Borrowing, How much is too much.

NACWA 2013 Conference

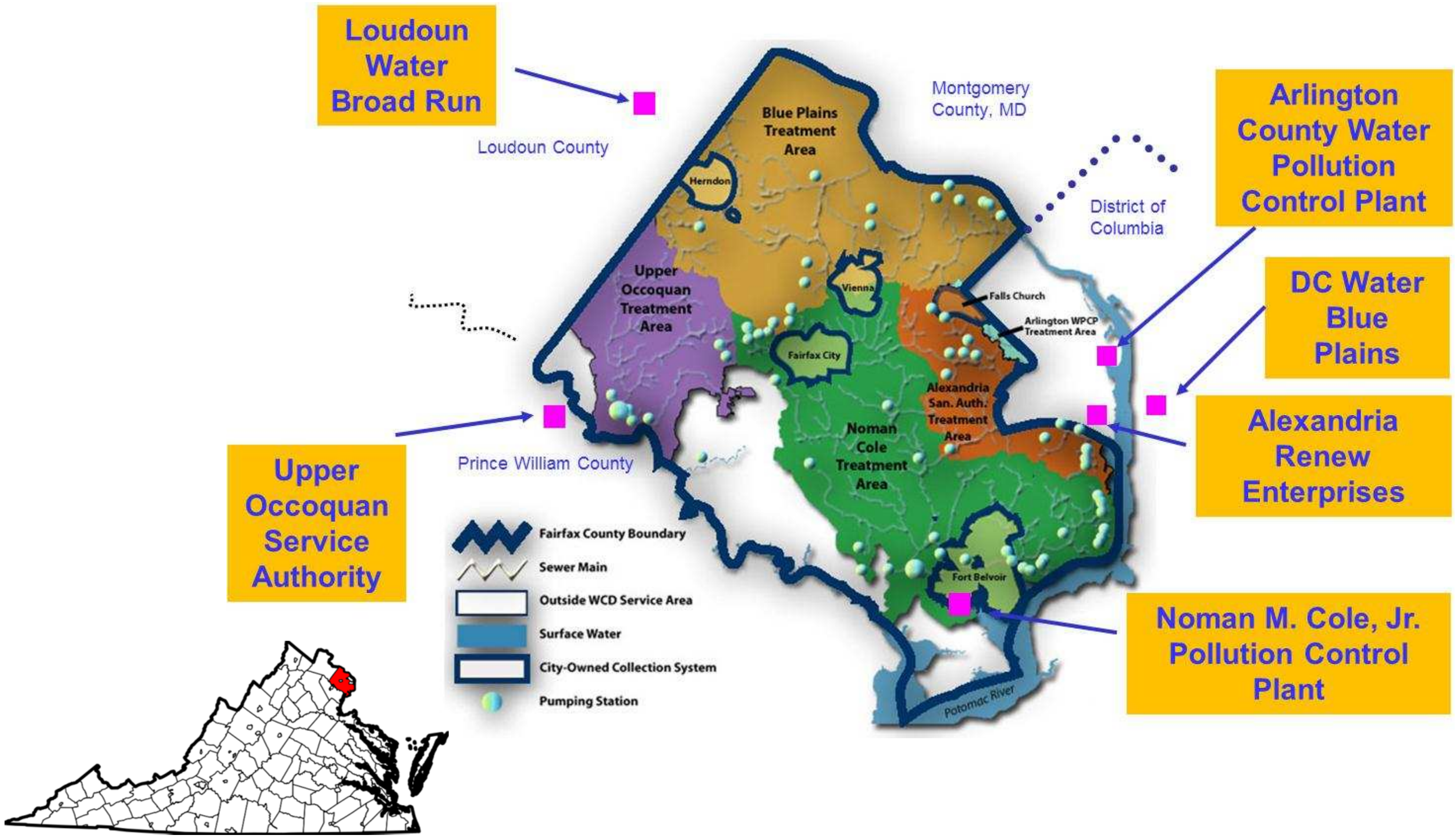
July 14 – 17, 2013

Cincinnati Ohio

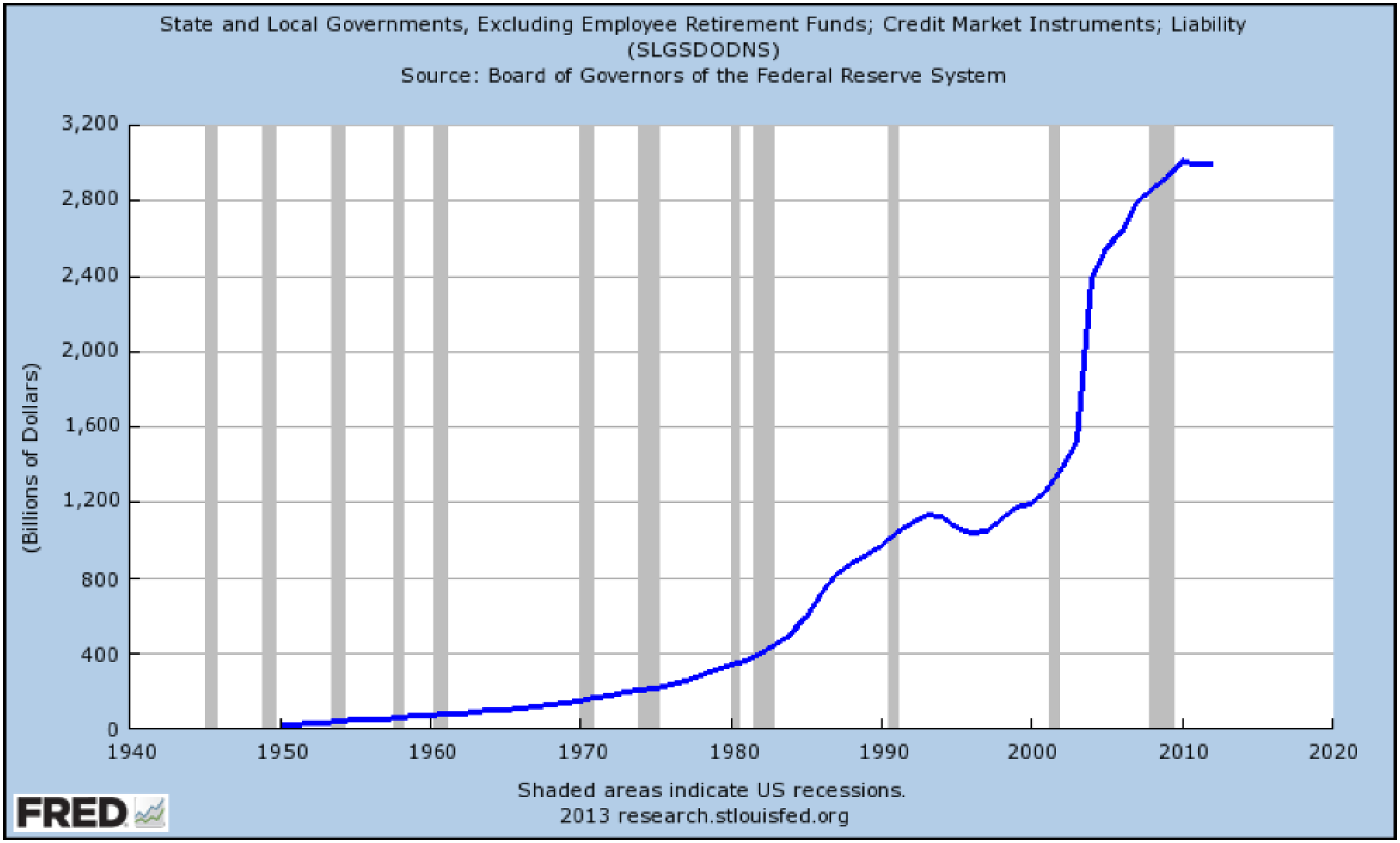
Fairfax County
Wastewater Management Program

