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**Montgomery County,
Virginia**



**Analysis of Proposed School Capital
Projects on Debt Capacity and Debt
Affordability**

August 23, 2010



Overview

Montgomery County, Virginia

Montgomery County (the “County”) has identified potential school capital projects ranging from \$14.5 Million to \$124.5 Million that would require funding in the near future. The options to be discussed include:

- 1) \$14.5 Million - Repair structural issues related to Blacksburg HS – continue use of current structure
- 2) \$57.4 Million - Construct a new Blacksburg HS facility
- 3) \$102.0 Million - Construct a new Blacksburg HS facility & a new Auburn HS facility
- 4) \$124.5 Million - Construct a new Blacksburg HS, a new Auburn HS & renovate the existing Auburn HS for reuse as Auburn MS

The project costs will be reduced by \$14.5 million due to approximately \$9.5 million of bond proceeds remaining due to cost savings on the Prices Fork ES and Elliston-Lafayette ES and \$5 million from insurance proceeds.

Therefore, in this presentation only Options 2, 3 and 4 will be analyzed.



Objectives

Montgomery County, Virginia

- Analyze the potential impact of funding the options on the County's:
 - Existing debt related financial policy guidelines (i.e. Debt Capacity); and,
 - Projected general fund cash-flows (i.e. Debt Affordability).
- Discuss how this additional debt could impact the County's bond ratings.



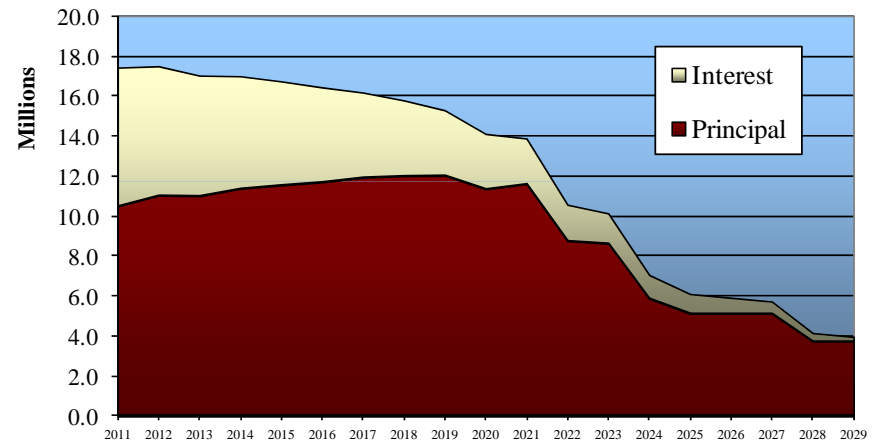
Existing Tax-Supported Debt Service

Montgomery County, Virginia

	Principal	Debt Outstanding Interest	Total	Payout Ratio
	\$172,373,987	\$58,030,988	\$230,404,975	
2011	10,503,090	6,892,657	17,395,747	6.1%
2012	11,041,799	6,421,549	17,463,348	12.5%
2013	11,014,599	5,982,674	16,997,273	18.9%
2014	11,384,930	5,577,397	16,962,328	25.5%
2015	11,557,862	5,148,048	16,705,910	32.2%
2016	11,708,403	4,700,460	16,408,863	39.0%
2017	11,941,703	4,207,111	16,148,814	45.9%
2018	12,017,887	3,735,482	15,753,370	52.9%
2019	12,039,198	3,224,720	15,263,918	59.9%
2020	11,360,625	2,716,537	14,077,162	66.5%
2021	11,617,461	2,235,250	13,852,710	73.2%
2022	8,766,985	1,769,132	10,536,116	78.3%
2023	8,636,090	1,472,002	10,108,091	83.3%
2024	5,887,472	1,139,221	7,026,693	86.7%
2025	5,135,294	936,250	6,071,544	89.7%
2026	5,135,294	749,000	5,884,294	92.7%
2027	5,135,294	561,750	5,697,044	95.7%
2028	3,745,000	374,500	4,119,500	97.8%
2029	3,745,000	187,250	3,932,250	100.0%

- Includes General Fund and School related debt only (i.e. tax supported).
- Approximately 65% of the outstanding debt is school related.
- Solid 10-year payout-ratio of 60%. A solid AA range is from 55% to 65%.

