

DEBT MANAGEMENT

DEBT MANAGEMENT AND POLICIES

Pursuant to the Constitution of Virginia and the Public Finance Act, the County is authorized to issue general obligation bonds secured by a pledge of its full faith and credit. To pay the interest and principal on such bonds, the governing body is authorized and required to levy on all taxable property within the County such *ad valorem* taxes as may be necessary. However, in Virginia, counties, unlike cities, are prohibited from issuing general obligation bonds unless the issuance of such bonds has been approved by public referendum or unless the bonds are issued to certain state authorities, such as the Virginia Public School Authority (VPSA).

Debt Limit

There is no legal debt limit for counties in Virginia, since the issuance of all county general obligation debt is subject to referendum.

Debt Service Policies

The Albemarle County Financial Management Policies, as approved and last amended by the Board of Supervisors in October, 2000 include the following section on debt service policies:

- The County will not fund current operations from the proceeds of borrowed funds.
- The County will manage its financial resources in a way that prevents borrowing to meet working capital needs.
- The County will confine long-term borrowing and capital leases to capital improvements or projects that cannot be financed by current revenues.
- To the extent feasible, any year that the debt service payment falls below its current level, those savings will be used to finance one-time capital needs.
- When the County finances capital improvements or other projects through bonds or capital leases, it will repay the debt within a period not to exceed the expected useful life of the projects.
- The County's debt offering documents will provide full and complete public disclosure of financial condition and operating results and other pertinent credit information in compliance with municipal finance industry standards for similar issues.
- Recognizing the importance of underlying debt to its overall financial condition, the County will set target debt ratios, which will be calculated annually and included in the annual review of fiscal trends:
 - Net debt as a percentage of the estimated market value of taxable property should not exceed 2%.
 - The ratio of debt service expenditures as a percent of general fund and school fund revenues should not exceed 10%.

OUTSTANDING LONG-TERM DEBT OBLIGATIONS

School Related Debt

At the end of FY03/04, Albemarle County held \$81.5 million in outstanding long-term debt through the year 2024. Of that total amount, \$80.7 million is outstanding general obligation bonds (VPSA) for school projects and approximately \$0.8 million is outstanding for school projects through the State Literary Loan Fund.

A summary of school related general long-term obligations outstanding at June 30, 2004 follows:

| Issue | Issue Date | Retire Date | Interest Rate | Original Issue | Principal Installments | Balances as of 06/30/2003 |
|------------------|------------|-------------|----------------|----------------|------------------------|---------------------------|
| Literary Loans | Various | 2003-2009 | 3% - 4% | \$2,145,878 | Various Annual | \$820,858 |
| 1991 A Series | 05/23/1991 | 12/15/2010 | 6.35%-8.1% | \$3,000,000 | Various Annual | \$1,055,000 |
| 1992 A Series | 12/17/1992 | 12/15/2012 | 5.85% - 8.1% | \$2,885,000 | Various Annual | \$1,130,000 |
| 1993 A Series | 11/18/1993 | 12/15/2013 | 4.475% - 5% | \$11,900,000 | Various Annual | \$3,445,000 |
| 1994 A Refunding | 01/03/1994 | 12/15/2011 | 6.069%-7.169% | \$24,710,000 | Various Annual | \$9,145,000 |
| 1994 B Series | 11/22/1994 | 07/15/2014 | 6.1% - 6.5% | \$450,000 | Various Annual | \$225,000 |
| 1995 C Series | 12/21/1995 | 07/15/2015 | 5.1% - 6.1% | \$7,850,000 | Various Annual | \$4,690,000 |
| 1996 B Series | 11/14/1996 | 07/15/2016 | 5.1% - 6.1% | \$5,900,000 | Various Annual | \$3,835,000 |
| 1997 I Series | 11/20/1997 | 07/15/2017 | 4.35% - 5.35% | \$20,455,000 | Various Annual | \$14,305,000 |
| 1998 B Series | 11/19/1998 | 07/15/2018 | 3.6% - 5.1% | \$7,245,000 | Various Annual | \$5,420,000 |
| 1999 B Series | 11/16/1999 | 07/15/2019 | 5.1% - 6.1% | \$2,835,000 | Various Annual | \$2,255,000 |
| 2000 B Series | 11/16/2000 | 07/15/2020 | 4.975% - 5.85% | \$2,605,000 | Various Annual | \$2,210,000 |
| 2001 B Series | 11/15/2001 | 07/15/2021 | 3.1% - 5.1% | \$20,330,000 | Various Annual | \$18,290,000 |
| 2002 A Series | 10/15/2002 | 07/15/2022 | 2.35% - 5.1% | \$8,365,000 | Various Annual | \$7,945,000 |
| 2003 A Series | 11/06/2003 | 07/15/2003 | 3.1% - 5.35% | \$6,760,000 | Various Annual | \$6,760,000 |
| | | | | | | \$81,530,858 |

