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 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's projected total outstanding general debt is $596,165,000 as of June 30, 2020. This reflects the General Obligation (G.O.) Bond issuance of $102,255,000 in the Spring of 2017, $99,395,000 in the Spring of 2018 and $105,155,000 in the Summer of 2019, the first three issuances of the November 2016 G.O. Bond Referendum. The distribution of the debt is: $509,360,000 of G.O. bonds ($372,183,788 for Schools and $137,176,212 for General Government), $6,030,000 of Economic Development Authority (EDA) bonds for the regional jail project, $760,000 of Virginia Public School Authority (VPSA) bonds, $65,645,000 of EDA bonds ($50,000,000 for the Indoor Sports Facility, $10,115,000 for land financing, and $5,530,000 in refunding) and $20,400,000 of EDA Lease Revenue bonds for the replacement of the County's 800mhz Public Safety Communications System. Previously, the debt from the construction of the James River Juvenile Detention Center (JRJDC) was included in the projected outstanding debt total. However, the last payment on those bonds was in FY2015-16.

FISCAL YEAR 2021 SUMMARY

Annual Fiscal Plan

Description	FY19 Actual	FY20 Original	FY21 Approved	Change 20 to 21
Principal Payments	$ 43,775,000	$ 48,870,000	$ 49,095,000	0.5%
Interest Payments	19,632,381	22,650,276	22,520,830	(0.6%)
Other Debt Expenses	20,168	50,000	50,000	0.0%
Total	$ 63,427,549	$ 71,570,276	$ 71,665,830	0.1%
General Government	$ 24,739,909	$ 28,815,552	$ 31,038,655	7.7%
Education	38,687,640	42,754,724	40,627,175	(5.0%)
Total Budget	$ 63,427,549	$ 71,570,276	$ 71,665,830	0.1%

DESCRIPTION

Another way to view the $596,165,000 projected outstanding debt is $372,943,788 or 62.6 percent is attributed to Education projects and $223,221,212 or 37.4 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% and debt service as a percentage of assessed value, 1.49%.

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

Following are the two ratios used for the debt affordability guidelines calculated in the debt capacity analysis, which was most recently completed in February 2020. 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 **1.23%** in FY2019-20. 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 7.23**%** in FY2019-20.

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 48 localities 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 $71,655,830, which reflects a 0.1 percent increase when compared to the FY2019-20 Approved Budget. Of the total, $49,095,000 is payment towards the principal amount owed, $22,520,830 is interest owed on the debt, and $50,000 is for fees paid related to servicing the debt.

Another way to view the debt service anticipated to be paid in FY2020-21 is by service area, of which $40,627,175 is payment on Education debt, $28,043,772 is payment on debt related to General Government functions, and $2,994,883 is debt related to Public Works projects.

As noted earlier, this budget does not include debt related to the Water and Sewer Enterprise Fund. The debt service payments for those functions are included in their respective budgets

In November 2016, the County had a General Obligation Bond Referendum that was overwhelmingly approved by the citizens of the County. The amount approved was $419,800,000 for projects in Schools, Fire, Recreation and

Parks, Libraries, and Public Works. The FY2020-21 Capital Budget includes $14,000,000 in bond projects as a result of the November 2016 referendum.

There are three types of debt the County has issued over the past 18 years that the County will pay debt service on in FY2020-21: General Obligation (G.O.) Bonds, Virginia Public School Authority (VPSA) Bonds, and Lease/Revenue Bonds.

GENERAL OBLIGATION (G.O.) DEBT

Of the total debt service in FY2020-21, $60,578,728 is related to General Obligation (G.O.) 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 the debt service related to G.O. Bonds is for debt issued as part of three referenda: November 2000, March 2005 and November 2016.

In November 2000, the County's voters approved a $237,000,000 G.O. 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 G.O. Bond Referendum utilized $12,600,000 in VPSA interest earnings and $4,100,000 from the County's General Fund balance.

The G.O. Bond referendum approved in November 2000, anticipated the issuance of G.O. Bonds over a six-year period from FY2000-01 to FY2006-07. G.O. Bonds were issued six times over a six-year period with the final issue in November 2006. The following table provides a summary of each G.O. Bond issue.