- Provides service to 912,000 residents (363,000 ERCs), County Population 1,109,725
- Locate in Northern Virginia within the Washington DC Metro Area
- Annual Operating Revenues of $182 Million
- 234 sq. miles coverage area of the County’s 395 sq. miles
- Median Family Income $119,634
- 22,500 acres in 416 parks

Fairfax County WMP Overview



Growing Local Government Debt



Reasons for Increase Borrowing

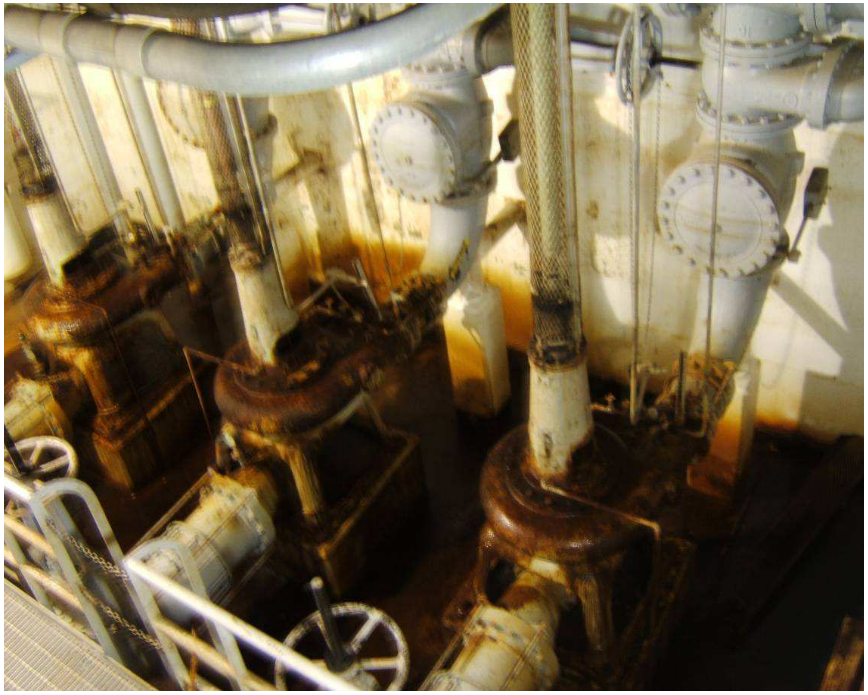
- Less Federal Grants
- Less Federal Investments
- Lower interest rates
- State and Local Governments doing more infrastructure investment
- Facilities built in the 1970-1980 with Grant funds are being replaced or rehabilitated with local funding
- Covering up for declining tax revenue

Access to Capital Funds

- Ability to issue debt is dependent your financial health.
- Closer scrutiny from the rating agencies.
- Maintenance of adequate internal cash reserve.
- Following a financial plan and consistent performance.
- Credit Ratios that are right for your utility, demonstrate a strong financial position.

Financial Requirements & Goals

- Bond Covenants
- Financial Goals
- Growth Pays for Growth Policy
- Minimize Customer Impact
- Maintain Competitive Rates



Bond Convents

- Senior Debt 2.0 (excluding non-recurring revenues by 2011)
  - Definition: Operating Revenues less Operating Expenses divided by Senior Debt Service
  - 4.59 in FY 2012
- Total Debt 1.25 (excluding non-recurring revenues by 2013)
  - Definition: Operating Revenues less Operating Expenses divided by Total Debt Service
  - 1.79 in FY 2012
- Bond Reserve - Cash reserve totaling 1 year principal and interest payment for each bond series

Financial Goals

- Maintain Bond Rating - Aaa/aa1 May, 2012
- Fund R&R via Cash vs. Borrowing
- Operating Margin – Improve from 20% to 40%
  - Definition: Operating Revenue divided by O&M expense
  - Indicates availability of funds for Debt Service and R&R projects
  - Moody's Median 35%
- Reserve Requirements
  - O&M Reserve - 180 days of O&M Expenditures
  - Capital Reinvestment - 3% of total ten year capital funding plan

Customer Goals

- Growth pays for Growth Policy
  - All cost associated with growth will be paid for by new customers – Availability Charge
- Minimize Customer Impact
  - Limit the annual increase
  - Rate structure that is equitable among customer class
- Maintain Competitive Rates
  - Annual review of neighboring jurisdictions
  - Like to be the lowest, but should be one of the lowest
  - Have been the lowest or second to lowest for several years.

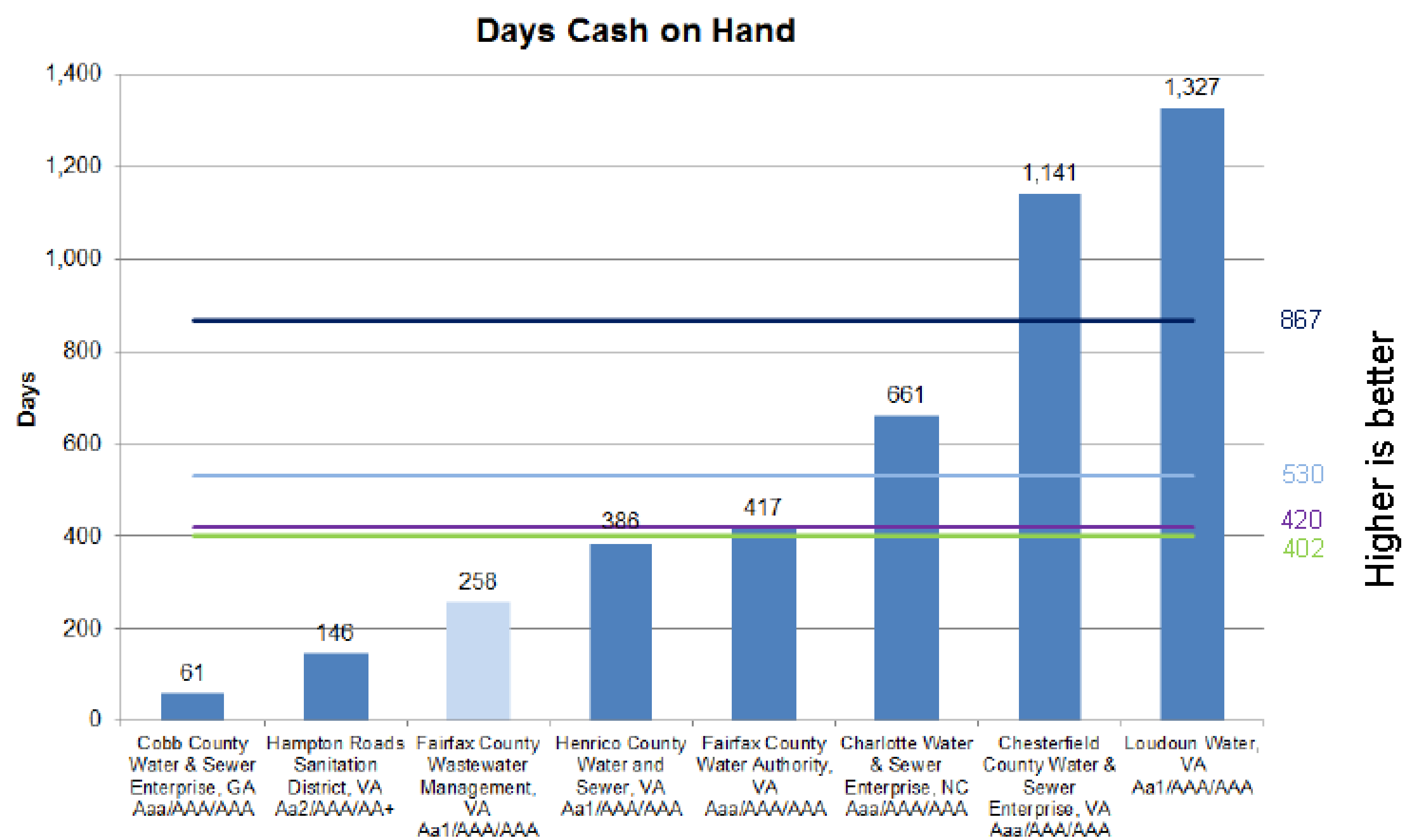
Credit Assessment from The PFM Group, dated June 4, 2012

