

Fund 20000

Consolidated County and Schools Debt Service Fund

Focus

Fund 20000, Consolidated County and Schools Debt Service Fund, accounts for the general obligation bond debt service of the County as well as general obligation bond debt service for the Fairfax County Public Schools (FCPS). In addition, debt service expenditures are included for the Economic Development Authority 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 on wastewater revenue bonds is reflected in the Enterprise Funds.

The following table includes the debt service payments and projected fiscal agent fees required in FY 2019 as well as the sources of funding supporting these costs:

	FY 2019 Advertised
Expenses	
County Debt Service	\$110,657,534
Lease Revenue Bonds	40,415,410
Park Authority (Laurel Hill Golf Course)	888,354
Fiscal Agent Fees/Cost of Issuance	1,120,000
Subtotal County	\$153,081,298
School Debt Service	\$188,249,881
Lease Revenue Bonds (South County High School)	4,291,152
School Administration Building	3,471,100
Fiscal Agent Fees/Cost of Issuance	880,000
Subtotal Schools	\$196,892,133
Total Disbursements	\$349,973,431
Funding	
General Fund Transfer	\$342,433,977
School Operating Fund Transfer	3,471,100
Build America Bonds Subsidy	2,600,000
Park Authority (Laurel Hill Golf Course)	888,354
Bond Proceeds to Offset Cost of Issuance	500,000
Fairfax City Revenue	80,000
Total Funding	\$349,973,431

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General Obligation Bonds

Preliminary expenses for debt service payments associated with FY 2018 bond sales have been incorporated into the FY 2019 projections.

Capital Leases

Funding is included for the following Capital Leases which were issued by other entities, but are actually supported by the County and paid through County Debt Service subject to annual appropriation by the Board of Supervisors:

Economic Development Authority (EDA), Virginia Resources Authority (VRA), and Direct Loan:

Herrity and Pennino Buildings (EDA)	\$8,082,125
Mott, Gum Springs, Baileys, & James Lee Community Centers; Herndon Harbor Adult Day Care Center; South County Government Center (EDA)	2,815,900
Mid-County Mental Health Center / Prov. Comm. Center (EDA)	3,673,700
Capital Renewal (Direct Loan)	7,113,980
Lincolnia Center (VRA)	948,781
Lewinsville (EDA)	2,844,673
Public Safety Headquarters (EDA)	12,806,700
South County High School (EDA)	4,291,152
Workhouse Arts Foundation (EDA)	2,129,551
Laurel Hill Golf Course (EDA)*	888,354
School Administration Building (EDA)**	<u>3,471,100</u>
Total Payments	\$49,066,016

* Reimbursed by a transfer in from the Park Authority.

**Reimbursed by a transfer in from the School Operating Fund.

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Debt Service Ratios

The Board of Supervisors has adopted specific debt indicators within the *Ten Principles of Sound Financial Management (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.

The Board of Supervisors annually reviews the cash requirements for capital project financing to determine the capacity to incur additional debt for construction of currently funded projects as well as capital projects in the early planning stages. In FY 1992 and FY 1994, bond projects were deferred in order to reduce planned sales and remain within capacity guidelines.

During the adoption of the FY 2008 Adopted Budget Plan, the *Ten Principles* were revised to allow for the use of variable rate debt. Variable rate obligations are debt obligations that are frequently 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. It is anticipated that the use of variable rate debt will provide opportunities for interest rate savings, reduce arbitrage payments and promote 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 and 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. Any line of credit borrowings will be in conformance with the FY 2011 Revised Budget Plan and the FY 2011-FY 2015 Capital Improvement Program (With Future Fiscal Years to 2020), or specific Board of Supervisors action approving such use. Variable rate debt will be used when it is most advantageous to the County in comparison to other financing options. A Variable Rate Debt Committee will carefully review each County department's request for use of the LOC and monitor the usage. The County has developed policies and procedures related to the use of variable rate debt and will monitor LOC usage closely. In January 2014, the County authorized a \$30,000,000 draw on the LOC to provide interim financing for the acquisition of the leasehold interest of the Lorton Arts Foundation at the Workhouse Arts Center (WAF). Bond proceeds from the Fairfax County Economic Development Authority Series 2014B-Taxable in June 2014 were used to repay the draw on the LOC. Thus the goal of a long-term permanent plan of finance for WAF was achieved. The County's contract for the LOC expired in December 2017 and was not renewed. In the absence of the LOC, the County will review all liquid investments within its portfolio, project balances from existing appropriation levels, and long term financing if a similar need were to occur.

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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 January 2018, Fairfax County is one of only 12 states, 46 counties, and 32 cities to hold a triple-A rating from all three services.

