ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of July 19, 2008

REVISED REPORT

DATE: ~~July 7, 2008~~ July 17, 2008

SUBJECT: Fiscal Year (FY) 2009 – 2014 Capital Improvement Program Adoption

REVISION EXPLANATION: The attached tables correct a math error which overstated the Utility Fund budget as presented in the Proposed CIP presentation. In addition, Schools PAYG for FY 2010 – 2014, as presented at the June 18 joint County and Schools work session, was understated by $4.4 million. These corrections affect only the pay-as-you-go (PAYG) presentation and do not change the debt calculations or bond referenda amounts.

C. M. RECOMMENDATION:

A. Adopt the following addition to the County's "Financial and Debt Service Policies": ***Voter referenda to authorize general obligation bonds should only be presented to voters when the analysis of the County's debt capacity demonstrates the ability of the County to fund the debt service for the bonds based on the County's "Financial and Debt Service Policies." Absent a compelling reason to do otherwise, the County should have the capacity to initiate construction projects within the two-year period before the next bond referendum. There should also be a demonstrated capability for the County to complete any project approved by referendum within the 8-year time period mandated under state law for sale of authorized bonds. The term "County" in this specific policy includes the Arlington County Government and any entity that receives bond funding from the County (such as the Arlington County Public Schools and the Washington Metropolitan Transit Authority).***

B. Adopt the Fiscal Year 2009 – 2014 Capital Improvement Program as presented in Attachments A-1 and A-2.

C. Authorize the Debt Affordability plan in Attachment C to support the Capital Improvement Program.

County Manager: _____________

County Attorney: _____________

Staff: Michelle Cowan, Assistant Chief Financial Officer, DMF
Greg Emanuel, Director of Engineering and Capital Projects Division, DES
Robert van Druff, CMO
Loan Hoang, DMF

ISSUES: How much capital investment can the County afford during the next six year planning period and how should that capacity be allocated among community priorities?

SUMMARY: The three recommendations above establish the parameters for the County's voter referenda for 2008 and establish a plan for capital planning through Fiscal Year 2014.

A. Addition to the County's "Financial and Debt Service Policies." Considerable discussion has taken place in the community during this update to the Capital Improvement Program (CIP) regarding the timing for a bond referendum. This discussion grew out of a School Board decision to advance the referendum for a school project with plans not to spend any of the authorization until after the subsequent referendum two years later. This action was apparently in "hope" that financial projections would improve and that the project could be advanced earlier. The above recommendation asks the County Board to establish a policy not to do this. Once voters have approved a referendum for a project, they have a reasonable expectation that the project will proceed and that the County can afford the debt service for the bonds. If the County does not have this capacity, it is ill advised to raise public expectations.

B. Capital Improvement Program. The CIP reflected in Attachments A-1 and A-2 are amendments to the County Manager's Recommended CIP. The proposed changes are as follows:

1. The Long Bridge Park Aquatics Center has been added to 2012 in the amount of $30 million in bonds and $26 million from private sources. This is the only major project to which the County has made a previous commitment that was not included in the CIP. To fund this project, several items were reduced as reflected in Attachment A. None of the reductions affect specific projects to which there was a previous commitment.

2. Reduction in the 2008 County referendum by $3.2 million. This reduction shifts the funding for the facilities master plan to non-bond funding and provides alternative, shorter-term financing for interim improvements to the Thomas Jefferson Community Center.

3. Increase in the Arlington Public Schools bond funding for 2008 based on the resolution adopted by the School Board. The requested amount is $99.425 million, which is an increase of $10.1 million from the County Manager's Proposed CIP, which was based on the School Superintendent's recommendation. The amount requested by the School Board is affordable based on the County's "Financial and Debt Service Policies;" however, the School Board's plan includes design for a project, the construction of which is not affordable until 2012. It is strongly recommended that the School Board reconsider the decision to plan a major capital project this far ahead of construction funding and contracting. At a future date, the County Board will have to assess the wisdom of actually selling bonds, if approved in the referendum, this far in advance of the project.

4. Projected bond funding for the Arlington County Schools of $156.680 million in 2012 and no referendum in 2010. The School Board's adopted capital program differs from this recommendation and proposes a referendum of $156.680 million in 2010, but not

actually selling the bonds until after 2012. As discussed above, this approach is not a sound financial policy. The County should not seek voter approval for bonds that it cannot afford. If financial conditions change by 2010, the County can reconsider the amount of bond funds for the 2010 referendum.

C. Debt Affordability. Attachment C is the "County Manager's Debt Affordability Report," which explains the financial basis for the recommended CIP. Attachment B shows how much the debt projected in the CIP will cost on an annual basis. The recommended debt service plan is consistent with the capital program adopted by the School Board and is affordable under the County's "Financial and Debt Service Policies." The changes to the County government's programs are also consistent with the "Financial and Debt Service Policies" and result in debt service at about the same level as the original recommendation.

DISCUSSION: The County Manager's Proposed FY 2009 – FY 2014 CIP was presented to the County Board in May 2008. Since the release of the proposed CIP, amendments have been recommended as outlined in the recommendations.