Summary of Key Credit Ratios

How Fairfax County Sewer Compares				
	5 Year Historical Trend	Selected Peer Group	Aaa Water & Sewer Median	Aa1 Water and Sewer Median
Days Cash on Hand	Relatively consistent after spike in 2008	Underperforms	Underperforms	Underperforms
Net Working Capital as a % of O&M	Increased, slightly	Comparable	Underperforms	Comparable
Operating Ratio	Decreased	Comparable	Comparable	Comparable
Debt Ratio	Increased	Underperforms	Underperforms	Comparable
Senior Lien Debt Service Coverage	Declined; yet remains strong	Outperforms	Outperforms	Outperforms
Total Debt Service Coverage	Increased in 2010 & 2011	Comparable	Underperforms	Comparable

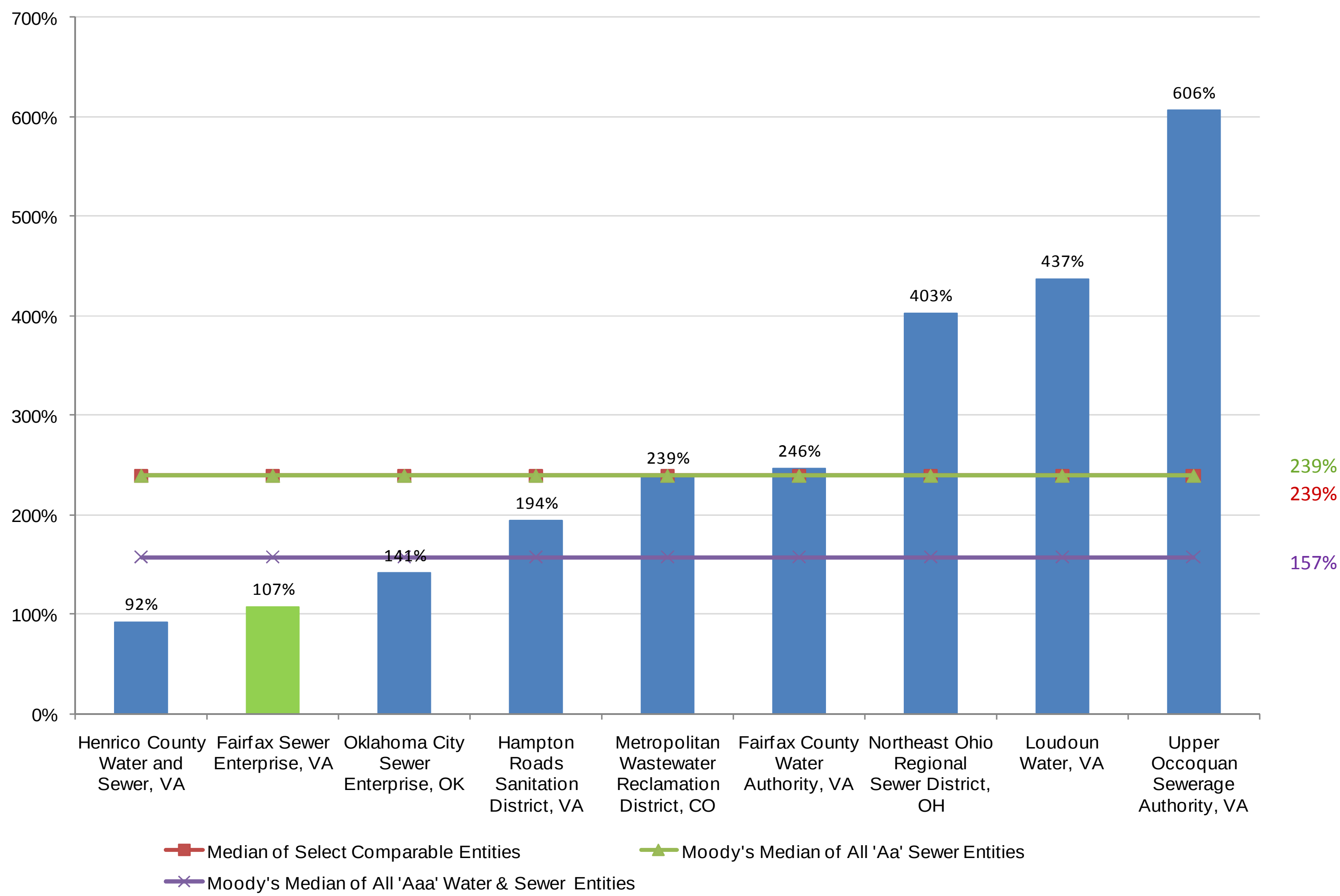
Selected peer group is shown on page 23.

