

**Arlington County Civic Federation
Revenues & Expenditures Committee
Report on 2010 County Bond Referenda
Presented 10/5/10**

I. Background for This Report

The County’s bi-annual six-year Capital Improvement Plan (“CIP”) serves two purposes. One, it is a planning document, projecting out a wide variety of intended capital projects and their various funding sources for the six-year period covered by each CIP. Two, it is also an “action” document, as the projects proposed for bonding in the initial year of each CIP directly come from the adopted CIP. Once the CIP is adopted, the only tasks that remain for the County Board is to group the various bonded projects into the various individual ballot questions that appear on the November ballot and adopt the formal bond language.

At its June meeting, the Federation received an informational program on the FY11-FY16 proposed CIP from County Staff. The County Board adopted the CIP at its June 15th meeting, and then approved the formal bond resolutions and questions for the 2010 bond referenda at its July 10th meeting.

This report from Federation’s Revenues & Expenditures Committee (“R&E”) has been written at the request of the Federation’s Executive Committee, which voted at its September 13th meeting to include an informational program on the 2010 bond referenda as part of the Federation’s general meeting in October. At the specific direction of the Executive Committee, no recommendations are being made by R&E on the individual bond questions.

By its nature, this report is very concise, as it attempts to present information condensed from multiple documents totaling well over 200 pages. To review the entire source documents, R&E refers you to the following:

SOURCE DOCUMENT	WEB LINK
FY11-FY16 CIP as originally proposed by County Manager	http://www.arlingtonva.us/departments/ManagementAndFinance/CapitalImprovementProgram/page78312.aspx
County Manager’s Report for final CIP adoption at 6/15/10 Board Meeting	http://www.arlingtonva.us/departments/ManagementAndFinance/CapitalImprovementProgram/file77205.pdf
County Manager’s Report on bond referenda questions for 7/10/10 Board Meeting	http://arlington.granicus.com/MetaViewer.php?view_id=2&clip_id=1830&meta_id=82904 AND http://arlington.granicus.com/MetaViewer.php?view_id=2&clip_id=1830&meta_id=83391

The actual referenda language and explanations as approved by the County Board are included as an attachment to this report. In the discussion that follows on the four bond referenda, the page number references are to the County Manager’s CIP proposal.

II. Metro & Transportation Bond \$34,100,000

This bond question has four components:

\$20,000,000	Metro capital plan (page D-2)
\$10,300,000	Infrastructure maintenance capital (page C-6)
\$2,500,000	Local share of matching funds for state/federal funding (page D-30)
\$1,300,000	NTC, pedestrian and bicycling improvements (page D-31)

The \$20M for Metro is the first part of Arlington's share of WMATA's new six-year capital program. Arlington's total share for the entire six-year period is estimated at \$85.8M. \$60M is projected from bonds (\$20M referenda this year, then again in both 2012 & 2014), with the balance of \$25.8M coming from the Commonwealth of Virginia. Major items in WMATA's six-year program are modifications recommended by the National Transportation Safety Board made after the Red Line crash in 2009, replacement of the 300 oldest rail cars, rehabilitation of the oldest segments of the rail system and bus garage replacement.

The majority of the infrastructure maintenance capital component is for paving. \$12.93M is reflected in the CIP for the years FY11 & FY12, with some of the funding being provided by PAYG. The County has not used bond money for paving since the late 1990's. The proposed funding level reflects a paving rate of 64 lane miles per year, and would return paving to an average 15-year cycle. The CIP also notes that bonds related to paving may be sold in series with maturities each year, but with the longest bond terms being for less than the County's traditional 20 years, since certain types of repaving have a useful life of less than 20 years.

III. Local Parks & Recreation Bond \$5,975,000

This bond question has four components:

\$2,000,000	Parkland acquisition (page C-42)
\$1,675,000	Renovation of Rocky Run Park (page C-25)
\$1,300,000	Renovation of park at Herndon & 13 th St. (page C-23)
\$1,000,000	Parks maintenance capital (page C-8)

R&E notes here that the \$2M parkland acquisition has been intentionally separated from an additional \$1.69M for land acquisition for new/expanded county facilities (other than parks) contained in the Community Infrastructure Bond described below.