Fiscal Year	Amount	Issue Date
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 G.O. 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 G.O. Bond issue.

Because of the difficult economic environment, the County chose to take the prudent approach and delay the planned FY2009-10 issuance of G.O. 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. However, due to favorable interest rates, the two issues were combined into one issue that occurred in August 2011.

Fiscal Year	Amount	Issue Date
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

Debt Service Fund

In November 2016, the County voters approved a $419,800,000 General Obligation (G.O.) Bond Referendum for projects in Schools, Fire, Recreation and Parks, Libraries, and Public Works-road project. Of the total $419,800,000 referendum approved by the voters, Education projects totaled $272,600,000 and General Government's total was $147,200,000.

The FY2017-18 budget included funding for the first issuance of the G.O. Bonds for the 2016 referendum. The total issuance was $102,255,000 and the FY2017-18 budget included funding based on an anticipated late Summer/early Fall issue. Beginning in the FY2018-19 budget, the actual cost of principal and interest are budgeted based on the debt service schedule. The second G.O. Bond issue of $99,395,000, was also budgeted in FY2018-19 with funding included in the budget for a Summer 2018 issue. The FY2020-21 budget includes the actual cost of principal and interest of the Summer 2018 G.O. Bond issue based on the debt service schedule. The FY2020-21 budget also includes funding for the third G.O. Bond issue for the November 2016 referendum of $105,155,000 and is based on the debt service schedule.

VPSA BONDS

Virginia Public School Authority (VPSA) Bonds are the second debt instrument utilized that the County will pay debt service on in FY2020-21. VPSA Bonds may only be utilized for school improvements, and the issuance of VPSA Bonds does not require a vote of the citizens. However, the debt issued is a liability of the County and therefore is included when calculating the County's debt affordability.

There is one VPSA Bond issue for which debt service in the amount of $781,280 will be paid in FY2020-21. This VPSA bond issue occurred in 2000 for $15,215,000. There was a third VPSA issue in 2008 for $44,440,000 but this issuance was included in the March 2015 refunding and is now reflected as G.O. debt.

LEASE/REVENUE BONDS

The third debt instrument utilized that the County will pay debt service on in FY2020-21 is lease/revenue bonds issued through the Henrico Economic Development Authority. These bonds were initially issued in 1996 and 1998 in the amounts of $28,765,000 and $24,765,000 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). In 2016, the County secured a direct bank 10-year lease revenue bond in the amount of $34,000,000, which will partially fund a replacement and upgraded 800 MHz communication system. The FY2020-21 budget includes $3,318,519 to support the issuance of lease revenue bonds to build an indoor sports facility and $833,525 for the issuance of lease revenue bonds to purchase the Wilton Farm property.

BOND REFUNDINGS

On a regular basis, County staff in conjunction with the County's financial advisor analyze the County's debt to determine if there is a potential for debt service savings by refunding (or refinancing) any of the County's debt at a lower interest rate. This analysis of the County's debt and bond refundings were vital during the Great Recession starting in 2009. As a note, Henrico will not increase the length of time debt is paid off to realize savings. Through these efforts the Water and Sewer Enterprise Fund has realized a savings of $20,500,000. Since 2009, the County has saved $24,661,773 in debt service payments. The table on the next page provides a summary of the General Fund savings.

Debt Service Fund

Refunding Date	Bond Types	Amount	Savings
May, 2009	G.O. Bonds - 2001,2002	$ 33,785,000	$ 1,840,000
August, 2009	IDA Lease Revenue Bonds - 1996,1998,1999	36,425,000	5,150,000
May, 2010	G.O. Bonds - 2003, 2004,2005,2006,2008,2008A	119,735,000	5,100,000
September, 2012	G.O. Bonds - 2005,2006.2010A	37,500,000	2,360,000
March, 2015	G.O. Bonds - 2008A and VPSA Bond-2008	50,485,000	3,290,000
May, 2017	G.O. Bonds - 2010A, 2011	53,755,000	2,898,722
February, 2020	EDA Lease Revenue Bonds - 2009B, 2009B	5,530,000	519,839
March, 2020	G.O. Bonds - 2010	24,930,000	3,503,212
	Total Refunding	**$362,145,000**	**$24,661,773**