Existing Tax-Supported Debt



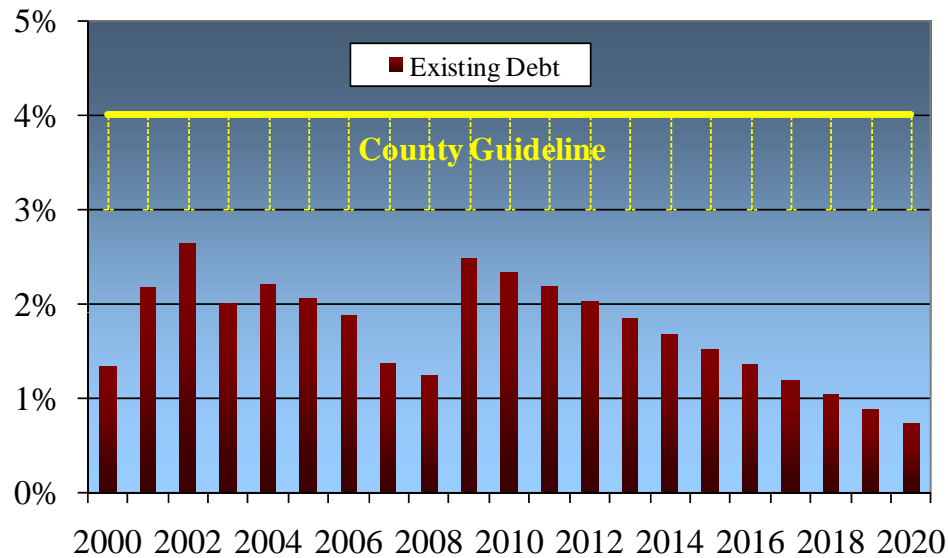
Note: the figures above assume the 2000 DSRF will be used to call the 1/15/2012 maturity after the 1/15/2011 principal payment. Therefore no principal payment has been shown for 1/15/2012 (\$1,290,000) and no interest has assumed to be paid in FY 2012 (\$65,790).



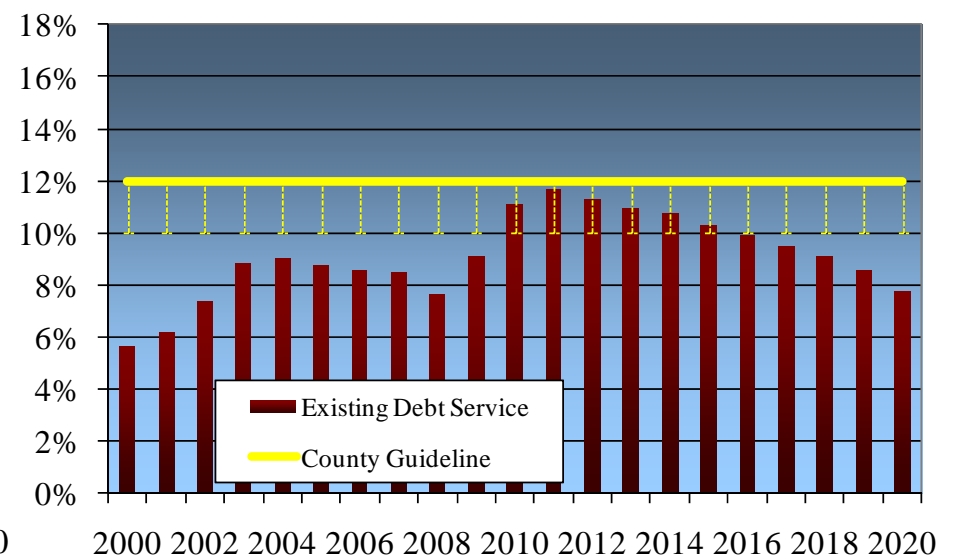
Existing Fiscal Policy Guidelines

Montgomery County, Virginia

Debt vs. Assessed Value



Debt Service vs. Expenditures



Note: These County fiscal policy guidelines were adopted by the Board in 2000 on advice from Davenport. Fiscal policy guidelines are a tool to help guide a locality during its financial decision making. The guidelines were set at levels which if followed would ensure that the County continues to be in a strong financial position.

