

## DEBT SERVICE FUND

### Description

The Debt Service Fund is used to accumulate financial resources for the payment of interest and principal on all general obligation debt of the County. The debt service on revenue bonds issued by the County's Water and Sewer utility is paid and accounted for within the Enterprise Fund. The debt service on bonds issued by the James River Juvenile Detention Center (JRJDC) Commission is paid and accounted for within the Agency Fund. The County's authority to issue general obligation debt secured solely by the pledge of its full faith and credit is provided by the Constitution of Virginia and the Public Finance Act. There are no limitations imposed by State law or local ordinance on the amount of general obligation debt that may be issued either directly or indirectly. However, with certain exceptions, all debt, which is secured by the general obligation of a county, must be approved at public referendum prior to issuance.

The process of issuing general obligation bonded debt in the County begins with the departments' presentation of capital expenditure needs to the County Manager, who then presents recommendations for funding to the Board of Supervisors. The Board of Supervisors must approve of any debt issue before it is placed on the ballot. Then County citizens must vote on the bond referendum and if the bond referendum is approved the debt can be issued. While there are no limitations imposed by State law, the County utilizes debt guidelines (described herein) to ensure that debt

service payments do not impact current operations.

The County is projected to have total outstanding general debt of \$533,180,000 as of June 30, 2012. The distribution of the debt is: \$430,540,000 of General Obligation (GO) bonds (\$284,415,643 for Schools and \$146,124,357 for General Government), \$25,180,000 of Industrial Development Authority (IDA) bonds for the regional jail project, \$8,505,000 of IDA bonds for General Government projects, \$66,530,000 of Virginia Public School Authority (VPSA) bonds, and \$2,425,000 for the JRJDC, which is included in the total outstanding debt figure above as it is included in the bond rating agencies' calculations. It must be noted that of the \$533,180,000 projected June 30, 2012 outstanding debt, \$350,945,643 or 65.8 percent is attributed to Education projects and \$182,234,357 or 34.2 percent is attributed to General Government projects.

In order to ensure that the County does not exceed its ability to service current and future debt requirements, an annual long-term debt affordability analysis is performed and utilized as a forecasting tool when confronted with the question of potential debt issues. The County has established the following debt affordability guidelines – debt service as a percentage of General Fund Expenditures, 7.75%; debt service as a percentage of assessed value, 1.49%; and debt per capita, \$1,650.

### Annual Fiscal Plan

<u>Description</u>	<u>FY11 Actual</u>	<u>FY12 Original</u>	<u>FY13 Approved</u>	<u>Change 12 to 13</u>
Principal Payments	\$ 32,300,000	\$ 32,290,000	\$ 38,160,000	18.2%
Interest Payments	19,243,700	22,514,043	22,772,785	1.1%
Other Debt Expenses	477,836	50,000	50,000	0.0%
Total	<u>\$ 52,021,536</u>	<u>\$ 54,854,043</u>	<u>\$ 60,982,785</u>	<u>11.2%</u>
General Government	\$ 15,359,896	\$ 17,330,475	\$ 21,725,482	25.4%
Education	36,661,640	37,523,568	39,257,303	4.6%
Total	<u>\$ 52,021,536</u>	<u>\$ 54,854,043</u>	<u>\$ 60,982,785</u>	<u>11.2%</u>

### *Debt Service Fund (cont'd)*

The Board of Supervisors established the debt guidelines in the FY1998-99 Annual Fiscal Plan. The Board of Supervisors revalidated the guidelines during growth retreats held during the summer of 2004. Following these guidelines has allowed the County to meet its infrastructure needs without sacrificing other operational requirements.

#### **The County's bond ratings are as follows:**

- **Moody's Investors Service: Aaa**
- **Standard & Poor's: AAA**
- **Fitch IBCA: AAA**

As a note, Henrico is 1 of only 35 counties in the United States to hold the highest rating from each of the three bond rating agencies, which is referred to as a triple AAA bond rating (Aaa, AAA, and AAA).

Following are three of the ratios that are calculated in the debt capacity analysis, which was most recently completed in February 2012. The ratio of **net bonded debt to total assessed value** is a standard measure of the County's ability to meet interest and principal payments on its long-term debt. The County has a ratio of 1.46% in FY2011-12. The **ratio of debt service to General Fund expenditures** measures the percentage of the budget used to pay debt service and provides a measure of the annual demands placed on the operating budget by the County's long-term debt. This ratio is 6.87% in FY2011-12. **Net bonded debt per capita** is the amount of debt outstanding divided by the number of County residents. The amount of debt per capita exceeded the guideline of \$1,650 in FY2011-12, and was calculated at \$1,693; however, this is solely the result of the County combining the final two planned G.O. Bond issues from the March 2005 G.O. Bond Referendum due to the attractive interest rate environment.