In addition to the FY 03/04 ending balance of \$81.5 million, \$8,950,000 was issued in the fall of 2004 (FY 04/05) through the Virginia Public School Authority to support several school projects. An additional \$6.72 million will be retired during FY 04/05, bringing the total school related long-term debt at the beginning of FY 05/06 to \$83.8 million.

Local Government Debt

At the end of FY03/04, Albemarle County held \$9,826 in debt for outstanding notes payable. This note, issued August 1, 1984, in the original principal amount of \$575,000 is payable in monthly installments with rent revenues from the Thomas Jefferson Visitor's Center pledged as collateral. The remaining balance of this debt was retired in August 2004.

On January 15, 2003, the County entered into a five-year lease purchase agreement for software acquisition in the amount of \$190,000. This agreement is payable in semi-annual installments beginning July 2003, at an interest rate of 3.10%. Principal payments made during FY 04/05 will reduce the outstanding balance to \$117,487.

During FY 02/03, the County requested that the Industrial Development Authority of Albemarle County issue Public Facility Revenue Bonds in the amount of \$18,535,000 on its behalf. The proceeds of these bonds will be used to finance the acquisition and renovation of the County Office Building South and the County's share of the Juvenile Court Facilities expansion and renovation. The bonds, issued on March 19, 2003 at an interest rate of 4.33%, are payable in semi-annual payments beginning July 15, 2003 and will retire in FY 22/23. During FY 04/05, \$700,000 of debt will be retired with an additional \$715,000 being retired in FY 05/06.

On November 6, 2003 the County, as fiscal agent for the Emergency Communications Center, entered into a lease purchase agreement in the amount of \$7.0 million to partially fund the acquisition and construction of an 800 MHz communication system to upgrade the public safety emergency 911 system. The radio system will be operated and funded by the County, City of Charlottesville, University of Virginia, and Charlottesville/Albemarle Airport. During FY 04/05 \$612,024 of debt will be retired with an additional \$632,235 being retired in FY 05/06.