Days Cash on Hand
Peer Comparison



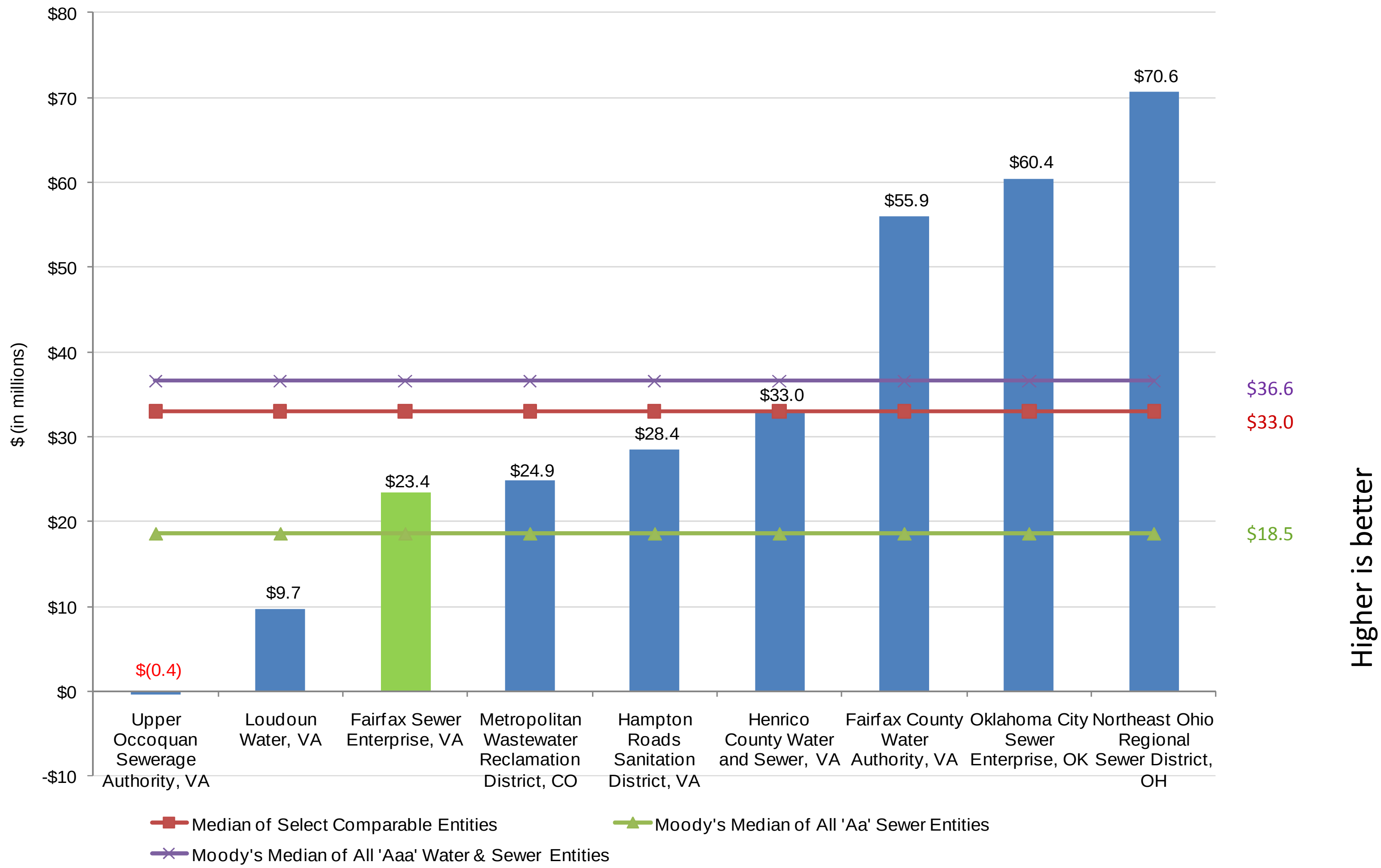
Source: Moody's Financial Ratio Analysis. Fitch "2012 Water & Sewer Medians." Fairfax Sewer Comprehensive Annual Financial Report. Data for all comparable as of 12/31/2010.

Net Working Capital as a % of O&M



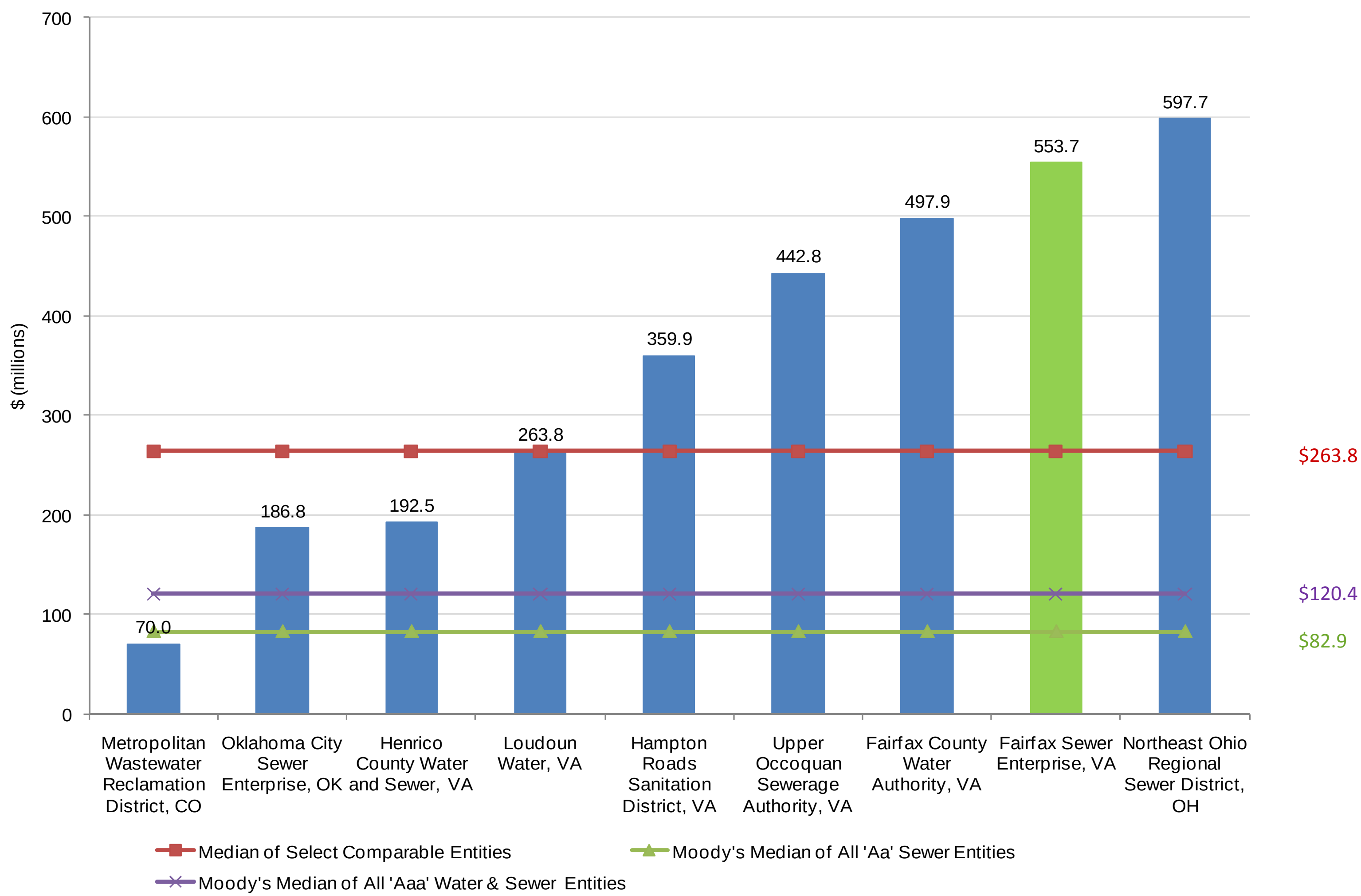
Source: Moody's Financial Ratio Analysis. Global data as of 6/30/2009. Fairfax Sewer data as of 6/30/2009.

