of the Code of Virginia, as amended, which reads:

> *"A local planning commission may, and at the direction of the governing body shall, prepare and revise annually a capital improvement program based on the comprehensive plan of the locality for a period not to exceed the ensuing five years. The commission shall submit the program annually to the governing body, or to the chief administrative officer or other official charged with preparation of the budget for the locality, at such time as it or he shall direct. The capital improvement program shall include the commission's recommendations, and estimates of cost of the facilities and life cycle costs, including any road improvement and any transportation improvement the locality chooses to include in its capital improvement plan and as provided for in the comprehensive plan, and the means of financing them, to be undertaken in the ensuing fiscal year and in a period not to exceed the next four years, as the basis of the capital budget for the locality. In the preparation of its capital budget recommendations, the commission shall consult with the chief administrative officer or other executive head of the government of the locality, the heads of departments and interested citizens and organizations and shall hold such public hearings as it deems necessary."*

Trends and Challenges

The County's infrastructure is aging and the need for renewal and renovation projects continues to grow. The CIP addresses future capital needs through the use of annual bond referendums that detail proposed capital investments for the County and FCPS. Bond proceeds will provide a majority of the funding required to address aging infrastructure and requirements for existing and new facilities. As a result, this LOB will continue 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.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #50: Capital and Debt Programs			
FUNDING			
Expenditures:			
Compensation	$428,524	$373,342	$382,111
Operating Expenses	39,743	36,144	16,630
Total Expenditures	$468,267	$409,486	$398,741
General Fund Revenue	$0	$0	$0
Net Cost/(Savings) to General Fund	$468,267	$409,486	$398,741
POSITIONS Authorized Positions/Full-Time Equivalents (FTEs)			
Positions:			
Regular	4 / 4	4 / 4	4 / 4
Total Positions	4 / 4	4 / 4	4 / 4

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
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
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
Savings associated with refundings (millions)	$12.21	$4.38	$18.48	TBD	TBD

Dollar Value of General Obligation Bond Sales or Refundings:
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.

Interest Rate for Bond Sale:
The County assumes a 4 percent interest rate in 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.