#### **Budget Highlights**

Following is a historical overview of recent bond issues for which the County incurred debt obligations. By offering this historical perspective, the current year debt service requirements may be put into the context of the true multi-year planning that is required when managing the County's debt.

In FY1996-97, the County participated in a Virginia Public School Authority (VPSA) bond issue. The

VPSA issue totaled \$30,595,000. The proceeds were used for technology initiatives, roof replacements, mechanical improvements, land acquisition, and planning and construction of new schools. In the fall of 1996, the County issued IDA Lease Revenue Bonds in the amount of \$28,765,000. The proceeds were for construction of the Emergency Communication and Training Facility, renovation of the Hartford Building (now the Public Safety Building), and the Lease/Purchase of a new 800 MHz Communication System.

In FY1997-98, the County issued IDA Lease Revenue Bonds for \$24,765,000. The proceeds from the bond issue were used for renovations to the Administration Annex (Old Public Safety Building), construction of the parking deck, and the County's technology initiative, which included technology enhancements for the Department of Finance, Community Development Agencies, and County Libraries. In addition, funding was provided for the County's LAN/WAN (local and wide area networks) backbone.

In the spring of 1999, the County participated in a VPSA Bond issue. The issue totaled \$35,740,000. The proceeds were used for various school additions and renovation projects as well as the construction of Pocahontas Middle School and Twin Hickory Elementary School.

In the fall of 1999, the County refinanced bonds that were originally issued in FY1994-95 to build the regional jail facility. The regional jail is located in New Kent County and shared by the Counties of New Kent, Goochland, and Henrico. The refinancing was advantageous due to the prevailing interest rates that reduced the debt service payments throughout the life of the issue. The State of Virginia, which committed to reimbursing the County for a portion of the debt service on the original issue, paid-off the balance of their commitment during the refinancing process.

Also in FY1999-00, the County's Schools participated in a VPSA Bond issue. The issue totaled \$15,215,000. The proceeds were used to add a multi-purpose room to Crestview Elementary School and to begin construction of Deep Run High School.

In November 2000, the County's voters approved a \$237,000,000 General Obligation (GO) Bond Referendum. The referendum included projects for

*Debt Service Fund (cont'd)*

Schools, Fire, Public Library, Public Works – road projects, and Recreation and Parks. Of the total \$237,000,000 referendum approved by the voters, Education projects totaled \$170,500,000 and General Government projects totaled \$66,500,000. The financing plan that supported the 2000 GO Bond Referendum utilized \$12,600,000 in VPSA interest earnings and \$4,100,000 from the County's General Fund balance.

In the spring 2001, the County issued \$37,110,000 in GO Bonds for School projects, which included the continued construction of Deep Run High School; planning and design costs for Rivers Edge Elementary School; the purchase of land for Hungary Creek Middle School; renovations to Fair Oaks Elementary School and Moody Middle School, as well as construction of New Bridge Alternative Middle School.

The County issued GO Bonds totaling \$27,035,000 in February 2002. The issue was for School projects totaling \$8,674,055 and General Government projects totaling \$18,360,945. It should be noted that the GO Bond funding when combined with \$12,600,000 of VPSA interest earnings for Education and \$4,100,000 of the County's General Fund balance provided a total of \$43,735,000 for projects approved in the FY2001-02 Capital Budget. School projects being funded include the completion of Deep Run High School and Rivers Edge Elementary School, the purchase of land for Colonial Trail Elementary School, planning and design funding for Hungary Creek Middle School and Greenwood Elementary School, and additions at Baker and Ratcliffe Elementary Schools. General Government projects being funded include construction of Fire Station #18, a replacement Tuckahoe Library, a portion of John Rolfe Parkway, and design funding for Meadowview Park, Walkerton Tavern, Osborne Park, and the Deep Run Park Recreation Center.

In January 2003, the County refinanced two prior debt issues – the 1993 Public Improvement Refunding Bonds and the VPSA 1993 Bonds – and issued \$50,230,000 of new GO Bonds, which were approved on the November 2000 referendum, for a total debt issue of \$107,545,000. Due to favorable interest rates on AAA bond issues, refunding the two debt issues reduced the County's interest cost over the balance of the debt payments.