As a result of many work sessions, County Board guidance and extensive community input, the revised recommended CIP for County facilities includes the following changes:

- Increase Parks and Recreation by $50.5 million with the following amendments:
  - Reduce Parks Master Plan in 2012 from $8.0 million to $4.0 million;
  - Reduce Synthetic Fields in 2012 from $3.0 million to $1.5 million;
  - Add $56.0 million for the Long Bridge Aquatic Center, of which $30.0 million is proposed for the 2012 referenda and $26.0 million is financed through developer contributions or other revenue sources.

    The additional funding for Long Bridge continues the commitment that was made to and approved by voters in 2004. This funding will provide for site development, plaza entrance, parking, and the initial development of the Aquatics, Health and Fitness Center. The indoor facility paid for by this funding will include a 50-meter pool, diving facilities, leisure and therapy pool, cardiovascular and free weight facilities, group exercise rooms, and locker and support facilities. The option proposed is the lower cost of two alternatives and does not include additional square footage for health and fitness equipment, meeting room spaces, site requirements and enhanced architecture, which were included in the latest design presented by the Task Force to the County Board in February 2006. The expanded alternative would add $20 million to the cost.

- Decrease Land Acquisition in 2010 from $7.0 million to $5.0 million and from $8.0 million to $5.0 million in 2012. It is hard to justify additional expenses for acquiring additional land when there are extensive investments required to utilize past land acquisitions.

- Decrease Facilities Master Plan implementation in 2012 from $25.0 million to $10.0 million. This still represents a major reinvestment in the County buildings, which will be prioritized based on a comprehensive building evaluation.

- Fund the 2.0 million FY 2009 facilities study from FY 2009 PAYG and/or closeout sources instead of G.O. bond funding.

- Amend the financing for the County's share of Thomas Jefferson ($1.2 M) to be funded from FY 2010 Master Lease and/or VRA financing sources to provide a shorter term financing instead of G.O. bond funding. Career Center improvements remain as a G.O. bond funded project.

Additional changes to the Proposed CIP are of an administrative nature, such as updating financial tables and charts, and do not affect the overall CIP total.

The following table summarizes total costs under the Recommended CIP, with the changes as discussed above:

FY 2009 – FY 2014 CIP Totals
(in $000)

Program	**County Manager's Proposed CIP**	**County Manager's Revised CIP**
County	$ 637,401	$ 667,901
Schools	$ 283,775	~~$ 289,818~~ $294,234
Utilities	~~$ 350,954~~ $300,954	~~$ 350,954~~ $300,954
TOTAL	~~$ 1,272,130~~ $1,222,130	~~$ 1,308,673~~ $1,263,089

The following table presents the proposed amounts to be included on the general obligation bond referenda this November. This table excludes amounts to be financed through other financing vehicles, including the Virginia Department of Environmental Quality Wastewater Revolving Loan Fund (VRLF) for the Water Pollution Control Plant (WPCP) Master Plan 2001 upgrades and Virginia Resources Authority's public safety loan program for Fire Station 3 previously approved in the FY 2007 – 2012 CIP (approximately $13 million.) and Affordable Housing Investment Fund (AHIF) supported debt financing for Buckingham Village Redevelopment (approximately $34.5 million).

FY 2009 Bond Total
(CY 2008 Bond Referendum)
(in $000)

	Revised County Manager Recommendation	Comments
County	$ 20,800	Shift to PAYG, Master Lease and/or VRA of $ 3.2 million for projects which were to be financed through G.O. bond funds. The debt service calculations for these projects were already included in the County's debt service capacity.
Schools	$ 99,425	Amount requested by the School Board.
Utilities	$ 50,000	Continues WPCP Master Plan 2001 upgrades. The County will maximize the amount financed through the lower-cost VRLF program, although state-wide competition for funds may limit VRLF availability.
TOTAL	$ 170,225	

BACKGROUND: The CIP, which includes the County government project plans and a funding plan for the Arlington Public Schools, is primarily a planning document. As such, the CIP is subject to amendment and updating as the needs of the community change and become better known, and the proposed projects move closer to funding and final approval. Staff monitors changes in the community to be able to take advantage of opportunities that arise in scheduling and funding capital improvements in conjunction with private sector development and redevelopment. As priorities change and opportunities arise, staff reassesses the County's capital improvement program and proposes changes that will affect the timing and funding of projects. The CIP represents staff's best evaluation, at this time, of overall capital needs at a level affordable to taxpayers. The County government portion of the CIP is prepared on an interdepartmental basis with staff expertise from each program area utilized to help prepare each segment of the proposed CIP.

Since the proposed CIP was released in May, staff has met with 7 Commissions and Committees and provided information at 3 work sessions, including the June 18 joint County and Schools work session. The CIP was published in hard copy, over 80 of which have been distributed. The CIP is also on the County website. The County Board held its CIP Public Hearing on June 24, 2008.

Fiscal Impact: The impact of this CIP combined with past and current obligations can be found in Attachment B. It presents total estimated debt payments on an annual basis as well as the percentage increase in debt on a year-to-year basis. Attachment C, “County Manager’s Debt Affordability Report” provides an analysis of the affordability of debt at these levels. In summary, these levels meet the County Board’s “Financial and Debt Service Policies.” While the plan is based on a relatively conservative average revenue growth of 4%, this target may not be achieved. There is a high probability that during the next six years, the County Board will have to consider a combination of real estate tax rate increases and/or service reductions in order to maintain a balanced budget. The level of tax rate increases, however, should not jeopardize the County’s competitiveness in the region. The projected debt levels should also reinforce the County’s triple-A bond ratings.