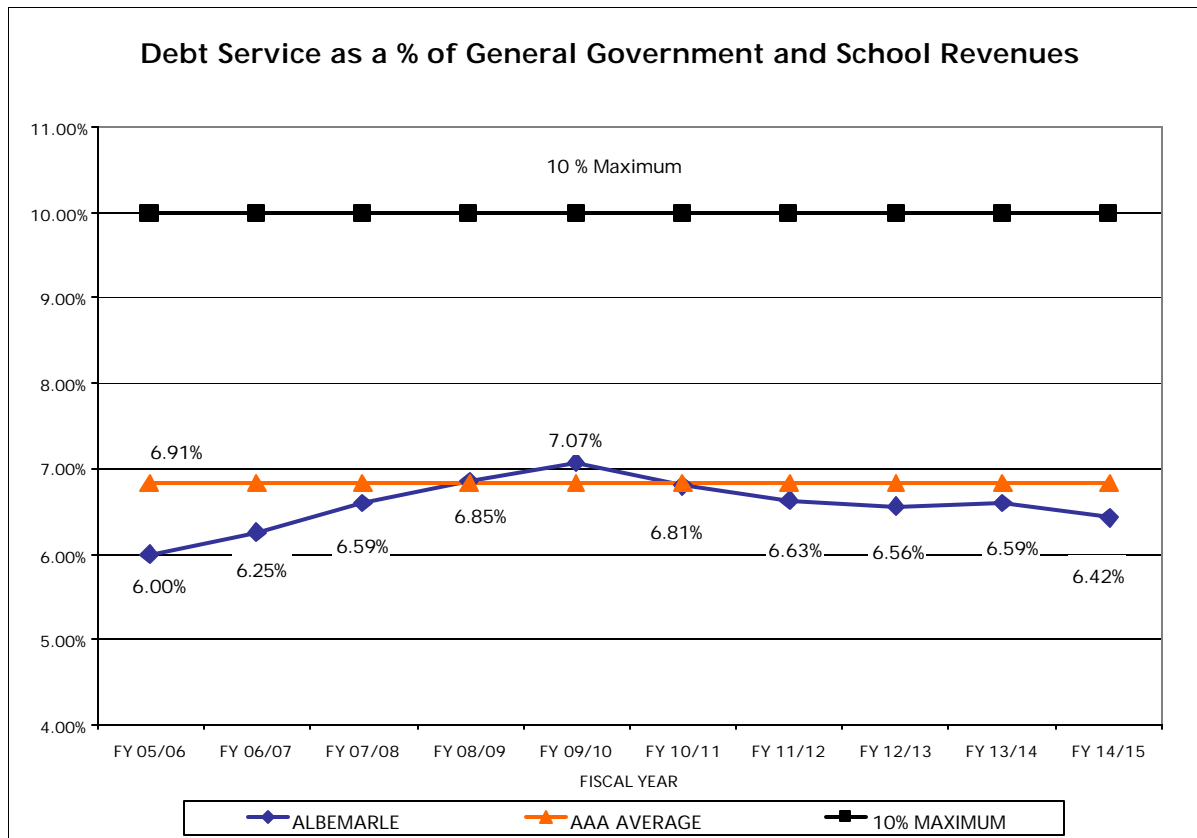
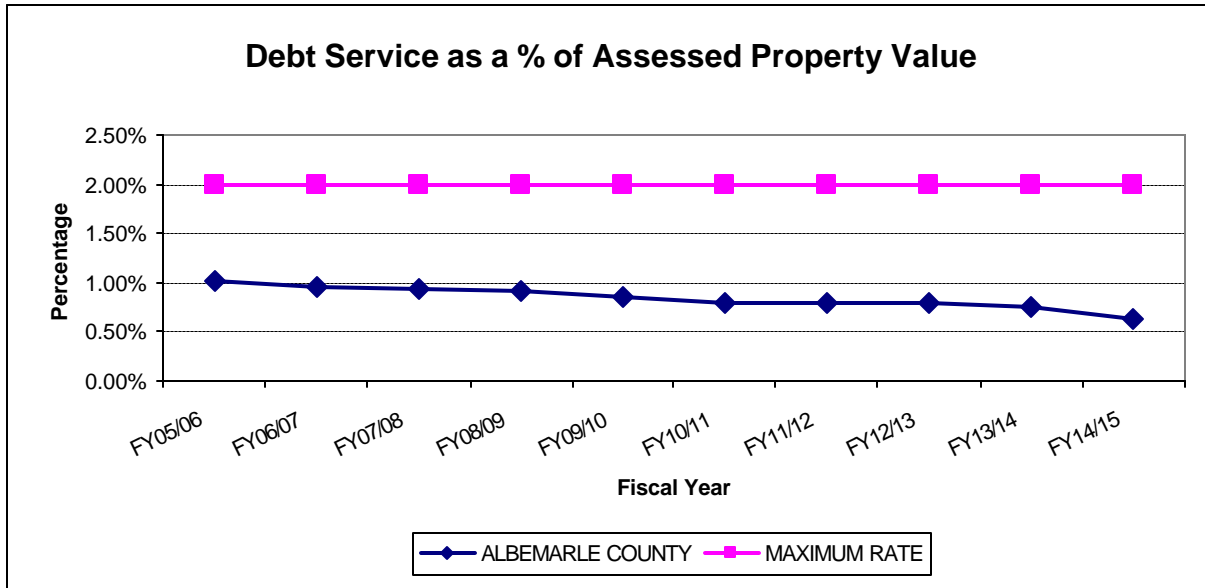
Recommended Debt Levels and Debt Service Requirements

