

DEBT SERVICE

The FY 2021 adopted 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 \$70,748,654, 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 adopted General Fund debt service budget to be supported by non-AHIF revenues totals \$68,962,748.

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.

The general obligation bonds planned in CY 2020 are based on the approved projects in the Adopted FY 2019 – FY 2028 Capital Improvement Program (CIP). The issuance that was originally scheduled for the spring of 2020 has been delayed and rescheduled for late 2020 or early 2021 depending upon project funding needs. The FY 2020 debt service budget has been reduced \$6 million due to this delayed issuance schedule and reduction of debt service due in FY 2021. Outstanding debt service is based on completed bond sales and required principal and interest payments due to bondholders.

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 in 2019 as part of the issuance of the Series 2019 GO bonds and Series 2019B GO refunding bonds. 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 adopted debt service budget was developed assuming a County GO bond sale of approximately \$121 million in the fall of 2020. The initial debt service payments due in FY 2021 are approximately \$1.5 million in the General Fund and \$0.2 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	<u>16.04</u>	<u>8.50</u>
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 that are not financed under voter approved general obligation bond referenda. 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 adopted General Fund debt service budget is \$68,962,748, a four percent decrease 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 Adopted	% Change '20 to '21
Principal	\$45,619,171	\$45,049,985	\$42,936,034	(5%)
Interest	23,756,039	28,810,415	27,687,620	(4%)
Other (1)	98,453	78,342	125,000	60%
Total Expenditures (2)	69,473,663	73,938,742	70,748,654	(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	\$68,962,748	(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)

**Outstanding General Fund Debt Service
and Estimated FY 2021 GO Bond Debt Service ⁽¹⁾⁽²⁾**

Fiscal Year	Existing General Fund Debt Service ⁽¹⁾			FY2021 GO Bond Debt Service ⁽²⁾			Total New and Existing General Fund Debt Service		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2020	\$46,068,185	\$27,732,940	\$73,801,125				\$46,068,185	\$27,732,940	\$73,801,125
2021	42,936,034	26,184,720	69,120,754		\$1,502,900	\$1,502,900	42,936,034	27,687,620	70,623,654
2022	43,725,352	24,375,690	68,101,042	\$3,412,500	6,398,438	\$9,810,938	47,137,852	30,774,128	77,911,980
2023	44,039,501	22,407,876	66,447,376	6,825,000	8,360,625	15,185,625	50,864,501	30,768,501	81,633,001
2024	43,510,000	20,461,858	63,971,858	8,910,417	8,019,375	16,929,792	52,420,417	28,481,233	80,901,649
2025	42,145,000	18,445,827	60,590,827	8,910,417	7,573,854	16,484,271	51,055,417	26,019,681	77,075,098
2026	38,600,000	16,556,142	55,156,142	8,910,417	7,128,333	16,038,750	47,510,417	23,684,476	71,194,892
2027	38,970,000	14,772,311	53,742,311	8,910,417	6,682,813	15,593,229	47,880,417	21,455,123	69,335,540
2028	36,635,000	13,000,822	49,635,822	8,910,417	6,237,292	15,147,708	45,545,417	19,238,114	64,783,530
2029	34,820,000	11,443,522	46,263,522	8,910,417	5,791,771	14,702,188	43,730,417	17,235,293	60,965,710
2030	35,035,000	10,003,697	45,038,697	8,910,417	5,346,250	14,256,667	43,945,417	15,349,947	59,295,364
2031	34,635,000	8,545,890	43,180,890	8,910,417	4,900,729	13,811,146	43,545,417	13,446,619	56,992,036
2032	32,940,000	7,172,001	40,112,001	8,910,417	4,455,208	13,365,625	41,850,417	11,627,209	53,477,626
2033	29,365,000	5,901,725	35,266,725	8,910,417	4,009,688	12,920,104	38,275,417	9,911,412	48,186,829
2034	24,285,000	4,767,679	29,052,679	8,910,417	3,564,167	12,474,583	33,195,417	8,331,845	41,527,262
2035	23,020,000	3,721,229	26,741,229	8,910,417	3,118,646	12,029,063	31,930,417	6,839,875	38,770,291
2036	19,100,000	2,763,704	21,863,704	8,910,417	2,673,125	11,583,542	28,010,417	5,436,829	33,447,246
2037	17,975,000	1,959,980	19,934,980	8,910,417	2,227,604	11,138,021	26,885,417	4,187,584	31,073,000
2038	12,310,000	1,297,792	13,607,792	8,910,417	1,782,083	10,692,500	21,220,417	3,079,875	24,300,292
2039	8,230,000	851,289	9,081,289	8,910,417	1,336,563	10,246,979	17,140,417	2,187,852	19,328,268
2040	2,880,000	505,715	3,385,715	8,910,417	891,042	9,801,458	11,790,417	1,396,757	13,187,173
2041	2,945,000	374,067	3,319,067	8,910,417	445,521	9,355,938	11,855,417	819,587	12,675,004
2042	3,010,000	239,744	3,249,744				3,010,000	239,744	3,249,744
2043	3,080,000	102,645	3,182,645				3,080,000	102,645	3,182,645
Total	\$660,259,072	\$243,588,863	\$903,847,934	\$170,625,000	\$92,446,025	\$263,071,025	\$830,884,072	\$336,034,888	\$1,166,918,959