*Assessed Value has been assumed to be flat in FY12, grow at 1% in FY13, 2% in FY14 and 3% per year thereafter.
Expenditures have been assumed to be flat in FY12, grow at 1% in FY13, 2% in FY14 and 3% per year thereafter.*

Rating Summary



Montgomery County, Virginia

	<u>Moody's</u>	<u>S&P</u>	
Top Tier "Highest Possible Rating"	Aaa	AAA	
2nd Tier "Very Strong"	Aa1	AA+ (Highest)	
	Aa2 2010-G	AA 2008 (Middle)	
	Aa3 2008	AA- (Lowest)	
3rd Tier "Strong"	A1 1987	A+ 1994 (Highest)	
	A2	A 1987 (Middle)	
	A3	A- (Lowest)	
4th Tier "Adequate Capacity to Repay"	Baa1	Baa+ (Highest)	↑ Considered Investment Grade
	Baa2	Baa (Middle)	
	Baa3	Baa- (Lowest)	
5th – 10th Tiers "Below Investment Grade"	BB, B, CCC, CC, C, D		↓ Below Investment Grade

 Current Rating
 Historical Rating



Capital Projects Funding – Key Assumptions

Montgomery County, Virginia

1. Projected debt service is added to the existing tax-supported debt service.
2. Initially assumed one bond issuance in November 2010. Once the actual construction schedule is known the timing and number of bond issues could change.
3. The first principal and interest payment are assumed to occur in Fiscal Year 2012.
4. Debt Service is structured as level debt service over 20 years.
5. Current market interest rates have been used for the analysis (i.e. should interest rates rise the debt service amounts will increase). The analysis does not assume the use of Build America Bonds, Literary Loans (3%) or Qualified School Construction Bonds (0%).
6. An EDA issued lease transaction has been assumed where the new schools would be used as collateral. Under this structure, a debt service reserve fund equal to one-year's debt service would be required. An extra year would be added to the loan to amortize this reserve. As such, the debt service to expenditure guideline would be minimally affected while the debt to assessed value ratio would increase slightly.
7. The equivalent tax rate impact is shown in Fiscal Year 2012. However depending upon the bond issuance timing and structure, the timing and amount of the tax rate impact could change.



Capital Projects Funding – Key Assumptions

Montgomery County, Virginia

- Value of 1¢ = \$680,000 for FY 2011
- New growth real estate assessed value has averaged roughly 3.00%, value of penny on the real estate tax rate is assumed to grow by 0.00% in FY12, 1% in FY13, 2% in FY14 and 3% thereafter.
- Future Real Estate Assessed Value assumed to grow by 0.00% in FY12, 1% in FY13, 2% in FY14 and 3% thereafter. Used in Debt to Assessed Value ratio calculation.
- Future Expenditure growth, not counting debt service, is assumed grow by 0.00% in FY12, 1% in FY13, 2% in FY14 and 3% thereafter. Used in Debt Service to Expenditure ratio calculation.
- Equivalent Tax Rate Impact includes Capital only – No Operating Expenditures have been factored in.



Capital Projects Funding – Analysis Summary

Montgomery County, Virginia

Option	1	2	3	4
Construction dollars	\$14,500,000	\$57,400,000	\$102,000,000	\$124,500,000
Funded with Cash	14,500,000	14,500,000	14,500,000	14,500,000
Funded by Bonds	-	42,900,000	87,500,000	110,000,000
Existing Tax-Supported Debt	\$172,373,987	\$172,373,987	\$172,373,987	\$172,373,987
Projected Debt after New Bond Issuance	172,373,987	215,273,987	259,873,987	282,373,987
Percentage increase in Debt	-	25%	51%	64%
Structure	na	Level Pmts	Level Pmts	Level Pmts
Amortization	na	20 Years	20 Years	20 Years
Total New Debt Service	-	\$63,265,358	\$128,281,967	\$161,074,008
Est. Penny Impact in 2012	\$0.000	\$0.055	\$0.105	\$0.125
Assumed Interest Rate	na	3.83%	3.83%	3.83%
Payout Ratio in 10 Years from 2012	66.50%	60.40%	56.10%	54.40%
Est. Annual New Debt Service	-	\$3,163,268	\$6,414,098	\$8,053,700

