

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 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 \$636,630,000 as of June 30, 2025. 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, \$105,155,000 in the Summer of 2019, \$105,980,000 in the Summer of 2020, and \$7,055,555 (\$5,165,000 for Recreation and Parks, and \$1,890,000 for Roadway improvements) in the Spring of 2024 representing the remaining balance of the November 2016 G.O. Bond Referendum. Also reflected is \$114,300,000 (\$86,000,000 for Education, \$13,300,000 for Fire, \$12,500,000 for Recreation and Parks, and \$2,500,000 for drainage) also issued in the Spring of 2024 related to the November 2020 G.O. Bond Referendum and \$45,000,000 (\$17,250,000 for land acquisition, \$18,000,000 for Police South Station, and \$9,750,000 for Public Safety) in revenue bonds offered through the Economic Development Authority (EDA) in the Spring of 2024. It also reflects the issuance of \$48,115,000 in Virginia Public School Authority Bonds (VPSA) in the fall of 2021. Finally, the figure contains the results of various refinancing and issues cited on the following pages.

ANNUAL FISCAL PLAN SUMMARY

Description	FY24 Actual	FY25 Original	FY26 Approved	Change 25 - 26
Principal Payments	\$ 54,035,000	\$ 62,802,084	\$ 60,740,000	(3.3%)
Interest Payments	21,564,488	26,397,916	28,530,296	8.1%
Other Debt Expenses	1,060,321	500,000	729,704	45.9%
Total	<u>\$ 76,659,809</u>	<u>\$ 89,700,000</u>	<u>\$ 90,000,000</u>	<u>0.3%</u>
General Government	\$ 28,434,975	\$ 33,640,479	\$ 35,091,362	4.3%
Education	48,224,834	56,059,521	54,908,638	(2.1%)
Total Budget	<u>\$ 76,659,809</u>	<u>\$ 89,700,000</u>	<u>\$ 90,000,000</u>	<u>0.3%</u>

Debt Service Fund

DESCRIPTION (CONTINUED)

The distribution of the debt is: \$507,685,000 of G.O. bonds (\$340,115,653 for Schools and \$167,569,347 for General Government), \$85,075,000 of EDA revenue bonds (\$39,070,000 for the Indoor Sports Facility, \$6,845,000 for land financing, 39,160,000 for Police, Public Safety, and land financing), \$40,885,000 in VPSA bonds and \$2,985,000 of Virginia Resource Authority (VRA) bonds for the replacement of the County's 800mhz Public Safety Communications System. Another way to view the \$636,630,000 projected outstanding debt is \$381,000,653, or 59.8%, attributed to Education projects and \$255,629,347, or 40.2%, attributed to General Government projects.

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 FY99 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 2025. 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 **0.92%** in FY25. 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 **6.53%** in FY25.

The County's general obligation bond ratings are as follows:

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

As a note, Henrico is one of only 54 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 \$90,000,000, which reflects a 0.3% increase when compared to the FY25 Approved budget. Of the total, \$60,740,000 is payment towards the principal amount owed, \$28,530,296 is interest owed on the debt, and \$729,704 is an estimate for fees paid related to servicing the debt.

Another way to view the debt service anticipated to be paid in FY26 is by service area, of which \$54,908,638 is payment on Education debt, \$29,167,587 is payment on debt related to General Government functions, \$2,862,284 is debt related to Public Works projects, and \$3,061,491 is debt service on VRA. As noted earlier, this budget does not include debt related to the Water and Sewer Enterprise Fund as those payments are reflected in that budget.

Debt Service Fund

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. All debt and capital appropriations for the 2016 Referendum will be completed as the final bonds are issued in March 2024 and the final appropriations of those bonds are included in the FY25 Capital Budget.

In November 2022, voters again overwhelmingly approved a General Obligation Bond Referendum in the amount of \$511,400,000 split between education, public safety, recreation, and drainage projects. The first issue for these bonds is occurred in March 2024 and the second issue is planned to occur in the fall of 2025.

There are three types of debt the county has issued over the past 19 years that the county will pay debt service on in FY26: 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 FY26, \$69,954,307 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 four referenda: November 2000, March 2005, November 2016, and November 2022.

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 FY01 to FY07. G.O. Bonds were issued six times over a six-year period with the final issue in November 2006. The table to the right provides a summary of each G.O. Bond issue.