Operating Margin



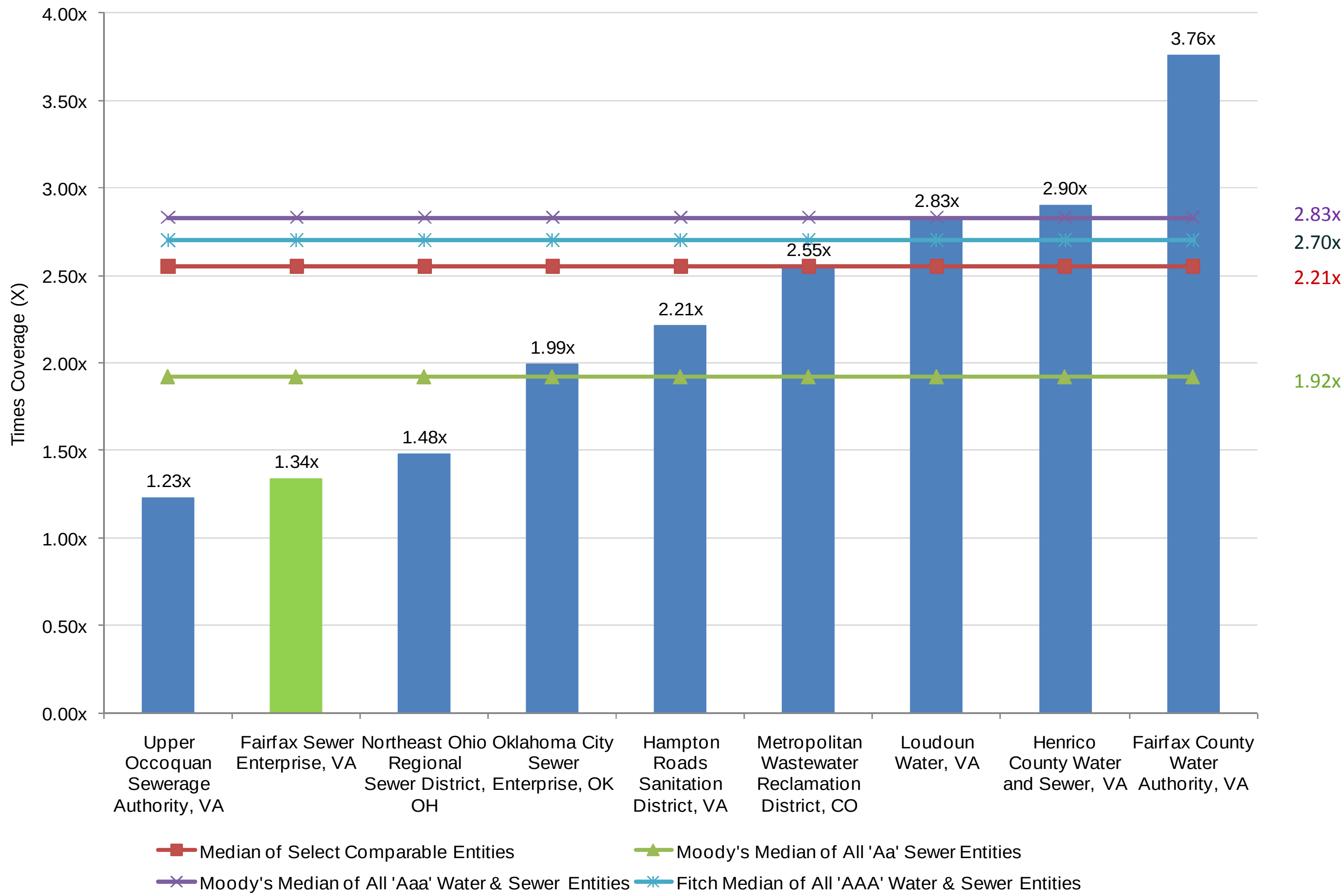
Source: Moody's Financial Ratio Analysis. Global data as of 6/30/2009. Fairfax Sewer data as of 6/30/2009.

Total Long-Term Debt Outstanding



Source: Moody's Financial Ratio Analysis. Global data as of 6/30/2009. Fairfax Sewer data as of 6/30/2009.

Total Annual Debt Service Coverage



Source: Moody's Financial Ratio Analysis. Global data as of 6/30/2009. Fairfax Sewer data as of 6/30/2009.

Financial Measures

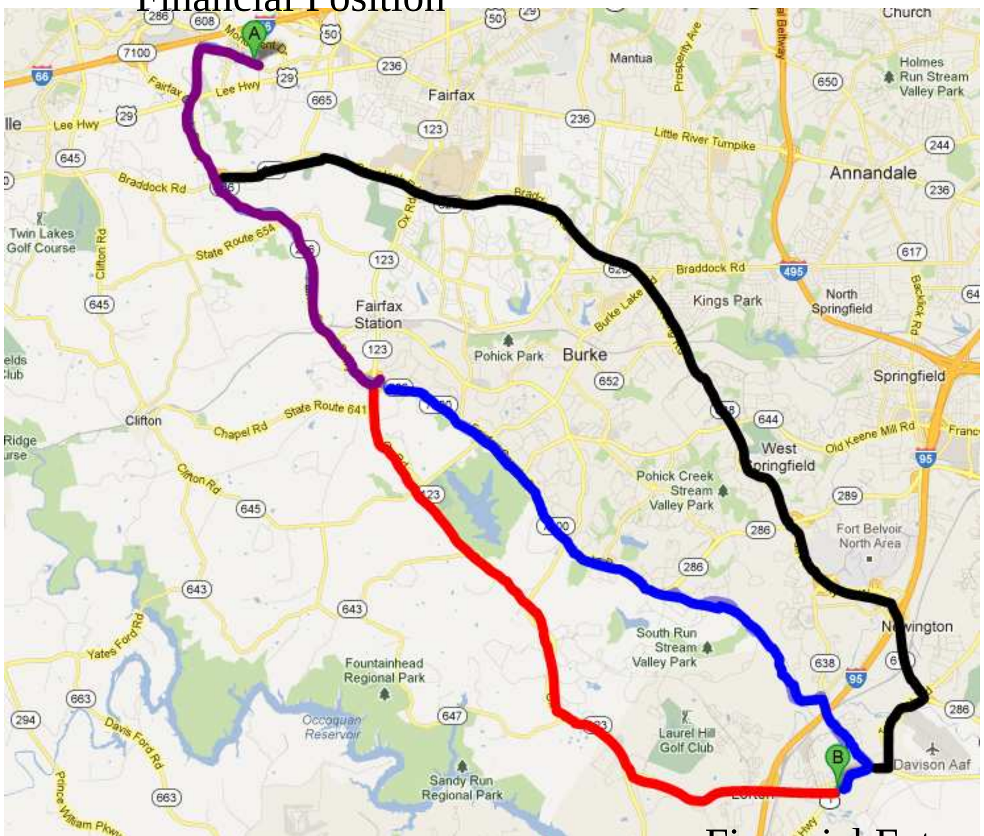
Measure	FY 2012	FY 2013	FY 2014	FY 2015
Days Cash on Hand	386	301	387	399
Moody's Aaa=867 Moody's Aa1=530 Fitch Aaa=420				
Net Working Capital as % of O&M	190%	208%	206%	206%
Moody's Aaa=277% Moody's Aa1=208%				
Debt Ratio (Lower is better)	35.5%	40.9%	38.6%	36.4%
Moody's Aaa=16.4% Moody's Aa1=37.7% Fitch Aaa=24.0%				
Total Debt Service Coverage	1.79	1.82	1.92	1.90
Moody's Aaa=1.91 Moody's Aa1=1.77 Fitch Aaa=2.20 Bond Resolution minimum 1.25				

2012 Rating Reviews

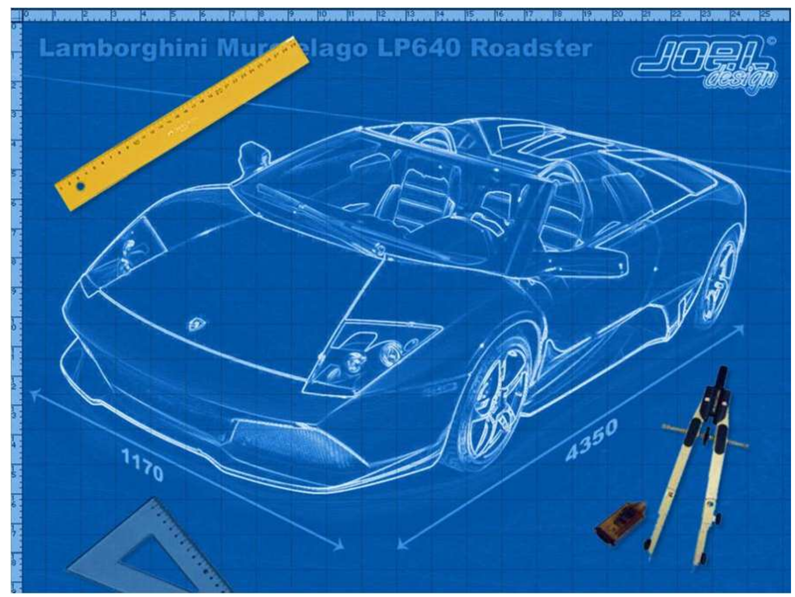
- S&P – Aaa/Stable
  - Proactive management team that has successfully managed system growth
- Moody's – Aa1/Stable
  - Solid financial performance
- Fitch – Aaa/Stable
  - Registered strong financial performance highlighted by solid financial metrics

