

# CAPITAL AND DEBT 101

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PRESENTATION TO ARLINGTON COUNTY CIVIC FEDERATION

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# CIP (CAPITAL IMPROVEMENT PLAN)

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- The capital budget should be in a distinct section of the budget document
- A definition of capital expenditures should be included in the budget document
- The capital presentation in the operating budget document should focus on both sources and uses. The government should indicate the total dollar amount of capital expenditures for the budget year and for the multi-year plan

# CIP CONTINUED

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- There should be information on how capital projects are evaluated and prioritized, including staff roles in identifying unmet needs or condition of assets.
- The criteria for evaluating capital projects could include such items as safety, location, return on investment, net payback, public need, connection to other plans
- Funding sources should be defined. Alternative funding options could include pay-as-you go, debt (type, size, duration, etc.), and levying additional taxes
- The operating impact from the capital budget should be both quantified and discussed.

# OPERATING VS CAPITAL BUDGET

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- Operating is one year, capital multi-year (typically five to ten years) for planning but appropriated annually
- Debt service is an operating budget expenditure
- Not all capital budget expenditures are recorded as capital assets
- Funding and appropriations for capital projects should be tracked in one or more separate funds

# CAPITAL REPLACEMENT OR MAINTENANCE

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- Recurring high dollar long lived assets – fire trucks, etc
- Extend the life of the asset – repaving, re-roofing, HVAC, etc
- May be included in the CIP instead of operating



# FUNDING – GENERAL OBLIGATION (GO) DEBT

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- The County pledges any and all resources for the repayment of the debt
- For Virginia counties generally requires a referendum to authorize issuance of GO debt
- Backed by State Aid Intercept (15.2-2659)

# BEST PRACTICES

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- The life of the asset financed should be equal to or exceed the life of the bonds used to finance it.
- The maturity structure and estimated debt service should match the anticipated flow of revenues available for debt service in a manner that will not raise credit concerns
- Post issuance compliance policies and procedures should be adopted to ensure compliance and understanding of what is required by the issuer on an ongoing basis

# BOND RATINGS

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- Three rating agencies
  - Moody's
  - Standard and Poor's (S&P)
  - Fitch
- Expressed as a score, from AAA (Prime) to D or DDD (in default)
- Arlington is “triple triple A” – Prime ratings from all three agencies



	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>	<b>Meaning</b>
<b>Investment Grade</b>	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High Grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	
<b>Junk</b>	Ba1	BB+	BB+	Non Investment Grade Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Substantial Risks
	Caa2	CCC	CCC	Extremely Speculative
	Caa3	CCC-	CCC-	In Default w/ Little Prospect for Recovery
	Ca	CC	CC+	
		C	CC	
			CC-	In Default
D	D	DDD		

# BOND RATING CRITERIA

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- Demographics
  - Household income
  - Property tax base
- Management
  - Adequacy of fiscal policies
  - Stability of management
- Exposure to economic conditions
  - Major employers
  - Volatility of economic activity (for example agriculture)

# NOT IN BOND RATINGS

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- GO ratings do not consider if the bond funds are being used effectively.
- Ratings do not consider efficiency
- Ratings do not consider the cost-effectiveness of the project or of the project management.

# PROPOSED BOND ISSUES

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- Transportation - \$74.6 million
- Parks - \$30.3 million
- Community infrastructure - \$36.0 million
- Schools - \$103.0 million
- Total - \$243.9 million

# PROPOSED BOND ISSUES

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- REMEMBER – the passage of the referendum does not mean the debt will be issued right away
- The County has ten years to issue the debt which may be extended another ten years.
- The FY 2019 budget assumes the issue approximately \$80 million in general obligation bonds in CY 2018 as approved in the referenda from CY 2010, CY 2012, CY 2014, and CY 2016.
- The FY2019 budget assumes approximately \$107.5 million in bonds authorized but unissued at year end.



# APPLICABLE POLICIES

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- Debt service to governmental funds ratio cannot exceed 10%. (Formerly this was debt service to general fund)
- 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%)
- 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.

# GO DEBT STATISTICS

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<b>Budget</b>	<b>Budget</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
<b>GO Bond Balance (millions)</b>	<b>\$991.4</b>	<b>\$1,072.9</b>	<b>\$1,141.2</b>	<b>\$1,158.6</b>	<b>\$1,157.7</b>
<b>Debt per capita</b>	<b>\$4,919</b>	<b>\$5,183</b>	<b>\$5,384</b>	<b>\$5,389</b>	<b>\$5,314</b>
<b>Debt service % of expenditures</b>	<b>8.05%</b>	<b>9.00%</b>	<b>9.15%</b>	<b>9.51%</b>	<b>9.67%</b>

Source: Adopted 2019 budget, chart A