As indicated in the CIP chapter of this document, the County will fund the majority of its FY 06 -10 CIP with borrowed funds for school and general government projects. FY 06-10 borrowed funds total \$111.2 million (75% of CIP revenues) and consist of \$52.3 million in VPSA bonds for school projects and \$58.9 million in borrowed funds for general government projects. School VPSA bonds fund 85.9% of recommended school improvements in FY 06-10, including school construction and renovation projects, and major school maintenance and repair projects. Approximately 70% of general government projects are funded with borrowed revenue in FY 06-10, which is anticipated to be a combination of IDA bond revenues, and lease-purchase proceeds. If General Obligation Bonds are utilized for funding, they will require voter approval in a referendum. A summary schedule illustrating the impact of these recommended borrowings, as well as anticipated borrowing requirements for projected out-year projects is shown below:

| | <u>FY 05/06</u> | <u>FY 06/07</u> | <u>FY 07/08</u> | <u>FY 08/09</u> | <u>FY 09/10</u> | <u>FY 06-10 TOTAL</u> | <u>FY 10/11</u> | <u>FY 11/12</u> | <u>FY 12/13</u> | <u>FY 13/14</u> | <u>FY 14/15</u> | <u>FY 11-15 Out-Years</u> |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------------------|
| General Government Projects | | | | | | | | | | | | |
| Beginning Debt Balance | 23,342 | 33,615 | 44,066 | 54,706 | 63,982 | | 66,641 | 64,120 | 66,515 | 76,206 | 81,497 | |
| FY 04/05 Anticipated Borrowing | 7,015 | 0 | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | |
| Total Debt Balance | 30,357 | 33,615 | 44,066 | 54,706 | 63,982 | | 66,641 | 64,120 | 66,515 | 76,206 | 81,497 | |
| Total New Projects - Borrowed | 4,643 | 13,518 | 15,212 | 15,335 | 10,224 | 58,932 | 5,986 | 11,301 | 19,563 | 16,230 | 3,533 | 56,613 |
| Retired Debt | 1,385 | 3,067 | 4,572 | 6,059 | 7,565 | 22,648 | 8,507 | 8,906 | 9,872 | 10,939 | 11,863 | 50,086 |
| General Government Debt Balance | 33,615 | 44,066 | 54,706 | 63,982 | 66,641 | | 64,120 | 66,515 | 76,206 | 81,497 | 73,168 | |
| School Projects | | | | | | | | | | | | |
| Beginning Debt Balance | 83,765 | 84,536 | 88,592 | 87,887 | 93,937 | | 92,669 | 93,712 | 97,960 | 97,003 | 90,233 | |
| Total New Projects - Borrowed | 7,786 | 11,775 | 7,966 | 15,455 | 9,318 | 52,300 | 11,673 | 15,720 | 11,207 | 6,250 | 3,275 | 48,125 |
| Retired Debt | 7,015 | 7,719 | 8,672 | 9,404 | 10,586 | 43,396 | 10,630 | 11,472 | 12,164 | 13,020 | 13,333 | 60,620 |
| School Debt Balance | 84,536 | 88,592 | 87,887 | 93,937 | 92,669 | | 93,712 | 97,960 | 97,003 | 90,233 | 80,175 | |
| Total Debt Balance | 118,151 | 132,658 | 142,593 | 157,920 | 159,310 | | 157,832 | 164,476 | 173,209 | 171,730 | 153,342 | |

Recommended Debt Levels and Debt Service Requirements (Continued)

As mentioned earlier in this section, County Financial Policies recommend that long-term debt and associated debt service levels remain within certain target limits: 2% of the assessed value of taxable property or 10% of General Fund and School Fund revenues for debt service. Although the County proposes to add an additional \$111.2 million dollars in debt over the next five years, the charts below illustrate that the County's proposed total debt service will remain well below these target maximums.