The \$50,230,000 issued for projects approved in the FY2002-03 Annual Fiscal Plan was allocated for School and General Government capital projects. The majority of the funding, \$41,597,975 funded School projects including the construction of Hungary Creek Middle School and Greenwood Elementary School, as well as additions at Baker and Ratcliffe Elementary Schools. The General Government projects, which totaled \$8,632,026, included funding for the construction of Fire Station #22, John Rolfe Parkway, and Mayland Drive, as well as to begin construction of the recreation center at Deep Run Park.

In May 2004, the County issued GO Bonds totaling \$38,920,000 for School and General Government projects. Due to the low interest rates available and the cost advantages of a larger bond issue, the issues that were planned for FY2003-04 and FY2004-05 were combined into one issue. The school projects, which totaled \$12,549,826, included the renovation of Tuckahoe and Ridge Elementary Schools, an addition at Ratcliffe Elementary School, planning funds for Colonial Trail Elementary School and additions at Maybeury and Donahoe Elementary Schools, as well as funding for ADA compliance, Asbestos Abatement, and Tennis Court Replacements. The General Government projects, which totaled \$26,370,174, include the renovation of Fire Station #5, construction of Fire Station #21, construction of the Twin Hickory Area Library, continued funding for John Rolfe Parkway and improvements to Creighton and Charles City Roads, funding to complete the construction of Deep Run Recreation Center, funding for improvements at Walkerton Tavern and Osborne Park, and planning funds for Meadowview Park Phase I.

On March 8, 2005, the County voters approved a \$349,300,000 General Obligation (GO) Bond Referendum. The referendum included projects for Schools, Fire, Public Library, Public Works – one road project, and Recreation and Parks. Of the total \$349,300,000 referendum approved by the voters, Education projects totaled \$220,000,000 and General Government projects totaled \$129,300,000. The revised financing plan funds the projects over a seven year period instead of a six year period. By stretching the period of debt issuance over seven years, the debt service and operating costs for these projects comes on line more slowly and allows the maximum use of incremental County resources.

*Debt Service Fund (cont'd)*

The County issued \$77,815,000 of GO Bonds in August 2005, which included projects from the November 2000 and March 2005 Referenda. The General Government projects, which totaled \$15,052,637, included Rebuilding Fire Station #8, continued funding for the John Rolfe Parkway and Charles City Road projects, as well as funding for Meadowview Park Phase I, which were all included in the November 2000 Referendum. Projects from the March 2005 Referendum included funding to begin the planning and design for an addition at Glen Allen Library, the extension of Gayton Road, and improvements at RF&P Park. The School projects, which totaled \$62,762,363, included funding for the construction of Colonial Trail Elementary School, construction funding for additions at Maybeury and Donahoe Elementary Schools and the renovation of Highland Springs High School that were projects approved in the November 2000 Referendum. The projects funded that were approved in the March 2005 Referendum include Elko Middle School, planning funding for Holman Middle School, and a cafeteria renovation and classroom addition at Henrico High School.

In November 2006, the County issued \$71,915,000 of GO Bonds, which included projects from the November 2000 and March 2005 Referenda. This issue completes the debt issuance approved on the November 2000 Referendum. The General Government projects, which totaled \$24,903,821, included the Relocation of Fire Station #3, an addition at Glen Allen Library, the renovation of Gayton Road, land for a new Varina Area Library, funding to complete the renovation of Henrico Theatre, and land for an Eastern Area Recreation Center as well as funding for parkland in Western Henrico. The School projects, which totaled \$47,011,180, included funding for the construction of Holman Middle School, a cafeteria renovation and classroom addition at Varina High School, and the renovation of Freeman High School.

The County issued \$29,810,000 of GO Bonds in January 2008 for projects from the March 2005 Referendum. The General Government projects, which totaled \$4,694,107, included the renovation and expansion of Fire Station #10 and the on-site replacement of Fire Station #7. The School projects, which totaled \$25,115,893, included funding for the construction of Harvie Elementary School, the

renovation of Fairfield Middle School, the planning and design of Glen Allen High School, and an allocation of \$3,350,000 for a reserve to assist in the funding of construction cost overruns, due to the increase in construction costs that occurred after the March 2005 Referendum.

In November 2008, the County issued \$93,090,000 of GO Bonds for projects from the March 2005 Referendum. The General Government projects, which totaled \$33,700,814, includes the replacement of Fire Station #9, funding for planning and design of a new northwest area fire station (Fire Station #19), construction funding for an Eastern Area Recreation Center, and funding to continue the construction of the Gayton Road Extension. The School projects, which totaled \$59,389,186, included funding for the construction of Glen Allen High School, the addition of twelve classrooms each at Mehfoud Elementary School and Varina Elementary School, and planning and design funding for a new West Area Elementary School and the renovations of Varina High School, Johnson Elementary School, and Brookland Middle School.