Fiscal Year	Amount	Issue Date
FY01	\$37,110,000	May 2001
FY02	\$27,035,000	February 2002
FY03	\$50,230,000	January 2003
FY04	\$38,920,000	May 2004
FY06	\$46,729,550	August 2005
FY07	\$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,

Fiscal Year	Amount	Issue Date
FY06	\$31,085,450	August 2005
FY07	\$38,745,943	November 2006
FY08	\$29,810,000	January 2008
FY09	\$93,090,000	November 2008
FY10	\$0	Delayed to FY11
FY11	\$72,205,000	July 2010
FY12	\$66,075,000	August 2011

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 online more slowly and allowed the maximum use of incremental county resources. The table on the left provides a summary of each G.O. Bond issue.

Debt Service Fund

Because of the difficult economic environment, the county chose to take the prudent approach and delay the planned FY10 issuance of G.O. Bonds one year, to FY11. This decision also pushed back the originally planned bond issues for FY11 and FY12 one year as well. However, due to favorable interest rates, the two issues were combined into one issue that occurred in August 2011.

In November 2016, the county voters approved a \$419,800,000 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 FY18 budget included funding for the first issuance of the G.O. Bonds for the 2016 referendum, appropriating the \$102,255,000 that had been issued May 2017. The second G.O. Bond issue of \$99,395,000, was issued during FY19 in July 2018 and the third issue for \$105,115,000 followed in October 2019. The fourth issuance for \$105,980,000 was issued in July 2020, and the final issue related to the 2016 Bond referendum of \$7,055,000 was issued in March 2024 along with the first issue from the 2022 bond referendum cited below.

Fiscal Year	Amount	Issue Date
FY17	\$102,255,000	May 2017
FY19	\$99,395,000	July 2018
FY20	\$105,115,000	October 2019
FY21	\$105,980,000	July 2020
FY24	\$7,055,000	March 2024

Fiscal Year	Amount
FY24	\$114,300,000
FY25	\$0
FY26	\$88,074,000
FY27	\$87,726,000
FY28	\$88,500,000
FY29	\$70,650,000
FY30	\$62,100,000

On November 8, 2022, county voters approved a \$511,350,000 G.O. Bond Referendum including \$340,500,000 that will be issued for School Projects, \$37,000,000 for Parks and Recreation projects, \$83,850,000 for Public Safety projects, and \$50,000,000 for drainage projects. The first G.O. bond issuance was for \$114,300,000 in March 2024. The second issue is now planned for September 2025 for \$88,074,000. The next four issues are planned in consecutive years with the FY27 issue of \$87,726,000, the FY28 issue for \$88,500,000, and the FY29 issue for \$70,650,000. The final issue of \$62,100,000 is planned for FY30. It should be noted this schedule can change

based on economic conditions and changing project priorities.

VP SA BONDS

Virginia Public School Authority (VP SA) Bonds are the second debt instrument utilized that the county will pay debt service on in FY26. VP SA Bonds may only be utilized for school improvements, and the issuance of VP SA 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.

The county issued VP SA Bonds in September 2021 totaling \$48.1 million. Debt service in the amount of \$3,706,706 is included in the FY26 budget on these bonds. There are no other outstanding VP SA bond issuances. There was a VP SA 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.

Debt Service Fund

LEASE/REVENUE BONDS

The third debt instrument utilized by the county is lease/revenue bonds issued through the Henrico Economic Development Authority. In 2016, the county secured a direct bank 10-year lease revenue bond in the amount of \$34,000,000, which partially fund a replacement and upgraded 800 MHz communication system. In 2019 and 2020, the county issued two additional lease/revenue bonds including the 2019 Land Financing in the amount of \$10,115,000 and the 2020 Indoor Sports Facility in the amount of \$50,000,000. In May 2021, the remaining bonds for the 800 MHz communication system, which totaled \$13,560,000, were refunded through the Virginia Resource Authority. Through the Virginia Pooled Financing Program, the County was able to achieve a true interest cost of 0.957% on the refunded bonds, which saved the County a total of \$2,551,262 in debt service costs over a five-year period. In FY24 an issue of \$45,000,000 supporting \$17,500,000 for land acquisition of Varina on the James, \$18,000,000 for construction of the Police South Station, and \$9,750,000 supporting public safety. The FY26 budget includes debt service payments in the total amount of \$10,876,323 in accordance with the published debt service schedules related to each issuance.

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 \$30,452,613 and the county has saved an additional \$29,119,566 in debt service payments. The table below provides a summary of the General Fund savings.

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	5,530,000	519,839
March, 2020	G.O. Bonds - 2010	24,930,000	3,503,212
July, 2020	G.O. Bonds- 2011	14,720,000	1,906,531
May, 2021	Bank Loan – 2016	13,560,000	2,551,262
Total Refunding		\$390,425,000	\$29,119,566