DEBT SERVICE FUNDS

DEBT SERVICE FUNDING REQUIREMENTS

Each year, the Operating Budget includes transfers from the General Fund to the General Government and School Debt Service Accounts to fund the amount of debt service needed to be paid during the fiscal year.

Each of the Debt Service accounts also receives other revenues. A summary of the 03/04 Actual, FY 04/05 Adopted and Revised and FY 05/06 Recommended revenues, expenditures and appropriations for both the School Debt Service and General Government Debt Service Funds are shown below:

| SCHOOL DEBT SERVICE FUND | | | | | | |
|---------------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------|----------------------|
| Expenditures | FY 03/04 Actual | FY 04/05 Adopted | FY 04/05 Revised | FY 05/06 Adopted | \$ Inc/Dec | % Inc/Dec |
| VPSA Principal and Interest | \$15,575 | \$10,576,496 | \$10,576,496 | \$11,018,245 | \$441,749 | 4.18% |
| Other Loans | 308,476 | 250,484 | 250,484 | 222,000 | (28,484) | -11.37% |
| Bond Services/Fees | 10,120,735 | 17,900 | 17,900 | 20,000 | 2,100 | 11.73% |
| Total Expenditures | \$10,444,786 | \$10,844,880 | \$10,844,880 | \$11,260,245 | \$415,365 | 3.83% |
| Revenues | | | | | | |
| Rent-PREP | 259,507 | 252,932 | 252,932 | 246,358 | (6,574) | -2.60% |
| General Fund Transfer | 10,184,954 | 10,591,948 | 10,591,948 | 11,013,887 | 421,939 | 3.98% |
| Total Revenues | 10,444,461 | 10,844,880 | 10,844,880 | 11,260,245 | 415,365 | 3.83% |

| LOCAL GOVERNMENT DEBT SERVICE | | | | | | |
|--------------------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------|----------------------|
| Expenditures | FY 03/04 Actual | FY 04/05 Adopted | FY 04/05 Revised | FY 05/06 Adopted | \$ Inc/Dec | % Inc/Dec |
| Lease-Radio System | 413,278 | 826,557 | 826,557 | 826,556 | (1) | 0.00% |
| Lease/Purchase-CityView | 41,314 | 41,315 | 41,315 | 41,314 | (1) | 0.00% |
| Series 2003 Bonds | 1,252,530 | 1,374,704 | 1,374,704 | 1,375,704 | 1,000 | 0.07% |
| Bond Services/Fees | 5,332 | 4,800 | 4,800 | 10,000 | 5,200 | 108.33% |
| Total Expenditures | 1,712,454 | 2,247,376 | 2,247,376 | 2,253,574 | 6,198 | 0.28% |
| Revenues | | | | | | |
| Radio System-City | 129,149 | 258,299 | 258,299 | 258,299 | 0 | 0.00% |
| Radio System-UVA | 62,116 | 124,231 | 0 | 0 | (124,231) | -100.00% |
| Radio System-Airport | 12,440 | 24,879 | 24,879 | 24,879 | 0 | 0.00% |
| General Fund Transfer-City View | 41,314 | 42,000 | 42,000 | 41,314 | (686) | -1.63% |
| General Fund Transfer | 1,466,167 | 1,797,967 | 1,922,198 | 1,929,082 | 131,115 | 7.29% |
| Total Revenues | 1,711,186 | 2,247,376 | 2,247,376 | 2,253,574 | 6,198 | 0.28% |