Also in FY2008-09, the County's Schools participated in a VPSA Bond issue that totaled \$44,440,000. The proceeds will be utilized as needed to cover anticipated cost increases in the following March 2005 GO Bond Referendum projects: Glen Allen High School, inclusive of Leadership in Energy and Environmental Design (LEED) certification and design of a Technical Center, Holman Middle School, inclusive of LEED certification, Mehfoud and Varina Elementary School classroom additions, and construction of a new West Area Elementary School.

In May 2009, the County refunded two prior debt issues, the 2001 and 2002 GO Bonds, totaling \$33,785,000 in all. Due to favorable interest rates on AAA bond issues, refunding these two debt issues reduced the County's interest cost by \$1.84 million over the balance of the debt payments.

In August 2009, the County refunded two more prior debt issues, the 1996 Industrial Development Authority (IDA) Lease Revenue Bonds and the 1998 IDA Lease Revenue Bonds, totaling \$36,425,000 in all. These bond refundings generated savings of \$5.2 million over the balance of the debt payments.

*Debt Service Fund (cont'd)*

In May 2010, the County refunded \$119,735,000 in total debt, associated with six individual debt issues. These bond refundings generated a gross savings of \$3.9 million over the balance of the debt payments.

The County issued \$72,205,000 of GO Bonds in July 2010 for projects from the March 2005 Referendum. The General Government projects, which totaled \$10,999,911, included the construction of Fire Station #19, planning and design of a new Varina Area Library, and funding to continue the construction of the North Gayton Road extension. The School projects, which totaled \$61,205,089, included funding for the final funding phase for the construction of Glen Allen High School, construction funding for the new West Area Elementary School #9, construction funding for renovations at Varina High School, Brookland Middle School, and Johnson Elementary School, and planning and design funding for the renovation of Pinchbeck Elementary School. In addition, the Schools allocation of GO Bond funding created a \$6.2 million Bond Project Reserve to allow for the completion of citizen-approved bond projects that required additional funding.

In August 2011, the County issued \$66,075,000 of GO Bonds for projects from the March 2005 Referendum. The General Government projects, which totaled \$45,443,418, included planning and construction funding of the Dumbarton Area Library Replacement; construction funding for the Varina Area Library, Short Pump Park, Twin Hickory Park, and the renovation and expansion of Fire Station #13; and funding of \$4.5 million to cover potential future project funding shortfalls in fire and Library projects. Education projects, which totaled \$20,631,582, included construction funding for the renovations of Pinchbeck Elementary School, and funding to be placed in a reserve account to cover future funding shortfalls in bond projects.

The GO Bond referendum approved in November 2000, anticipated the issuance of GO Bonds over a

seven year period from FY2000-01 to FY2006-07. In actuality GO Bonds were issued six times over a seven year period with the final issue in November 2006. The following table provides a summary of each GO Bond issue.

<b>Fiscal Year</b>	<b>Amount</b>	<b>Issue Date</b>
FY2000-01	\$37,110,000	May 2001
FY2001-02	\$27,035,000	February 2002
FY2002-03	\$50,230,000	January 2003
FY2003-04	\$38,920,000	May 2004
FY2005-06	\$46,729,550	August 2005
FY2006-07	\$33,169,057	November 2006

Because of the difficult economic environment, the County chose to take the prudent approach and delay the planned FY2009-10 issuance of GO Bonds one year, to FY2010-11. This decision also pushed back the originally planned bond issues for FY2010-11 and FY2011-12 one year as well. As a result of the attractive interest rate environment in August 2011, the County decided to combine the planned FY2011-12 and FY2012-13 bond issues into one, which completed all bond issues associated with the \$349.3 million GO Bond Referendum approved in March 2005. The following table provides a summary of each GO Bond issue.

<b>Fiscal Year</b>	<b>Amount</b>	<b>Issue Date</b>
FY2005-06	\$31,085,450	August 2005
FY2006-07	\$38,745,943	November 2006
FY2007-08	\$29,810,000	January 2008
FY2008-09	\$93,090,000	November 2008
FY2009-10	\$0	Issue delayed to FY11.
FY2010-11	\$72,205,000	July 2010
FY2011-12	\$66,075,000	August 2011