Financial Management Plan

Financial Position



Financial Future



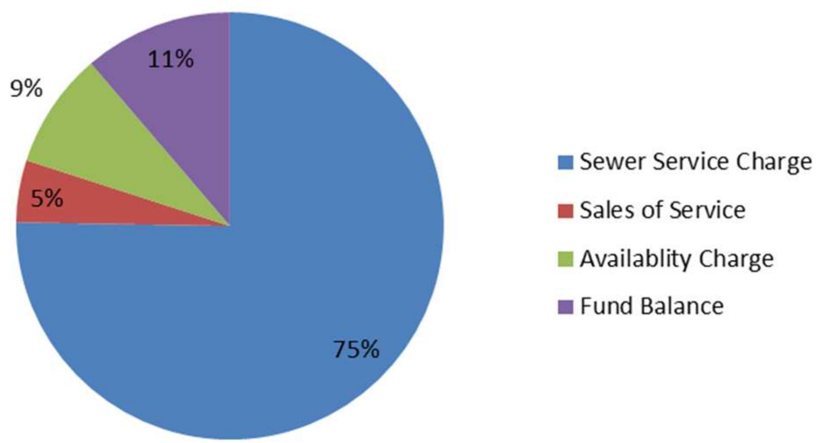
Flow of Funds Comparison

(Dollars in Millions)

		2013	2014	2015	2016	2017	2018
Scenario 1 - 6% Cash fund CIP	Bond Proceeds	104.5	0	0	101.2	0	0
	Debt Service	45.0	49.7	52.4	57.4	57.4	57.4
	Unreserved Balance	112.8	59.4	11.1	76.8	47.4	32.8
	Debt Service Coverage Ratio	1.66	1.76	1.71	1.60	1.65	1.72
Scenario 2 - 4% Bond fund CIP	Bond Proceeds	104.5	0	101.2	0	125.6	55.5
	Debt Service	45.0	49.7	56.6	63.8	67.3	73.0
	Unreserved Balance	112.8	26.2	101.6	52.9	135.5	157.1
	Debt Service Coverage Ratio	1.66	1.69	1.52	1.38	1.36	1.30
Scenario 3 - 4% Cash fund CIP	Bond Proceeds	104.5	0	101.2	0	0	0
	Debt Service	45.0	49.7	56.6	57.4	57.4	57.4
	Unreserved Balance	112.8	56.2	4.6	66.7	33.7	15.3
	Debt Service Coverage Ratio	1.66	1.69	1.64	1.53	1.59	1.65

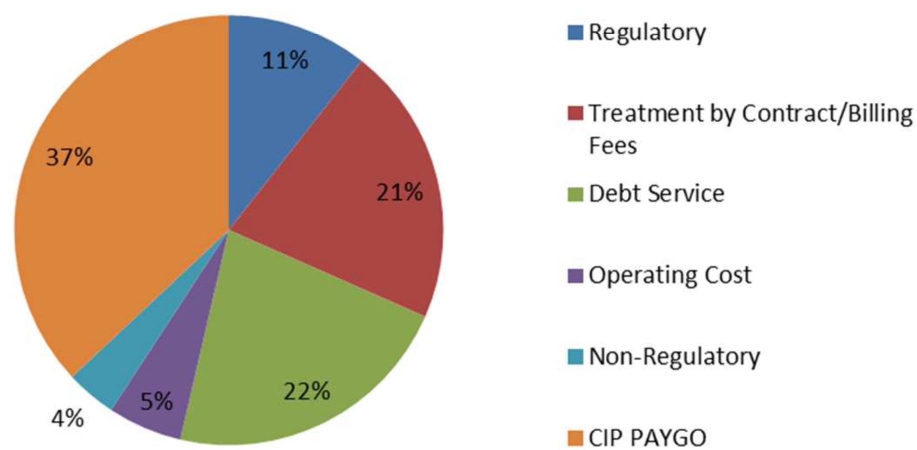
FY 2014 Revenues

Where does the $228.6 million come from?



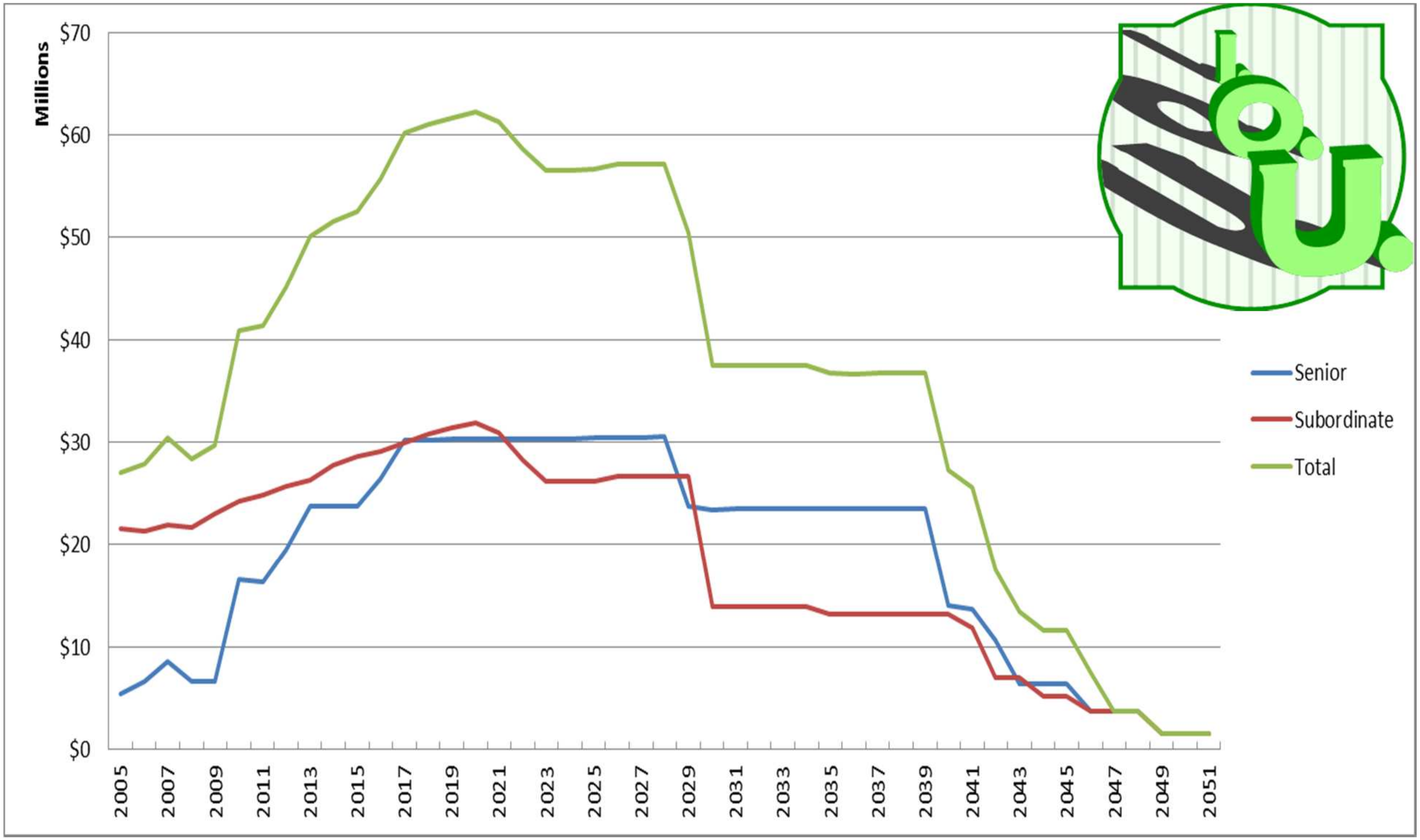
FY 2014 Expenditures

Where does the $228.6 million go?



