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 $407,150,000 as of June 30, 2016. The distribution of the debt is: $340,695,000 of General Obligation (GO) bonds ($238,534,613 for Schools and $102,160,387 for General Government), $16,455,000 of Industrial Development Authority (IDA) bonds for the regional jail project, $2,535,000 of IDA bonds for General Government projects, $12,465,000 of Virginia Public School Authority (VPSA) bonds, and a projected $35,000,000 of Lease/Revenue bonds to be issued for the replacement of the County's 800mhz Public Safety Communications System. In previous years, 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 will occur in FY2015-16. In addition, of the $407,150,000 projected outstanding debt, $250,999,613 or 61.6 percent is attributed to Education projects and $156,150,387 or 38.4 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%; debt service as a percentage of assessed value, 1.49%; and debt per capita, $1,650.

Annual Fiscal Plan

Description	FY15 Actual	FY16 Original	FY17 Proposed	Change 16 to 17
Principal Paymnets	$ 38,285,000	$ 38,174,821	$ 41,350,000	8.3%
Interest Payments	19,043,587	18,580,727	17,107,646	(7.9%)
Other Debt Expenses	21,427	50,000	50,000	0.0%
Total	$ 57,350,014	$ 56,805,548	$ 58,507,646	3.0%
General Government	$ 21,916,191	$ 21,393,968	$ 25,214,873	17.9%
Education	35,433,823	35,411,580	33,292,773	(6.0%)
Total Budget	$ 57,350,014	$ 56,805,548	$ 58,507,646	3.0%

Debt Service Fund (cont'd)

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 three of the ratios that are calculated in the debt capacity analysis, which was most recently completed in May 2015. 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 **1.06%** in FY2015-16. 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 **6.74%** in FY2015-16. **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 FY2015-16 is **$1,251**.

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 39 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 $58,507,646, which reflects a 3.0 percent increase when compared to the FY2015-16 Approved Budget. Of the total, $41,350,000 is payment towards the principal amount owed, $17,107,646 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 FY2016-17 is by service area, of which $33,292,773 is payment on Education debt, $21,721,694 is payment on debt related to General Government functions, and $3,493,179 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.

Included in the FY2016-17 budget for debt service is $4,000,000 for the planned issue of $35,000,000 for the replacement of the County's 800 MHz communication system. This reflects the total principal and interest payments for issuing debt in the spring of 2016 and assumes a ten-year payback. The estimated cost of this project is around $55,000,000, with the remaining balance to 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 FY2015-16: General Obligation (GO) Bonds, Virginia Public School Authority (VPSA) Bonds, and Lease/Revenue Bonds.

General Obligation (GO) Debt

Of the total debt service in FY2016-17, $44,867,950 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.

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

Debt Service Fund (cont'd)

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.

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

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 FY2016-17 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 $4,624,446 will be paid in FY2015-16: 1996, 1999, 2000, and 2008. The following table provides a summary of each issue.

Fiscal Year	Amount	Issue Date
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 FY2016-17 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 $1.8 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. 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. In March 2015, the County refunded $50,485,000 of General Obligation and VPSA bonds originally issued in 2008. The refunding was able to generate $3.3 million over the balance of the debt payments.

Department Operating Budget
Henrico County, Virginia
FY2016-17
DEBT SERVICE

Account	Description	Prior Year Actuals	Approved Budget	Proposed Budget	Dollar Inc./Dec.	Percent Inc./Dec.
50900	Principal	38,285,000	38,174,821	41,350,000	3,175,179	8.3%
50901	Interest	19,043,587	18,580,727	17,107,646	(1,473,081)	(7.9%)
50902	Other Debt Service Costs	21,427	50,000	50,000	0	0.0%
	Total Department	**57,350,014**	**56,805,548**	**58,507,646**	**1,702,098**	**3.0%**
18001 Debt Service - General Government						
50900	Principal	12,745,329	11,933,999	15,928,213	3,994,214	33.5%
50901	Interest	5,761,631	6,015,231	5,743,481	(271,750)	(4.5%)
50902	Other Debt Service Costs	21,427	50,000	50,000	0	0.0%
	Total Cost Center	**18,528,387**	**17,999,230**	**21,721,694**	**3,722,464**	**20.7%**
18004 Debt Service - Public Works						
50900	Principal	2,210,798	2,239,594	2,462,816	223,222	10.0%
50901	Interest	1,177,006	1,155,144	1,030,363	(124,781)	(10.8%)
	Total Cost Center	**3,387,804**	**3,394,738**	**3,493,179**	**98,441**	**2.9%**
18005 Debt Service - Education						
50900	Principal	23,328,873	24,001,228	22,958,971	(1,042,257)	(4.3%)
50901	Interest	12,104,950	11,410,352	10,333,802	(1,076,550)	(9.4%)
	Total Cost Center	**35,433,823**	**35,411,580**	**33,292,773**	**(2,118,807)**	**(6.0%)**