Response to Questions on the FY 2019 Budget

Request By: Chairman Bulova

Question: Please provide information explaining the difference between EDA Bonds and General Obligation Bonds, including why one project might be a good candidate for an EDA Bond while another would be a candidate for a General Obligation Bond.

Response:

General Obligation Bonds
The County utilizes voter approved bond referendum to fund traditional funding categories such as schools, parks, public safety, libraries, and transportation. The County's Capital Improvement Program (CIP) outlines all future bond referendum plans. County staff plan and review all project requests from user agencies developing a prioritized list of out-year facility funding needs. Under the current schedule, the County will have bond referendum in the even numbered calendar years and schools in odd numbered calendar years. Upon approval from the voters, the County will then sell General Obligation (GO) bonds to investors for these projects. The County typically does this on an annual basis in the winter to meet the annual cash flows for the respective projects. These bonds carry Triple A bond ratings from all three bond rating agencies – Moody's Investor Services, Standard and Poor's and Fitch Ratings.

As part of the FY 2019 Advertised Budget Plan, the County proposed increasing the amount of GO bonds sold for Schools from $155 million to $180 million annually. The County's Ten Principles of Sound Financial Management are therefore recommended to reflect an increase in the annual bond sale limit from $275 million to $300 million. Even with the inclusion of this additional $25 million sold for Schools annually, the County's out year debt ratio estimates are projected to remain under the 3 percent of estimated market value and 10 percent of total disbursements policy limits. County staff recommend to retain GO bonds to continue to fund these traditional funding categories in the future.

Fairfax County Economic Development Authority
The County has for several years used alternative bond financing structures through the Fairfax County Economic Development Authority (EDA). Due to the nature of some of these projects, they don't neatly fall into a planned bond referendum year. Using an alternate financing would also not displace those projects already planned via an out-year bond referendum. Some of the EDA bond projects have included complex financing structures with extensive development agreements and funding components, and petitions initiated by landowners to provide project financing for select projects and areas in the County. For example, the Wiehle-Reston East Metrorail Parking Garage bond sale was part of a larger development agreement whereby the County entered into a long-term ground lease with a developer in exchange for ground rent on the County owned site. Also, the Merrifield Mental Health Center project involved a contract of sale prior to and following the EDA bond sale centered on agreements between the County and Inova relating to conveyance of parcels, the execution of a ground lease, and the County renting out a portion of its building to Inova.

In addition, the County has financed several government administration buildings through the EDA. Other examples of these facilities include the School Administration Building, Providence Community Center, Public Safety Headquarters, and the Lewinsville project. The County has developed a financing framework for these administration buildings that has been well received from the rating agencies noting the essentiality and centralization of services these facilities provide. The EDA bonds for these projects are rated one notch below GO bonds at the Aa1/AA+/AA+ level from each of the three rating agencies.

As noted at the March 13, 2018 Budget Committee meeting, future EDA bond sales would also be recommended for project work at Old Mount Vernon High School, Reston Town Center North, and a joint Stormwater/Wastewater facility. All prior and future EDA bond sales for these projects are included in the County's out year debt ratios.

Rating Agency Feedback

All three bond rating agencies review the County's total debt burden as part of the overall County financial performance when requesting ratings annually prior to selling GO bonds. Moody's most recently noted in January 2018 that "Although the County has a sizable capital improvement plan, we believe the County's active debt management and continued modest growth in assessed value will ensure the debt burden remains manageable."

EDA Financings – Transportation Related Priorities

The County's use of Economic Development Authority (EDA) financings for transportation related projects has been occurring for several years. The Route 28 Tax Improvement District has utilized the EDA to finance major interchange improvements to this corridor. Landowners in this district petitioned to have a surcharge tax rate applied to their properties in exchange for advancing construction on specific improvements within the district. This conduit financing allowed the district to leverage their land values for repayment of debt service rather than waiting for cash to accrue or state funding, either of which would have taken a much longer period of time.

EDA financings have also been used to finance County costs for the Metrorail Silver Line extension as part of the County's 16.1 percent share of baseline construction costs for the project. The Dulles Rail Phase 1 Transportation Improvement District issued two series of bonds, subsequently refunded, totaling $248 million as part of its $400 million obligation for Phase 1 of the project. In addition, the EDA was used in conjunction with the County's $403 million Transportation Infrastructure Financing and Innovation Act (TIFIA) loan with the United States Department of Transportation (USDOT). The TIFIA loan will be repaid from the Commercial and Industrial Fund and the Dulles Rail Phase 2 Transportation Improvement District. EDA bonds were also issued to fund the construction costs associated with the three County owned parking garages at Wiehle-Reston East, Herndon, and Innovation Center Station. Parking fees will be utilized to repay the debt on these garages, and also involved lengthy discussions with the Washington Metropolitan Area Transit Authority (WMATA) to amend documents that ensured the County's access to directly receive surcharge parking fees previously held by WMATA. The County's use of EDA financings for Silver Line related costs are being achieved without the reliance on GO bonds and displacement of other previously planned projects.

Board of Supervisors Review of EDA Financings

With all prior EDA bond financings, the Board of Supervisors was briefed in advance of the bond sale as part of committee presentations and individual briefings. A formal plan of finance was then presented as part of an Action Item at a Board of Supervisors meeting. In addition, the Fairfax County EDA provides for a public hearing on all proposed bond deals and also votes on the plan of finance at their committee meeting. This same approach will hold true for all future proposed EDA bond financings.

EDA financings have provided for and will continue to provide for unique financing opportunities for the County. This has included several opportunities that have leveraged public and private sector funds to advance major capital investments in infrastructure in the County. Updates to all proposed future projects to be financed through the EDA will be evaluated annually and included in the County's CIP with appropriate updates to the Board of Supervisors.