As the County Manager noted in the CIP document, funding maintenance capital with bond funds is a "major change," as in the past it was entirely funded with PAYG (non-borrowed) sources. While the current amount here is \$1M, the out-years of the CIP project park maintenance capital bond funding of \$4M in 2012 and \$4.875M in 2014.

IV. Community Infrastructure Bond \$18.065,000

This bond question has four components:

\$9,000,000	Neighborhood Conservation Program (page C-34)
\$4,700,000	“Emerging Facility Infrastructure Requirements” (page C-49)
\$2,675,000	Facilities Maintenance Capital (page C-4)
\$1,690,000	Land acquisition (non-parks) (page (C-42)

Per the CIP, the stated goal of the “Emerging Facility Infrastructure Requirements” component is to provide funding for facility and infrastructure needs not currently specified, but for which the County would like available bond funding prior to the next referendum in 2012. What specific projects this \$4.7M might be used for is currently totally speculative.

The Facilities Maintenance Capital component provides funding for such items as replacement of roofs, lighting, carpeting, boilers, HVAC and other building systems. Here again, funding maintenance capital with bond funds is a “major change,” as in the past it was entirely funded with PAYG (non-borrowed) sources. These projects may have shorter than customary bond maturities as discussed above.

V. Arlington Public Schools Bond \$102,888,000

This bond has four components:

\$84,200,000	Wakefield High School
\$11,600,000	HVAC Improvements
\$4,700,000	Roofing Improvements
\$2,300,000	Fiber Cable Installation

The total cost of the new Wakefield High School is estimated at \$116M, including design. Some design costs were previously bonded. It should be noted that the current bond request for Wakefield would be supplemented by \$20M of leftover bonding authority originally intended for Yorktown High School construction, which is being shifted to Wakefield. Construction (bid) drawings for the new Wakefield will not be completed until early next year. Assuming construction bids in-line with current estimates are received next spring, construction could begin in July 2011.

VI. Bonding Capacity and Triple/AAA bond rating

The proposed acceleration of the timing for the new Wakefield High School (the prior CIP plan from two years ago provided for a 2012 referendum and a 2013 construction start) will have a considerable impact on the overall County debt service levels.

The debt management policy adopted by the County Board in 2008 (page A-4 of the proposed CIP book) provides that the ratio of tax-supported debt service to general expenditures should not exceed 10% within any six-year CIP projection. This 10% test is often cited as one of several criteria necessary to maintain the County's triple/AAA bond rating.

The adopted CIP (including this year's bond referenda), when projected out, has debt service reaching 9.9% in FY14. These projections anticipate revenue growth of zero for FY12, 3% in FY13 and 4% for years FY14 forward, along with no significant change in bond interest rates.

As R&E noted during of the Federation's June program on the CIP, these revenue growth assumptions were increased from those originally projected by staff before the proposed CIP was released. Had the original assumptions not been changed, the adopted CIP would have exceeded the 10% policy limitation.

R&E notes that in his preliminary FY12 revenue forecast to the County Board on September 28, former County Manager Michael Brown projected FY12 revenue growth of 1%.

As the past several fiscal years have vividly demonstrated, even medium term revenue projections can be very speculative. If the above-described revenue growth projections are not met under existing tax rates, the County would be faced with either delaying certain bond-approved projects and/or increasing revenue source(s) (most likely, the real estate tax rate) in order to stay within the 10% debt service limitation. Coming so close to the cap would also leave little margin for the County to deal with adverse national macroeconomics trends.

As R&E also pointed during the June CIP program, the increased debt service for the Wakefield bonds (approximately \$9-\$10M per year upon sale of all of the related bonds) would also place an appreciable strain on the Schools' operating budget in the near future.

VII. Prior ACCF Bond-Related Resolutions

The Executive Committee specifically requested that R&E comment on how the current bond package complies with prior Federation resolutions relating to certain bonding practices.

There are currently three such resolutions on the ACCF website.

In June 2004, the Federation passed a resolution recommending that parks & recreation components be separated from other bond referenda. This resolution was in response to the 2002 bond package, which combined parks and recreation with other projects. The 2010 referenda package would seem to comply with this resolution.

