THE BOND BUYER

D.C. area plans significant debt issuance as population surges

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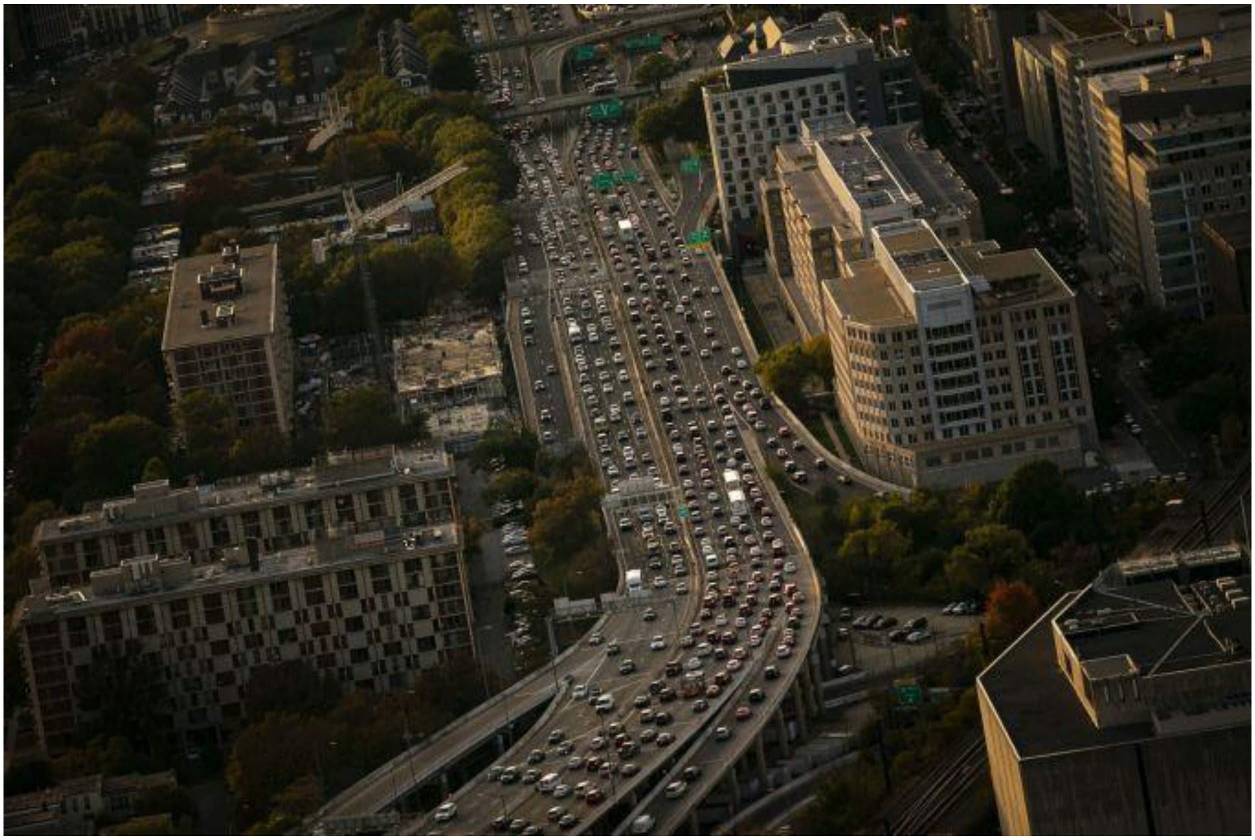
Over the next six years, Washington, D.C., plans to issue $5.1 billion in bonds to keep up with area population growth projected at more than a million people over the next two decades.

The Metropolitan Washington Council of Governments predicted more than a million people will be added to the D.C. area by 2045, and the district plans to fund about $8.5 billion in projects in the next six years to meet its expected needs. From schools to hospitals to correctional facilities, the district has plans to bond for its new infrastructure as its population increases. Its six year capital plan, calls for about $8.5 billion in projects.

“You better have the funding in place," said Jeff DeWitt, Washington’s chief financial officer.



Population growth projections will drive bond issuance from Washington, D.C. and surrounding jurisdictions. **Bloomberg News**

A new hospital scheduled to be built in southeast D.C. in the next five years will need about $320 million in bonding, which has been allocated for fiscal year 2021.

The city would also like to add a correctional facility and police headquarters in the future, both of which require bond funding.

D.C. priced its largest deal ever last month of $1.3 billion, a record size for its income tax-secured bonds to refinance outstanding debt and renovate public housing communities.