Year	Bonds	Amount		Debt Service	Outstanding Principal	
Prior	Various Series	Senior Sub Total	$104.00 $420.95 $524.95	$7.51 $21.65 Total $29.16	Senior Sub Total	$ 96.87 $308.72 $405.59
2005	Refunded 1996	2004	$ 94.01	$6.80	$384.86	
2005	UOSA Refunded 95	2004	$31.84	$4.85 Total $30.35	$384.86	
2007	UOSA Refunded 93	2007	$55.92	Total $29.19	$418.29	
2009	Revenue Bonds	2009	$152.26	$7.76 Total $ 36.95	$559.07	
2010	UOSA Bonds	2010	$34.11	Total $38.23	$546.78	
2013	Revenue Bonds	2012	$90.71	Total $46.46	$642.96	
2014	UOSA Bonds	2014	$14.50	Total $50.38	$650.46	
2016	Revenue Bonds	2015	$111.70	Total $53.96	$678.60	

Annual Debt Service



Reinvestment Strategy

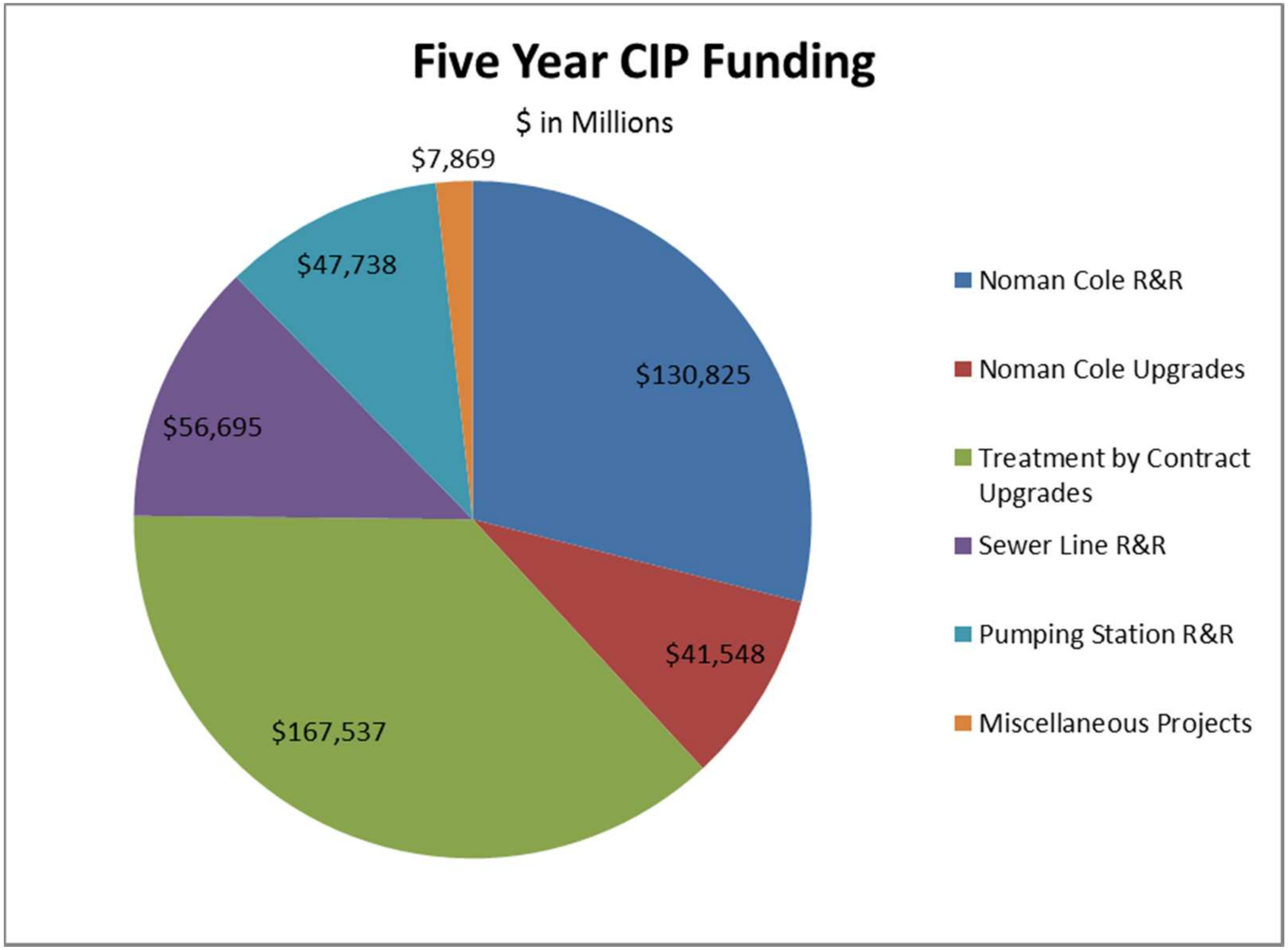
- Impact of delayed reinvestment
  - Deterioration of facilities
  - An “Incident”
  - Mandated reinvestment

- WWM Approach
  - Thoughtful, prioritized reinvestment
  - Move from debt financing to pay-go financing
  - Minimizes incidents, maintains control, avoids “reactionary” expenses