Capital Projects Funding – Impact on Key Fiscal Policies

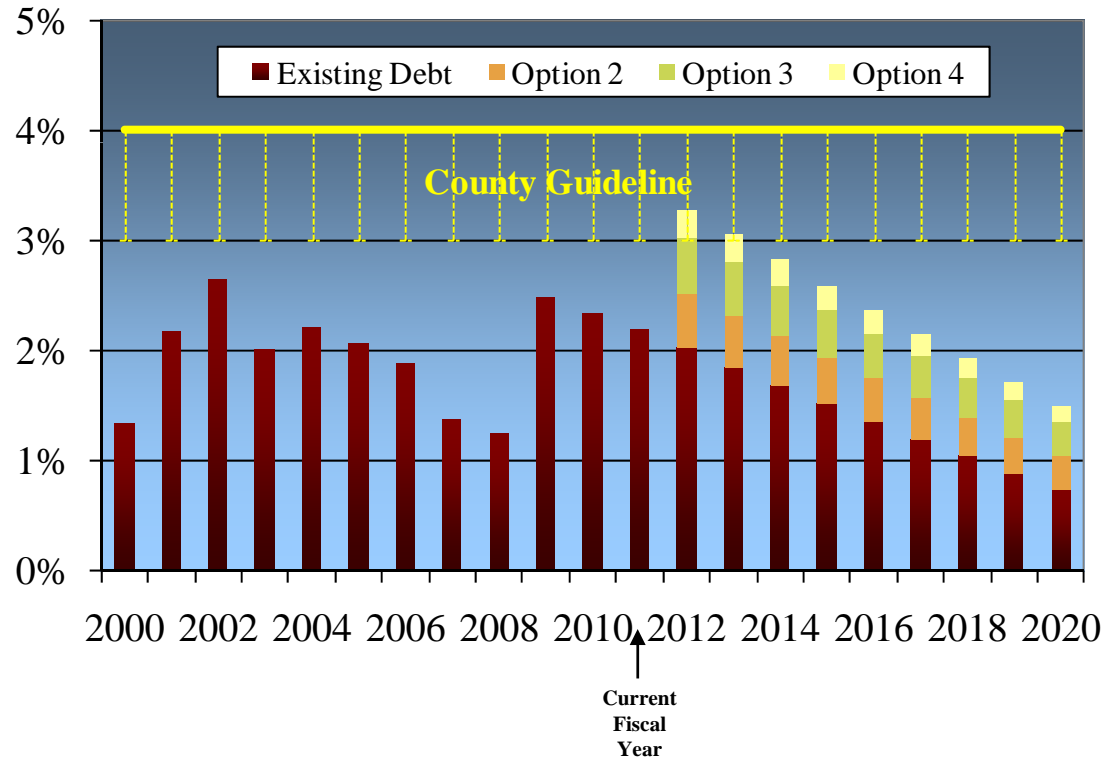


Montgomery County, Virginia

Debt to Assessed Value Policy

Net debt as a percentage of estimated market value of taxable property should target 3.0% but not exceed 4.0%.

Debt vs. Assessed Value



Assessed Value has been assumed to be flat in FY12, grow at 1% in FY13, 2% in FY14 and 3% per year thereafter.

This analysis assumes the 20-year level debt structures



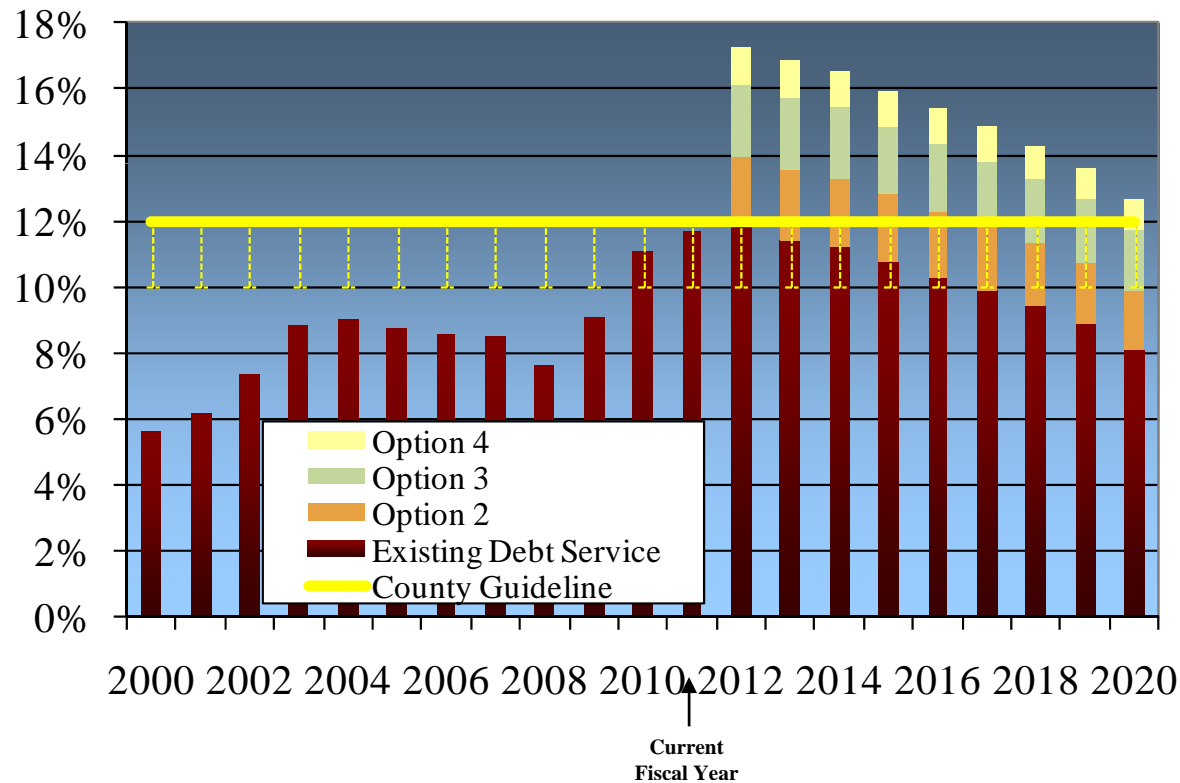
Capital Projects Funding – Impact on Key Fiscal Policies