For the FY 2019 Advertised Budget Plan, the County has assumed an additional \$25 million in general obligation bonds for the Fairfax County Public Schools, thereby increasing their annual total from \$155 million to \$180 million. This bond sale is targeted for January 2019 with the debt service beginning in FY 2020. It is anticipated that discussions on this increase will occur with the Board of Supervisors as part of budget committee meetings in spring 2018. Also, any proposed changes would require revisions to current annual bond sale limits and the *Ten Principles of Sound Financial Management*, and a review of the debt ratio impact with respect to capacity and affordability.



The following are ratios and annual sales reflecting debt indicators for FY 2015 - FY 2019:

Net Debt as a Percentage of Market Value of Taxable Property

Fiscal Year Ending	Net Bonded Indebtedness ¹	Estimated Market Value ²	Percentage
2015	2,863,139,000	233,351,721,357	1.23%
2016	2,875,166,000	241,306,896,262	1.19%
2017	2,895,516,000	248,802,572,781	1.16%
2018 (est.)	2,916,652,000	253,634,562,936	1.15%
2019 (est.)	2,990,672,000	262,013,605,895	1.14%

¹ The amount includes outstanding General Obligation Bonds and other tax supported debt obligations as of June 30 in the year shown and is from the Fairfax County Department of Management and Budget. Source: FY 2015 to FY 2017 Comprehensive Annual Financial Report and Fairfax County Department of Tax Administration; FY 2018 and FY 2019 Fairfax County Department of Management and Budget and Department of Tax Administration.

² Source: Fairfax County Department of Tax Administration and the Department of Management and Budget.

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Debt Service Requirements as a Percentage of Combined General Fund Disbursements

<u>Fiscal Year Ending</u>	<u>Debt Service Requirements¹</u>	<u>General Fund Disbursements²</u>	<u>Percentage</u>
2015	313,968,578	3,729,624,836	8.42%
2016	323,859,385	3,860,655,340	8.39%
2017	313,389,406	4,005,844,810	7.82%
2018 (est.)	360,022,005	4,199,144,574	8.57%
2019 (est.)	364,552,763	4,288,101,414	8.50%

¹ The amount includes total principal and interest payments on the County's outstanding tax supported debt obligations, including General Obligation Bonds, Economic Development Authority bonds, and other tax supported debt obligations budgeted in other funds. Source: FY 2015 to FY 2017 Comprehensive Annual Financial Report; FY 2018 and FY 2019 Fairfax County Department of Management and Budget.

² Source: Fairfax County Department of Management and Budget.

Annual Bond Sales

<u>Fiscal Year Ending</u>	<u>Sales (millions)</u>
2015	256.30
2016	249.73
2017	258.30
2018	251.78
2019 (est.) ¹	302.73
Five Year Total	\$1,318.84

¹ Actual County and School bond sale amounts are based on the cash requirements for each project and municipal bond market conditions. Based on Board policy, par amounts of annual sales will be \$275.0 million per year or \$1.375 billion over a five-year period with a technical limit of \$300.0 million in any given year. These amounts reflect project fund deposits (par + premium) and exclude refunding bond sales. For the FY 2019 Advertised Budget Plan, the bond sale figure of \$302.73 million is above the current County limit of \$275 million due mainly to additional bond funds (\$25 million) provided to the Fairfax County Public Schools. It is anticipated that discussions will occur with the Board of Supervisors as part of budget committee meetings in spring 2018 to review and potentially revise annual bond sale limits.

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FY 2019 Funding Adjustments

The following funding adjustments from the FY 2018 Adopted Budget Plan are necessary to support the FY 2019 program.

- ◆ **Disbursement Adjustment** **\$8,599,784**
An increase in expenditures of \$8,599,784 or 2.52 percent is primarily attributable to scheduled requirements for existing debt service payments.

Changes to FY 2018 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2018 Revised Budget Plan since passage of the FY 2018 Adopted Budget Plan. Included are all adjustments made as part of the FY 2017 Carryover Review, and all other approved changes through December 31, 2017.

- ◆ **Carryover Adjustments** **\$22,148,358**
As part of the FY 2017 Carryover Review, the Board of Supervisors approved funding of \$22,148,358 for anticipated debt requirements in FY 2018 associated with bond sales and capital requirements as outlined in the FY 2018-FY 2022 Adopted Capital Improvement Program. Also, included in this amount is an additional appropriation of \$900,000 provided for the optional redemption for the Fairfax County Redevelopment and Housing Authority (RHA) Series 2003 for the Gum Springs Head Start Facility. Upon payoff, the deed will be recorded transferring ownership of the property from the RHA to the County. The facility had been in receipt of federal grant funding for capital renovations to the site. County ownership of the property, rather than through a lease with the RHA, provides the assurance to the federal government of a County commitment to continue operating the Head Start program following the investment of federal funds on site.