¹ Includes both general obligation and subject to revenue bonds

² Includes the issuance of the delayed FY 2020 GO bond sale (\$121.5MM), and the planned FY 2021 GO bond issuance (\$57.1MM)

**Ratio of Annual Debt Service for General Obligation Debt
to Total General Governmental Expenditures
Fiscal Years 2017 to 2021 ⁽¹⁾**

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures	Ratio of Debt Service to Total Expenditures
2017	76,623,997	30,463,497	107,087,494	1,318,924,936	8.12
2018	87,251,352	34,206,183	121,457,535	1,375,495,727	8.83
2019	85,168,385	40,780,952	125,949,337	1,416,428,904	8.89
2020 ⁽²⁾	84,039,899	48,921,008	132,960,907	1,494,680,404	8.90
2021 ⁽²⁾	79,529,784	47,540,828	127,070,612	1,507,095,043	8.43

(1) Does not include debt service on general obligation bonds payable from the Utilities Enterprise Fund, bonds payable by a pledge of the water and wastewater system, debt service on revenue bonds payable from the Ballston Garage Enterprise Fund; includes subject to appropriation financings, including 2011 IDA Bonds, 2013 IDA Bonds, and 2017 IDA Bonds.

(2) Estimated Values for Debt Service and Expenditures for FY 2020 and FY 2021

**Key Debt Ratios
Fiscal Years 2017 to 2021⁽³⁾**

Fiscal Year	Population	Estimated Market Value of Taxable Property Calendar Year Ended December 31⁽¹⁾	Net Bonded Indebtedness at June 30⁽²⁾	Net Bonded Indebtedness Per Capita	Net Bonded Indebtedness as a Percent of Market Value (3% Cap)	Per Capita Income	Net Bonded Indebtedness as a Percent Per Capita Income (6% Cap)
2017	222,800	76,570,811,625	981,785,078	4,407	1.28%	87,719	5.02%
2018	225,200	77,994,475,377	1,083,889,914	4,813	1.39%	90,893	5.30%
2019	226,400	80,852,761,690	1,167,441,528	5,157	1.44%	95,198	5.42%
2020 ⁽³⁾	228,660	84,497,343,282	1,079,486,629	4,721	1.28%	96,150	4.91%
2021 ⁽³⁾	230,950	84,497,343,282	1,222,481,845	5,293	1.45%	97,111	5.45%

Sources: Market value and net bonded indebtedness – Arlington County Department of Management and Finance. Population data – Bureau of Economic Analysis Per Capita Personal Income (CAINC1)

(1) Includes real property, personal property and public service corporation property.

(2) Excludes general obligation bonds payable from the Utilities Enterprise Fund, bonds payable by a pledge of the water and wastewater system, bonds payable from the Transportation Capital Fund, Ballston Parking Garage revenue bonds payable from the Ballston Garage Enterprise Fund and includes subject to appropriation financings, including the 2011 IDA Bonds, 2013 IDA Bonds, and 2017 IDA Bonds. Excludes unamortized bond premium/discount.

(3) Data for Fiscal Years 2020 and 2021 are estimates