

## 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 \$453,820,000 as of June 30, 2014. The distribution of the debt is: \$371,770,000 of General Obligation (GO) bonds (\$247,377,487 for Schools and \$124,392,513 for General Government), \$21,005,000 of Industrial Development Authority (IDA) bonds for the regional jail project, \$5,845,000 of IDA bonds for General Government projects, \$53,930,000 of Virginia Public School Authority (VPSA) bonds, and \$1,270,000 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 \$453,820,000 projected June 30, 2014 outstanding debt, \$301,307,487 or 66.4 percent is attributed to Education projects and \$152,512,513 or 33.6 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.

The Board of Supervisors established the debt guidelines in the FY1998-99 Annual Fiscal Plan, which were reaffirmed during growth retreats held

### Annual Fiscal Plan

<u>Description</u>	<u>FY13 Actual</u>	<u>FY14 Original</u>	<u>FY15 Proposed</u>	<u>Change 14 to 15</u>
Principal Payments	\$ 38,510,000	\$ 37,615,001	\$ 38,285,000	1.8%
Interest Payments	22,111,115	21,323,993	20,359,837	(4.5%)
Other Debt Expenses	12,837	50,000	50,000	0.0%
Total	<u>\$ 60,633,952</u>	<u>\$ 58,988,994</u>	<u>\$ 58,694,837</u>	<u>(0.5%)</u>
General Government	\$ 21,577,843	\$ 22,423,827	\$ 22,895,044	2.1%
Education	39,056,109	36,565,167	35,799,793	(2.1%)
Total	<u>\$ 60,633,952</u>	<u>\$ 58,988,994</u>	<u>\$ 58,694,837</u>	<u>(0.5%)</u>

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

in the summer of 2004. Following these guidelines has allowed the County to meet its infrastructure needs without sacrificing other operational requirements.

Following are three of the ratios that are calculated in the debt capacity analysis, which was most recently completed in February 2014. 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 **1.26%** in FY2013-14. 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 **7.32%** in FY2013-14. **Net bonded debt per capita** is the amount of debt outstanding divided by the number of County residents. The amount of debt per capita in FY2013-14 is **\$1,409**.

#### **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).

#### **Budget Highlights**

The budget for the Debt Service fund is \$58,694,837, which reflects a 0.5 percent decrease when compared to the FY2013-14 Approved Budget. Of the total, \$38,285,000 is payment towards the principal amount owed, \$20,359,837 is interest owed on the debt, and \$50,000 fees paid related to the service of the debt.

Another way to view the debt service anticipated to be paid in FY2014-15 is by service area, of which \$35,799,793 is payment on Education debt, \$19,429,832 is payment on debt related to General Government functions, and \$3,465,212 is debt related to Public Works projects.

As noted earlier, this budget does not include debt related to the Water and Sewer Enterprise Fund or

debt related to the construction of the James River Juvenile Detention Center (JRJDC). The debt service payments for those functions are included in their respective budgets.

Included in the FY2014-15 budget for debt service is \$800,000 for the planned issue of \$39,100,000 for the replacement of the County's 800 MHz communication system. This reflects an interest payment for issuing debt towards the end of FY2014-15 and assumes a ten-year payback. The total cost of this project is estimated to exceed \$60.0 million. The remaining balance will be paid with pay-as-you-go (PAYGO) funding.

There are three types of debt the County has issued over the past 18 years that the County will pay debt service on in FY2014-15: General Obligation (GO) Bonds, Virginia Public School Authority (VPSA) Bonds, and Lease/Revenue Bonds.

#### General Obligation (GO) Debt

Of the total debt service in FY2014-15, \$44,215,931 is related to General Obligation (GO) Bonds. This debt vehicle is issued against the full faith and credit of the County and must be approved by the voters of Henrico. All of the debt service related to GO Bonds is for debt issued as part of two referenda: November 2000 and March 2005.

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

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.

*Debt Service Fund (cont'd)*

<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

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 financing plan funded 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 came on line more slowly and allowed the maximum use of incremental County resources. 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	Delayed to FY11.
FY2010-11	\$72,205,000	July 2010
FY2011-12	\$66,075,000	August 2011

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.

VPSA Bonds

The second debt instrument utilized that the County will pay debt service on in FY2014-15 is debt issued through the Virginia Public School Authority. VPSA Bonds may only be utilized for school improvements, but do not require a vote of the

citizens to issue. However, the debt issued is recorded as a liability therefore is included when calculating the County's debt affordability.