The district plans to issue $245 million in Garvee bonds in the next few months to fund reconstruction of the 68-year-old Frederick Douglass Memorial Bridge, which crosses over the Anacostia River on the district's southeast side.

To maintain current infrastructure, the district will rely on cash as opposed to borrowing.

The district's target is to use up to 12% of expenditures to pay debt service
By 2028, the district hopes to have its assets in a state of good repair paid through pay-as-you-go funding. More people in the district could mean more taxes and other revenue sources could help them reach that goal.

“Growth can pay for itself depending on how much revenue the growth brings in,” DeWitt said.

Over time, the district could decide to use cash over bonding, or decrease its debt service to 10% of expenditures.

Jeffery DeWitt, chief financial officer for Washington D.C.

However, for new infrastructure projects, DeWitt said the district will rely on bonding.

As the population increases, more and more commuters will be taking advantage of the area’s freeway system, said Robert Poole, director of transportation policy at the Reason Foundation.

More municipalities are going to look to expand roadways and build out additional lanes, and could lean towards express lanes.

“The trend over the last 40 years, every time the census comes out is more and more commuting suburb to suburb,” Poole said.

Maryland’s Department of Transportation is planning to expand the Woodrow Wilson Bridge and then build express lanes on state’s side of the beltway along I-270.

And the express lanes may not just be for cars.

“What we’re seeing in a number of metro areas that are doing this is a very aggressive push to have express bus service in those express lanes,” Poole said.

Therefore, buses will be more reliable since they won’t be slowed down by normal traffic.

“If the bus can have an uncontested corridor, it probably is for more people faster than driving door to door and that is a huge advantage,” Poole said.

Express lanes are funded by revenue bonds or through a private company creating a public-private partnership, and they have had solid revenue performance. According to a Fitch report from June, express lanes’ higher revenues were caused by increased traffic driven by a strong economy and less conservative assumption.

Airports in the area will need to spend money to keep up with the growth as well, said Baruch Feigenbaum, assistant director of transportation policy at the Reason Foundation.

Dulles Airport in suburban Virginia will be renovated, Feigenbaum said, and Reagan National Airport on the Potomac River will have a new 14-gate concourse.

“Due to growth in this region, there is going to be a need for a lot more infrastructure so for the folks that are interested in selling bonds, it is probably a pretty good market to be in,” Feigenbaum said.

Fairfax County, Virginia, is using its increasing future land value to pay down debt it incurred to pay for transit-oriented development around the Metro’s Silver Line, which cuts into the county.

The county wants people to ride the metro line without needing to park at the station, therefore not adding much parking, said Joe LaHait, Fairfax County debt manager. The county recently added two new parking garages in spring 2019, which were paid through commercial and industrial tax revenues and parking revenue bond proceeds.

However, the goal is to add limited parking so commuters to promote transit-oriented development, LaHait said.

“We want people to use that metro line and essentially work live and play in the region,” LaHait said.

Fairfax County’s capital improvement plan is about $10 billion through 2023 and the county plans to balance that through a mix of bonds and pay-as-you-go financing.

Loudoun County, Virginia, is focused on providing transportation related capital projects in a timely way to keep up with population growth, said Erin McLellan, its chief financial officer.

Erin McLellan, Loudoun County, Virginia's chief financial officer.

Loudoun County is preparing for two new stations and that means more trips on the road.

The county is expecting two new metro stations — Loudoun Gateway Station and Ashburn — which go beyond the Dulles airport metro station on the silver line. All are expected to start operating in the later half of 2020.

As Loudoun County continues to bond and expand its infrastructure, the bonds will be paid through mostly property taxes, McLellan said. Its capital plan until fiscal year 2023 includes expenditures of $2.5 billion, with transportation projects making up $1.2 billion of that. Over the six years, the county plans to bond over $905 million.

The county plans to focus on road projects to connect its metro to the rest of the county such as turn lanes, bridges connecting to parking garages and sidewalks.

Historically, the county’s bonding has been about 50% of their funding for its capital plans. That could grow as the value of the capital plan increases, McLellan said.

“Will the percentage of that as a funding source increase?” McLellan said. “That is something we evaluate every year and look at the long term viability of that in our options.”

Schools will also continue to see growth in Loudoun County and are considered big expenditures in Loudoun’s capital plan. Though the student population has declined slightly on a year-over-year basis, it is still growing overall, McLellan said.

“We’re adding on average probably about 2,000 students a year,” McLellan said. “So we continue to build at least one new school pretty much every year.”