In October 2006, the Federation passed a resolution stating that construction projects should not be included "on bond referenda until reasonably complete designs and sound budgets for the projects are available," and that bond referenda be placed on the ballot in odd-

numbered years so that projects would not be delayed by this requirement. This resolution cited numerous projects (including the Cherrydale fire station, the Westover & Shirlington libraries, North Tract, and Washington-Lee High School), where bond referenda were placed on the ballot prior to completed plans and budgets. R&E particularly notes for the Federation that construction drawings for the new Wakefield High School are not anticipated to be completed until the spring of 2011 and that the portion of the Schools bond related to Wakefield are based on pre-construction drawing estimates.

In October 2009, the Federation passed a resolution calling on the County Board “to use funds approved by the voters for park land acquisition and other capital projects, for only the purposes described in the adopted CIP.” This resolution was in response to the funding mechanism for the Artisphere/Newseum cultural center project, where bond funds described in the related adopted CIP as being for park land acquisition were used for other capital projects previously earmarked for PAYG funding, thus freeing up PAYG funds for the cultural center project. R&E particularly notes that the County Board has followed its past practice of broadly drafting the bond ballot language, to allow for re-allocation of funds within very broad project descriptions. In R&E’s opinion, the practices of the County Board that led to the October 2009 resolution have not been remedied by the 2010 bond referenda language.

Submitted on October 3, 2010 by the Revenues & Expenditures Committee

Robert Atkins
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Frank Emerson
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Roger Morton

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2010 Bond Referenda

1. Metro and Transportation

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum amount of \$34,100,000 to finance, together with other available funds, the cost of various capital projects for the Washington Metropolitan Area Transit Authority and other transit, pedestrian, road or transportation projects?

EXPLANATION:

This proposal would fund a variety of transportation, road, pedestrian enhancement and transit projects across the County. The largest component of this proposal would fund Arlington County's share of WMATA/Metro's capital improvement program, including the Metro Capital Funding Agreement to improve regional mobility and accessibility and reduce traffic congestion. This proposal would also provide matching funds for certain transportation projects that receive state and federal funding, including but not limited to transit improvements in Ballston, Columbia Pike, Pentagon City and other areas across the County. Proceeds of this proposal would also fund a portion of the costs for paving local streets and roadways, as well as the WALKArlington, BikeArlington, and Neighborhood Traffic Calming programs. The County Board may reallocate bond funds among the various projects to the extent necessary or desirable.

2010 Bond Referenda

2. Local Parks and Recreation

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum amount of \$5,975,000 to finance, together with other available funds, the cost of various capital projects for local parks & recreation, and land acquisition for open space?

EXPLANATION:

The proposed Local Parks & Recreation program would fund parks improvements and enhancements, and land acquisition for parks and open space. The \$2.0 million for the Land Acquisition and Open Space programs is expected to fund strategic park acquisitions based on the Public Spaces Master Plan or other parks related needs. The County Board may reallocate bond funds among the various projects to the extent necessary or desirable.

2010 Bond Referenda

3. Community Infrastructure

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum amount of \$18,065,000 to finance, together with other available funds, the cost of various capital projects for County facilities, land acquisition and infrastructure?

EXPLANATION:

This proposal will provide funding for Board-approved Neighborhood Conservation projects. The Neighborhood Conservation Program provides funding for a variety of neighborhood-identified capital improvement projects including street improvements (sidewalk, curb and gutter, drainage, paving), traffic management and pedestrian enhancements, park improvements, street lighting, recreational facilities, landscaping, and beautification.

This proposal will also provide funding for the County's facilities needs including facilities, infrastructure, land acquisition and facilities maintenance capital. The County Board may reallocate bond funds among the various projects to the extent necessary or desirable.

2010 Bond Referenda

4. Arlington Public Schools

QUESTION: Shall Arlington County contract a debt and issue its general obligation bonds in the maximum amount of \$102,888,000 to finance, together with other available funds, the costs of various capital projects for Arlington Public Schools?

EXPLANATION:

This proposal would make funds available for the Arlington Public Schools' ongoing capital improvement program. This funding would be a primary part of the next major phase of the Schools' multi-year capital program initiatives.

The Schools' capital proposal was developed after a review of the physical conditions at school facilities, an analysis of existing and future facility needs and project affordability. The 2010 bond will fund the design and construction for the replacement of Wakefield High School, and various School facility projects as approved by the School Board. The School Board may reallocate bond funds among the various projects to the extent necessary or desirable.