DEBT SERVICE

The FY 2021 proposed budget includes outstanding and new money debt service on the County's General Obligation (GO) bonds, Industrial Development Authority (IDA) bonds issued for County projects, and expenses associated with bond program administration. Total General Fund debt service is projected at $76,748,654, which includes $1.8 million for debt service on Buckingham Village 3. The Buckingham debt service has been budgeted in Non-Departmental and will be paid for from the Affordable Housing Investment Fund (AHIF). The FY 2021 proposed General Fund debt service budget to be supported by non-AHIF revenues totals $74,962,748.

Payment of School bonded indebtedness is provided for in the School Debt Service Fund and is supported by a transfer from the County's General Fund. Payment of Utility bonded indebtedness (which includes sewer, advanced wastewater, and water bonds) is provided for in the Utilities Enterprise Fund and supported by user fees.

FY 2021 PRIORITIES

The FY 2021 priorities for debt management are:

- To preserve the County's credit ratings at Aaa/AAA/AAA from Moody's, Standard & Poor's, and Fitch Ratings, respectively.
- To continue adhering to the County's prudent debt management policies.
- To issue approximately $121 million in new money GO bonds in CY 2020 as approved in the referenda from CY 2012, CY 2014, CY 2016, and CY 2018.

DEBT POLICY AND CREDIT RATINGS

The County's debt service budget reflects County fiscal policies regarding the prudent use of bond financing. There is no legal limit as to the amount of indebtedness that the County can incur; however, the County maintains and frequently updates a set of policies addressing fiscal integrity and sustainability (see budget.arlingtonva.us). These policies help ensure maintenance of the County's triple-A ratings. The policies include the following ratios:

- Ratio of Tax supported Debt Service to General Expenditures (10%);
- Ratio of Tax supported General Obligation Debt and Subject to Appropriation Financing to Market Value of County Taxable Real and Personal Property (3%);
- Ratio of Tax supported General Obligation Debt to Resident Per Capita Income (6%); and
- Ratio of growth in debt service should be consistent with the projected growth of revenues and not exceed the average ten-year historical revenue growth.

Charts A – E on the following pages demonstrate the County's historical and planned adherence to these debt management policies. This analysis is based on the approved projects in the Adopted FY 2019 – FY 2028 Capital Improvement Program (CIP) with updates to debt service based on completed bond sales and revisions to project cashflows where appropriate.

The Board's policies also include guidelines regarding the use of variable-rate debt:

- Variable rate debt exposure should not exceed approximately 20 percent of total outstanding fixed rate debt;
- Debt service on variable rate bonds will be budgeted at a conservative rate;
- Before issuing variable rate bonds, the County will determine how potential spikes in the debt service will be funded; and
- Before issuing any variable rate bonds, the County will determine the impact of the bonds on the County's total debt capacity under various interest rate scenarios; evaluate the risks inherent in the County's capital structure, giving consideration to both the County's assets and its liabilities; and develop a method for budgeting for debt service.

In addition to the County Board debt policies, Arlington County must follow the requirements set out by Article VII of the Constitution of Virginia, the Public Finance Act, and any local charter, resolution, or ordinance in order to incur debt. The issuance of Arlington County GO bonds must also be approved by public referendum. Certain types of debt are excluded from the referendum requirement, including revenue and refunding bonds.

By continually observing these policies, the County has maintained its credit ratings of Aaa/AAA/AAA from Moody's Investors Services, Standard & Poor's Corporation, and Fitch Ratings. These ratings were reaffirmed during the issuance of the Series 2019 GO bonds in May 2019. These are the highest credit ratings awarded and reflect the confidence that the rating agencies share in the County's prudent debt management, economic environment, sound financial position, and stable tax base.

2020 NEW MONEY BONDS

The proposed debt service budget was developed assuming a County GO bond sale of approximately $121 million in the spring of 2020. The initial debt service payments due in FY 2021 are approximately $7.5 million in the General Fund and $4.2 million in the School Debt Service Fund for their issuance of approximately $42 million of bonds.

SPRING 2020 NEW MONEY BOND ISSUANCE AND AUTHORIZED BUT UNISSUED BONDS

Referendum Category	Amount Issued	Authorized Unissued Bonds
Local Parks & Recreation	35.22	0.00
Metro	20.52	0.00
Transportation	16.04	8.50
Metro & Transportation	36.56	8.50
Community Infrastructure	49.70	14.30
County General Obligation Bonds	**$121.47**	**$22.81**
School General Obligation Bonds	42.35	11.98
Utility General Obligation Bonds	-	-
Total General Obligation Bonds	**$163.82**	**$34.79**

In $ millions, numbers may not add due to rounding

INTEREST EARNINGS

Interest earned on unexpended bond proceeds is used to pay debt service. The cash balances that produce interest earnings are based on the timing of bond sales and the cash demand of the construction schedules. Interest earned on unexpended bond proceeds began to slowly increase in FY 2019 after years of extremely low rates, however it has begun to decline again due to recent decreases to the federal funds target rate.

SUBJECT TO APPROPRIATION OBLIGATIONS

A "subject to appropriation" pledge represents a promise by the County to seek future appropriation, if needed, for debt service payments on certain financing. The County utilized this type of pledge for a variety of projects, as shown on Chart C. In the majority of cases, the County's support pledge has been used as credit enhancement, thereby allowing the project to be financed at a lower cost. In these cases, actual debt repayment will be made from project revenues and should not require General Fund support.

SIGNIFICANT BUDGET CHANGES

The FY 2021 proposed General Fund debt service budget is $74,962,748, a four percent increase over the FY 2020 adopted budget. This excludes debt service for bonds issued for Buckingham Village 3 and paid for from AHIF funds (budgeted accordingly in Non-Departmental).

	FY 2019 Actual	FY 2020 Adopted	FY 2021 Proposed	% Change '20 to '21
Principal	$45,619,171	$45,049,985	$44,865,434	-
Interest	23,756,039	28,810,415	31,758,220	10%
Other (1)	98,453	78,342	125,000	60%
Total Expenditures (2)	69,473,663	73,938,742	76,748,654	4%
Less: Debt Service Supported by AHIF	(1,787,282)	(1,785,400)	(1,785,906)	-
Total Non-AHIF Supported Debt Service	$67,686,381	72,153,342	$74,962,748	4%

(1) Includes trustee fees and other fees related to bond transactions. Expenditures related to cost of issuance are paid with proceeds of the bonds being issued.

(2) Includes the debt service for the IDA Revenue Bonds (2011/2013/2017)