Montgomery County, Virginia

Debt Service as Percent of Expenditures Policy

The ratio of debt service expenditures as a percent of governmental fund expenditures should target 10%, but not exceed 12%.

Debt Service vs. Expenditures



Expenditures have been assumed to be flat in FY12, grow at 1% in FY13, 2% in FY14 and 3% per year thereafter.

This analysis assumes the 20-year level debt structures.



Potential Rating Impact

Montgomery County, Virginia

- Without presenting all the information that goes into a rating decision (economic, demographic, finance, and management), to the rating agencies there is no definitive way to know if any of these options would cause the County's ratings to fall.
- In discussions with rating analysts, if the County were to move forward with a debt issuance they did not believe the violation of the County's debt service to expenditure policy would not cause the County's rating to fall. However, it should be noted that these analyst themselves do not make the final decision. Rather, they make a report to a larger committee. The committee could overrule their recommendation. The most the County's rating would fall is one notch (i.e. from Aa2 to Aa3). Should the County choose to move forward it would know the outcome of the rating decision prior to issuing the debt. If the verdict is that the rating would fall, and the County wanted to, it could then decide not to move forward with the bond sale.
- In our view the County's standing within the AA rating falls toward the lower end of that rating depending upon the amount of additional debt issued. Should the County be in the lower end of the rating, a negative event in one of the four key rating areas could cause the rating to fall to the next rating (i.e. Aa3/AA-).



Refunding Opportunity

Montgomery County, Virginia

Montgomery County, VA
As of August 20, 2010

Summary of Bonds Refunded				
Series 2002B Bonds, Maturities:	Principal Refunded	Call Date	Call Price	Coupon
1/15/2019	1,065,000	1/15/2012	100.00%	5.250%
1/15/2020	1,120,000	1/15/2012	100.00%	5.500%
1/15/2015	2,450,000	1/15/2012	100.00%	5.250%
1/15/2018	2,865,000	1/15/2012	100.00%	5.500%
1/15/2023	3,720,000	1/15/2012	100.00%	5.000%
Total	\$11,220,000			

Refunding Results	
Gross Savings	\$1,047,339
Estimated TIC	2.95%
Net PV Savings	\$934,856
PV Savings as % of Refunded Bonds	8.33%

<u>FY</u>	<u>Prior Net Cash Flow</u>	<u>Refunding Net Cash Flow</u>	<u>Savings</u>
2011	\$284,973	\$207,629	\$77,343
2012	555,500	454,563	100,937
2013	1,330,500	1,227,863	102,637
2014	1,329,812	1,230,663	99,150
2015	1,332,025	1,233,063	98,962
2016	1,331,875	1,232,063	99,812
2017	1,332,100	1,228,688	103,412
2018	1,329,575	1,230,038	99,537
2019	1,334,300	1,230,638	103,662
2020	1,333,387	1,229,888	103,500
2021	1,331,787	1,228,238	103,550
2022	1,332,787	1,233,988	98,800
2023	(37,726)	106,238	(143,963)
Total	\$14,120,893	\$13,073,554	\$1,047,339