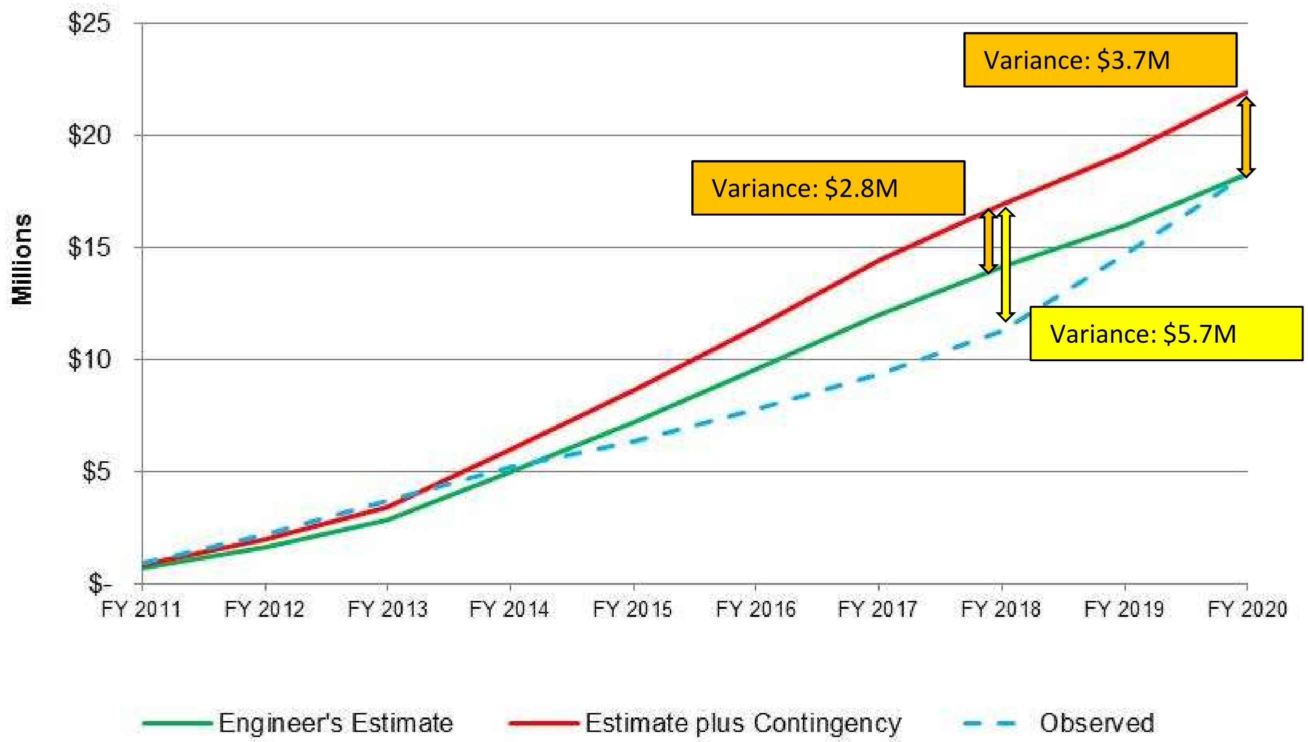
CIP Review

- Bond vs. Cash Funding
  - Bond funding a majority of the CIP was leading us to higher fund balances and lower coverage ratios
  - Adverse impact on all Financial Measures
  - Which Project to cash fund and which to bond fund
    - We chose regulatory driven projects to bond fund
  - No significant impact on rates to cash funding
    - we have the fund balance to support this move
  - Rating agencies liked moving to cash funding more CIP
    - S&P "Moderate size capital improvement program with a fair mix of pay-as-you-go financing, additional debt, and available reserves and revenues"

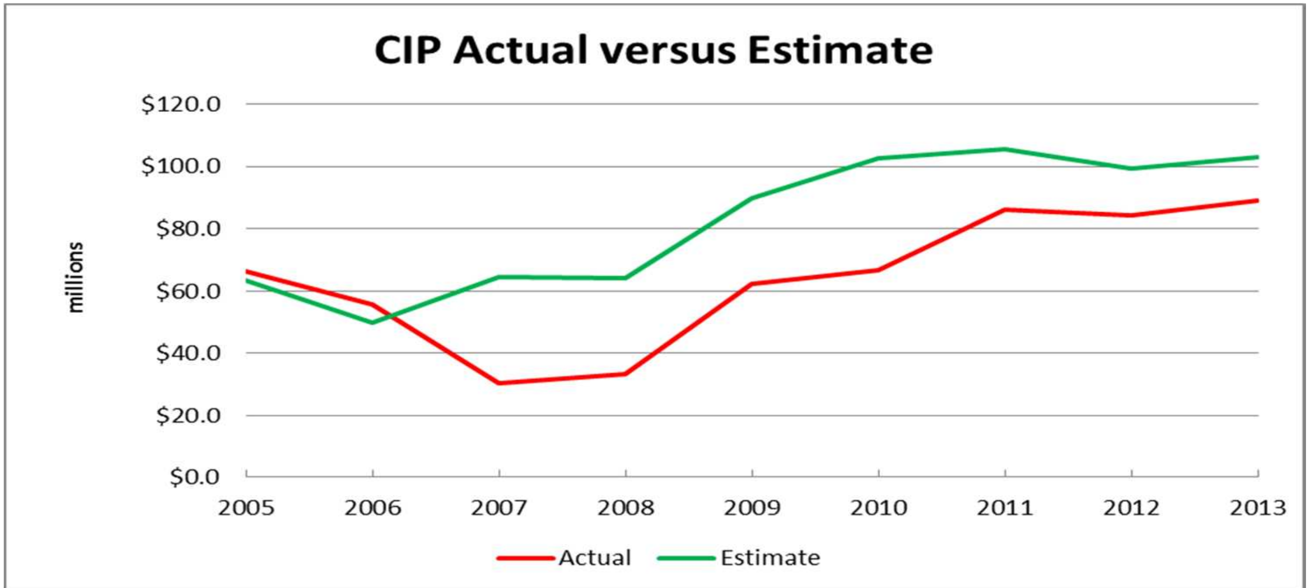
Distribution of CIP Funding

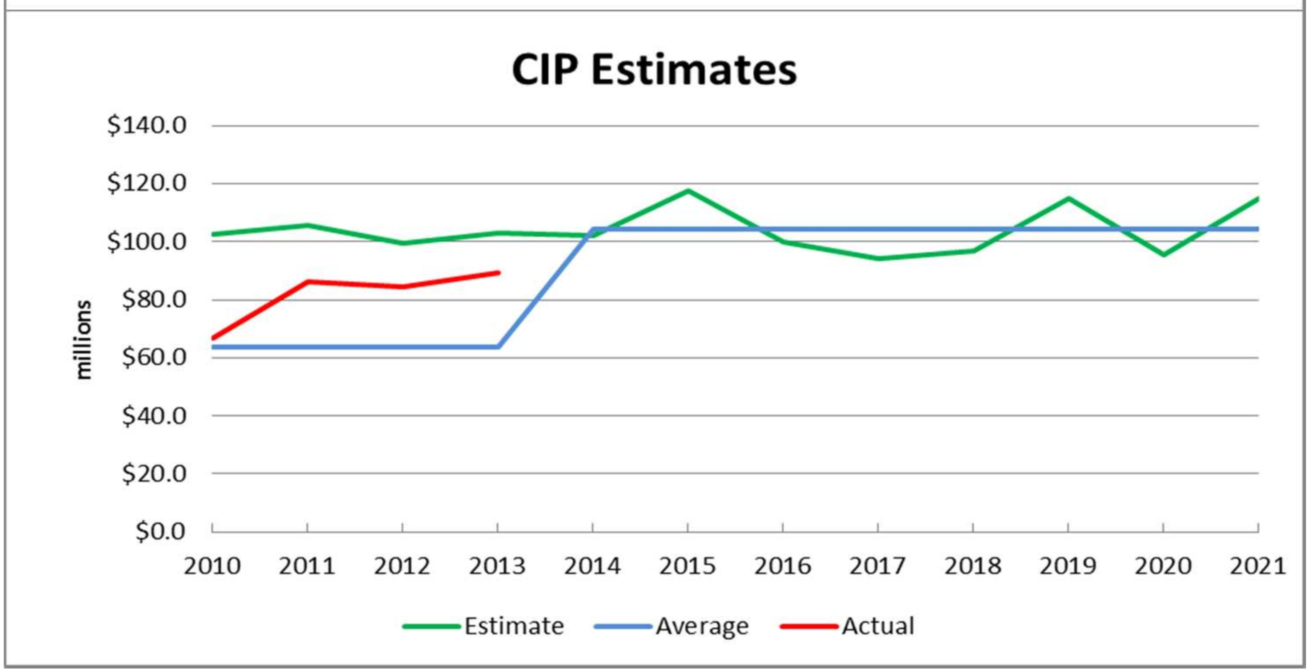


Management of Construction Volatility



Fine Tuning CIP Estimates





Lessons Learned

- Spend more time educating stakeholders on financial measures and their meaning
- Solicit input from Executive Team on what they want from the financial measures
- How important it was to get buy-in from the Capital Program staff and the importance of their roles
- When it comes to Capital Planning, there is no right answer, it is a fluid process
- Balancing the needs of various stakeholders