There are four VPSA Bond issues for which debt service in the amount of \$8,677,231 will be paid in FY2014-15: 1996, 1999, 2000, and 2008. The following table provides a summary of each issue.

<b>Fiscal Year</b>	<b>Amount</b>	<b>Issue Date</b>
FY1996-97	\$30,595,000	November 1996
FY1998-99	\$35,740,000	May 1999
FY1999-00	\$15,215,000	May 2000
FY2008-09	\$44,440,000	July 2008

Lease/Revenue Bonds

The third debt instrument utilized that the County will pay debt service on in FY2014-15 is lease/revenue bonds issued through the then Industrial Development Authority, now known as the Henrico Economic Development Authority. These bonds were initially issued in 1996 and 1998 in the amounts of \$28,765,000 and \$26,765,000 respectively and utilized to build the County's Emergency Communications and Training Center, renovate what became the Public Safety Building, purchase an 800 MHz Communication System, renovate several facilities and enhance the County's technology systems. In 2009, the County refunded the balance of these bonds to achieve savings on these bonds (more details follow).

Bond Refundings

During the economic downturn, the County reviewed each coupon of debt issued in order to try to find savings in debt service costs. In total, the County since 2009 was able to find \$14,450,000 in savings for the debt service fund. In addition, another \$14,550,000 in savings was realized for the Water and Sewer Enterprise Fund through targeted refunding efforts.

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.

*Debt Service Fund (cont'd)*

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.

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.

In September 2012, the County refunded \$37,500,000 from three prior debt issues, the August 2005 Series GO Bonds, the November 2006 Series GO Bonds, and the August 2010 Series A GO Bonds. This bond refunding generated \$2.4 million in savings over the balance of the debt payments.

**County of Henrico, Virginia**  
**Operating Budget Debt Service Fund**  
*Sorted by Natural Account*

<b>Account Description</b>	<b>Prior Year Actual</b>	<b>Approved Budget</b>	<b>Proposed Budget</b>	<b>Dollar Inc/Dec</b>	<b>Percent Inc/Dec</b>
50900 Principal	38,510,000	37,615,001	38,285,000	669,999	1.8%
50901 Interest	22,111,115	21,323,993	20,359,837	-964,156	-4.5%
50902 Other Debt Service Costs	12,837	50,000	50,000	0	0.0%
<b>Fund Total</b>	<b>60,633,952</b>	<b>58,988,994</b>	<b>58,694,837</b>	<b>-294,157</b>	<b>-0.5%</b>

Henrico County, Virginia  
 Operating Line Item Budget By Cost Center

Cost Center		Prior Year	Approved Budget	Proposed Budget	Dollar Inc/Dec	Percent Change
<b>18001</b>	<b>Debt Service - General Government</b>					
50900	Principal	11,781,128	12,459,251	12,745,329	286,078	2.3%
50901	Interest	6,582,566	6,522,213	6,634,503	112,290	1.7%
50902	Other Debt Service Costs	12,837	50,000	50,000	0	0.0%
<b>Total Cost Center</b>		<b>18,376,531</b>	<b>19,031,464</b>	<b>19,429,832</b>	<b>398,368</b>	<b>2.1%</b>
<b>18004</b>	<b>Debt Service - Public Works</b>					
50900	Principal	1,779,496	2,045,307	2,210,798	165,491	8.1%
50901	Interest	1,421,816	1,347,056	1,254,414	-92,642	-6.9%
<b>Total Cost Center</b>		<b>3,201,312</b>	<b>3,392,363</b>	<b>3,465,212</b>	<b>72,849</b>	<b>2.1%</b>

Henrico County, Virginia  
 Operating Line Item Budget By Cost Center

Cost Center		Prior Year	Approved Budget	Proposed Budget	Dollar Inc/Dec	Percent Change
<b>18005</b>	<b>Debt Service - Education</b>					
50900	Principal	24,949,376	23,110,443	23,328,873	218,430	0.9%
50901	Interest	14,106,733	13,454,724	12,470,920	-983,804	-7.3%
<b>Total Cost Center</b>		<b>39,056,109</b>	<b>36,565,167</b>	<b>35,799,793</b>	<b>-765,374</b>	<b>-2.1%</b>