

# 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 \$652,480,000 as of June 30, 2021. 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, and the \$105,980,000 in the Summer of 2020, representing all of the issuances related to the November 2016 G.O. Bond Referendum. The distribution of the debt is: \$575,415,000 of G.O. bonds (\$396,677,879 for Schools and \$178,737,121 for General Government), \$60,065,000 of EDA bonds (\$47,735,000 for the Indoor Sports Facility, \$9,520,000 for land financing, and \$2,810,000 in refunding) and \$17,000,000 of EDA Lease Revenue bonds for the replacement of the County's 800mhz Public Safety Communications System. Additionally, Henrico County is planning to issue an additional \$54,100,000 in VPSA bonds in the fall of 2021.

## FISCAL YEAR 2022 SUMMARY

Description	FY20 Actual	FY21 Original	FY22 Proposed	Change 21 to 22
Principal Payments	\$ 48,870,000	\$ 49,095,000	\$ 53,165,000	8.3%
Interest Payments	21,060,132	22,520,830	25,131,649	11.6%
Other Debt Expenses*	372,331	50,000	50,000	0.0%
<b>Total</b>	<b>\$ 70,302,463</b>	<b>\$ 71,665,830</b>	<b>\$ 78,346,649</b>	<b>9.3%</b>
General Government	\$ 62,526,634	\$ 31,038,654	\$ 32,711,095	5.4%
Education	41,979,830	40,627,176	45,635,554	12.3%
<b>Total Budget</b>	<b>\$ 104,506,464</b>	<b>\$ 71,665,830</b>	<b>\$ 78,346,649</b>	<b>9.3%</b>

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Another way to view the \$652,480,000 projected outstanding debt is \$396,677,879, or 60.8 percent, is attributed to Education projects and \$255,802,121, or 39.2 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% 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 2021. 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 **1.29%** in FY2020-21. 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 **7.42%** in FY2020-21.

**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 \$78,346,649, which reflects a 9.3 percent increase when compared to the FY2020-21 Approved Budget. Of the total, \$53,165,000 is payment towards the principal amount owed, \$25,131,649 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 FY2021-22 is by service area, of which \$45,635,554 is payment on Education debt, \$29,625,478 is payment on debt related to General Government functions, and \$3,085,617 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

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Parks, Libraries, and Public Works. The FY2021-22 Capital Budget includes \$79,705,685 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 FY2021-22: General Obligation (G.O.) Bonds, Virginia Public School Authority (VPSA) Bonds, and Lease/Revenue Bonds.

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#### GENERAL OBLIGATION (G.O.) DEBT

Of the total debt service in FY2021-22, \$66,971,421 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 table to the right 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.

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 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.

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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, appropriating the \$102,255,000 that had been issued May 2017. The second G.O. Bond issue of \$99,395,000, was issued during FY2018-19 in July 2018 and the third issue for \$105,115,000 followed in October 2019. The final issuance related to the 2016

Fiscal Year	Amount	Issue Date
FY2016-17	\$102,255,000	May 2017
FY2018-19	\$99,395,000	July 2018
FY2019-20	\$105,115,000	October 2019
FY2020-21	\$105,980,000	July 2020

Bond referendum of \$105,980,000 was issued in July 2020 and the FY2021-22 CIP and Budget will appropriate the remainder of these funds to projects. The FY2021-22 budget includes debt service payments for all of these issuances in accordance with the published debt service schedules related to each issuance.

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### VPSA BONDS

Virginia Public School Authority (VPSA) Bonds are the second debt instrument utilized that the county will pay debt service on in FY2021-22. 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.

The county is planning to issue a new VPSA Bond in Fall 2021 estimated to be \$54.1 million. Debt service in the amount of \$811,500 has been estimated as a payment to be made during FY2021-22. Currently, there are no other outstanding VPSA bond issuances. There was a 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.

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### LEASE/REVENUE BONDS

The third debt instrument utilized that the county will pay debt service on in FY2021-22 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 debt service payments. These bonds were refunded a second time to achieve additional savings in 2020 (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. In 2019 and 2020, the county issued two additional lease/revenue bonds including the 2019 Land Financing bond in the amount of \$10,115,000 and the 2020A Indoor Sports Facility Bond in the amount of \$50,000,000. The FY2021-22 budget includes debt service payments in the total amount of \$10,513,728, each amount in accordance with the published debt service schedules related to each issuance.

*Debt Service Fund*

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**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 and the county has saved an additional \$26,568,304 in debt service payments. The table below provides a summary of the General Fund savings.

<b>Refunding Date</b>	<b>Bond Types</b>	<b>Amount</b>	<b>Savings</b>
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
July, 2020	G.O. Bonds- 2011	14,720,000	1,906,531
	<b>Total Refunding</b>	<b>\$376,865,000</b>	<b>\$26,568,304</b>



**Department Operating Budget  
Henrico County, Virginia  
FY2021-22  
DEBT SERVICE**

Account	Description	Prior Year Actuals	Approved Budget	Proposed Budget	Dollar Inc./Dec.	Percent Inc./Dec.
50900	Principal	48,870,000	49,095,000	53,165,000	4,070,000	8.3%
50901	Interest	21,060,132	22,520,830	25,131,649	2,610,819	11.6%
50902	Other Debt Service Costs	372,331	50,000	50,000	0	0.0%
<b>Total Department</b>		<b>70,302,463</b>	<b>71,665,830</b>	<b>78,346,649</b>	<b>6,680,819</b>	<b>9.3%</b>
<b>18001 Debt Service - General Government</b>						
50900	Principal	18,432,510	21,028,259	21,632,348	604,089	2.9%
50901	Interest	6,439,147	6,965,512	7,943,130	977,618	14.0%
50902	Other Debt Service Costs	372,331	50,000	50,000	0	0.0%
<b>Total Cost Center</b>		<b>25,243,988</b>	<b>28,043,771</b>	<b>29,625,478</b>	<b>1,581,707</b>	<b>5.6%</b>
<b>18004 Debt Service - Public Works</b>						
50900	Principal	2,351,331	2,277,077	2,187,103	(89,974)	(4.0%)
50901	Interest	727,314	717,806	898,514	180,708	25.2%
<b>Total Cost Center</b>		<b>3,078,645</b>	<b>2,994,883</b>	<b>3,085,617</b>	<b>90,734</b>	<b>3.0%</b>
<b>18005 Debt Service - Education</b>						
50900	Principal	28,086,159	25,789,664	29,345,549	3,555,885	13.8%
50901	Interest	13,893,671	14,837,512	16,290,005	1,452,493	9.8%
<b>Total Cost Center</b>		<b>41,979,830</b>	<b>40,627,176</b>	<b>45,635,554</b>	<b>5,008,378</b>	<b>12.3%</b>