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 $590,475,000 as of June 30, 2023. 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. It also reflects the issuance of $48,115,000 in Virginia Public School Authority Bonds (VPSA) in the fall of 2021. The distribution of the debt is: $484,575,000 of G.O. bonds ($335,288,219 for Schools and $149,286,070 for General Government), $51,675,000 of EDA bonds ($43,465,000 for the Indoor Sports Facility and $8,210,000 for land financing), $45,705,000 in VPSA bonds and $8,520,000 of Virginia Resource Authority (VRA) bonds for the replacement of the County's 800mhz Public Safety Communications System.

FISCAL YEAR 2024 SUMMARY

Annual Fiscal Plan

Description	FY22 Actual	FY23 Original	FY24 Approved	Change 23 to 24
Principal Payments	$ 52,245,000	$ 54,435,001	$ 54,035,000	(0.7%)
Interest Payments	25,204,781	23,967,483	23,850,922	(0.5%)
Other Debt Expenses	37,475	50,000	114,078	128.2%
Total	$ 77,487,256	$ 78,452,484	$ 78,000,000	(0.6%)
General Government	$ 32,074,396	$ 28,268,479	$ 28,057,571	(0.7%)
Education	45,412,860	50,184,005	49,942,429	(0.5%)
Total Budget	$ 77,487,256	$ 78,452,484	$ 78,000,000	(0.6%)

DESCRIPTION

Another way to view the $590,475,000 projected outstanding debt is $380,993,219, or 64.5%, is attributed to Education projects and $209,481,781, or 35.5%, is 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 2023. 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 **1.01%** in FY23. 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 **6.87%** in FY23.

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 one 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 $78,000,000, which reflects a 0.6% decrease when compared to the FY23 Approved Budget. Of the total, $54,035,000 is payment towards the principal amount owed, $23,850,922 is interest owed on the debt, and $114,078 is for fees paid related to servicing the debt.

Another way to view the debt service anticipated to be paid in FY24 is by service area, of which $49,942,429 is payment on Education debt, $22,155,806 is payment on debt related to General Government functions, $2,839,174 is debt related to Public Works projects, and $3,062,591 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.

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 have been completed as the final bonds were issued in June 2020 and the final appropriations of those bonds were included in the FY22 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 anticipated to occur in FY24.

There are three types of debt the county has issued over the past 18 years that the county will pay debt service on in FY24: 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 FY24, $66,927,192 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, November 2016. It should be noted the debt service related to the November 2022 referendum will add to this total once debt is issued.

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, 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.

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

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.

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

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 final issuance related to the 2016 Bond referendum of $105,980,000 was issued in July 2020 and the FY22 CIP and Budget appropriated the remainder of these funds to projects. The FY23 budget includes debt service payments for all of these issuances in accordance with the published debt service schedules related to each issuance.

Fiscal Year	Amount
FY24	$114,300,000
FY25	$93,450,000
FY26	$85,500,000
FY27	$76,900,000
FY28	$69,500,000
FY29	$71,700,000

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, included in the FY24 budget will be for $114,300,000. The next five issues are planned in consecutive years with the FY25 issue of $93,450,000, the FY26 issue for $85,500,000, the FY27 issue for $76,900,000, followed by the FY28 issue of 69,500,000. The final issue planned for FY29 is for $71,700,000. It should be noted this schedule could change should economic conditions make issuing debt untenable.

VPSA BONDS

Virginia Public School Authority (VPSA) Bonds are the second debt instrument utilized that the county will pay debt service on in FY24. 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 issued a VPSA Bond in September 2021 totaling $48.1 million. Debt service in the amount of $3,952,581 is included in the FY24 budget to make the first full-year debt service payment on these bonds. 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.

LEASE/REVENUE BONDS

The third debt instrument utilized that the county will pay debt service on in FY24 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. 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. 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. The FY24 budget includes debt service payments in the total amount of $7,006,149, each amount 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 and 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, 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**