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FUND STATEMENT

Fund 20000, Consolidated Debt Service

	FY 2017 Actual	FY 2018 Adopted Budget Plan	FY 2018 Revised Budget Plan	FY 2019 Advertised Budget Plan
Beginning Balance	\$12,763,051	\$0	\$22,148,358	\$0
Revenue:				
Build America Bonds Subsidy	\$2,746,804	\$2,100,000	\$2,100,000	\$2,600,000
Miscellaneous Revenue	18,390	0	0	0
Bond Proceeds	491,543	500,000	500,000	500,000
Revenue from Fairfax City	38,466	80,000	80,000	80,000
Total Revenue	\$3,295,203	\$2,680,000	\$2,680,000	\$3,180,000
Transfers In:				
County Debt Service:				
General Fund (10001) for County	\$136,576,225	\$145,858,796	\$145,858,796	\$149,052,944
FCRHA Lease Revenue Bonds (10001)	176,429	176,429	176,429	0
Park Authority Lease Revenue Bonds (80000)	829,299	860,369	860,369	888,354
Subtotal County Debt Service	\$137,581,953	\$146,895,594	\$146,895,594	\$149,941,298
Schools Debt Service:				
General Fund (10001) for Schools	\$189,870,099	\$189,130,953	\$189,130,953	\$193,381,033
School Admin Building (S10000)	3,466,725	3,471,100	3,471,100	3,471,100
Subtotal Schools Debt Service	\$193,336,824	\$192,602,053	\$192,602,053	\$196,852,133
Total Transfers In	\$330,918,777	\$339,497,647	\$339,497,647	\$346,793,431
Total Available	\$346,977,031	\$342,177,647	\$364,326,005	\$349,973,431

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FUND STATEMENT

Fund 20000, Consolidated Debt Service

	FY 2017 Actual	FY 2018 Adopted Budget Plan	FY 2018 Revised Budget Plan	FY 2019 Advertised Budget Plan
Expenditures:				
General Obligation Bonds:				
County Principal	\$64,683,700	\$65,585,200	\$70,155,200	\$69,820,700
County Interest	34,173,503	31,451,244	36,224,379	32,447,434
Debt Service on Projected County Sales	0	9,270,000	17,742,411	8,389,400
Subtotal County Debt Service	\$98,857,203	\$106,306,444	\$124,121,990	\$110,657,534
Schools Principal	\$113,476,300	\$115,084,800	\$121,934,800	\$120,309,300
Schools Interest	58,293,672	53,463,266	60,617,171	54,252,681
Debt Service on Projected School Sales	0	13,950,000	3,378,907	13,687,900
Subtotal Schools Debt Service	\$171,769,972	\$182,498,066	\$185,930,878	\$188,249,881
Subtotal General Obligation Bonds	\$270,627,175	\$288,804,510	\$310,052,868	\$298,907,415
Other Tax Supported Debt Service (County):				
EDA Lease Revenue Bonds	\$27,430,161	\$35,511,295	\$35,511,295	\$34,492,405
Workhouse Arts Foundation	2,134,302	2,133,188	2,133,188	2,129,551
VRA 2013A - Lincolnia: EDA - Lewinsville	984,208	2,446,869	2,446,869	3,793,454
FCRHA Lease Revenue Bonds	176,429	176,429	1,076,429	0
Park Authority Lease Revenue Bonds	829,299	860,369	860,369	888,354
Other Tax Supported Debt Service (Schools):				
EDA Schools Lease Revenue Bonds	8,110,932	7,940,987	7,940,987	\$7,762,252
Subtotal Other Tax Supported Debt Service	\$39,665,331	\$49,069,137	\$49,969,137	\$49,066,016
Other Expenses	\$1,459,934	\$3,500,000	\$3,500,000	\$2,000,000
Total Expenditures	\$311,752,440	\$341,373,647	\$363,522,005	\$349,973,431
Transfers Out:				
Revenue Stabilization Fund (10010) ¹	\$13,076,233	\$804,000	\$804,000	\$0
Total Transfers Out	\$13,076,233	\$804,000	\$804,000	\$0
Total Disbursements	\$324,828,673	\$342,177,647	\$364,326,005	\$349,973,431
Ending Balance²	\$22,148,358	\$0	\$0	\$0
Unreserved Ending Balance	\$22,148,358	\$0	\$0	\$0

¹ These monies reflect savings associated with the County's General Obligation Public Improvement Refunding Bonds Series 2015B, 2015C, and Series 2016A. This transfer out is consistent with the County's revised financial policies incorporated as part of the FY 2016 Adopted Budget Plan to increase reserves levels with savings from bond refundings. No transfer out is reflected for FY 2019 per the final debt service figures from previous bond refundings as there is no applicable savings.

² The change in ending fund balance is the result of use of fund balance to offset projected debt service requirements.