Bond Referendums and Use of Bond Funding

Question: What are bonds? How do they work? Do we have to pay them back?
Answer: Bonds are a means of financing projects. Bonds are loans the County may take out to pay for capital projects. The bonds (loans) are repaid through principal and interest payments that generally occur every six months. The principal and interest payments are often referred to as "debt service."

Question: What types of bonds are used by the County?
Answer: The County typically uses General Obligation (GO) bonds and Lease Revenue bonds for regular capital projects. For water and sewer projects, the County uses Water/Sewer Revenue bonds.

Question: What distinguishes GO bonds from other types of bonds?
Answer: Under State law, GO bonds require voter approval. Lease Revenue and Water/Sewer bonds do not require voter approval. Because the County has a GO credit rating of AAA from two rating agencies and Aa1 from the third, the County generally may obtain lower interest rates on GO bonds than on other bonds. Lower interest rates are beneficial to taxpayers.

Question: What is the timeframe looked at when determining the amount of the referendum?
Answer: Bond referendum authority allows the County to issue/sell bonds for eight years beyond the date of the referendum. Additionally, the Circuit Court may grant another two years beyond the initial eight years, for a maximum total of 10 years.

Question: Why don't we pay cash for the projects instead of going into debt to pay for them?
Answer: If we were to pay cash for projects, either it could take a very long time to accomplish the projects as we saved for them over time, or there could be significant swings in the tax rate from year to year as we attempted to collect through taxes the cash needed on an annual basis for the various projects since the total for capital project costs vary from year to year depending upon the projects being funds. Further, bonding spreads the cost of long-life major projects over time ensuring that both current and future residents share in the payment of the costs of the community's long-term projects.

Question: If a bond referendum fails, does that mean the projects supported by that referendum will not be done?
Answer: No, not necessarily. The referendum does not seek the voters' approval to complete the projects, but instead seeks the voters' approval to finance them through issuance of GO bonds which are backed by the County's full faith and credit. The County's fiscal policies require new construction of facilities that exceed available budgeted funds to be subject to voter approval. All other types of projects – projects that are not construction of new facilities – can be completed without voter authorization.

If a referendum fails, projects related to the construction of new facilities, for which we do not have available budgeted funds, will not be completed. The County would need to seek other options for funding the other types of projects that are not new construction.

Question: If the Board can use other financing options, why have a referendum at all?
Answer: Issuance of bonds is an additional means of financing capital projects. Virginia law requires that in order for GO bonds to be considered and used as a mean of financing by the County, Spotsylvania voters must have an opportunity to vote either YES or NO on each bond question. If the majority votes YES on a question, then the Spotsylvania County Board of Supervisors will be authorized to sell bonds for the purposes described in the ballot question. If the majority votes NO on a question, the County cannot issue general obligation bonds to finance the purposes described in the question, but could instead find alternative means to funding projects.

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Question: If the bond referendum passes, does that guarantee that the bonds will be issued and the projects will be done?
Answer: No, the referendum is only the first step of the process. Before bonds are issued, the Board of Supervisors is assisted by County staff in determining whether the bonds issuance is affordable. Then the Board of Supervisors may determine to adopt a resolution authorizing the actual sale of the bonds. The sale of bonds is tied to the County's annual budget and Capital Improvement Plan (CIP) process. All projects in the referendum will be up for discussion and consideration on an annual basis as part of future budgets and CIPs before the Board authorizes any bond sales.

Bond affordability is weighed before projects are placed in the budget/CIP for the Board's review and consideration. The County's fiscal policies include a number of policies concerning debt. One of those policies requires that the County's debt service to expenditures ratio not exceed 12%, with the County working towards a goal for this ratio of no more than 10% by FY 2025. Calculations and projections of debt service to expenditures and other debt ratios for multiple out-years are considered. In order to ensure the ratios are met, staff calculates and projects the debt service to expenditures and if the County is found to be bumping against the 12% cap (or 10% in FY 2025 and beyond), it may shift projects out, where possible, or delete them altogether.

Another gauge of affordability that must be assessed is whether or not the revenue projected for the budget is sufficient to cover existing principal and interest payments (debt service) as well as the debt service that will come from the issuance of any new bonds.

Question: Will the bonds be issued all at once? What's the timeframe for issuance?
Answer: Bonds are generally not issued all at once. The County would not issue the bonds until work on the project is expected to occur. Borrowing money and paying interest costs now for projects expected to occur two years from now is unlikely. If the County issues all the bonds at one time, that action could cause the County's debt ratios to exceed adopted policy levels and would not be supported by enough annual revenue to pay the debt service on the new bonds.

Question: What are the debt ratio policies? Why are they important? What is the maximum that could be issued while the County maintains its debt ratios?
Answer: The County's debt ratio policies are as follows:

1. Net debt as a percentage of estimated taxable market value should not exceed 3%.
2. The ratio of debt service expenditures as a percent of governmental fund expenditures should not exceed 12% with the County working towards reducing this ratio to not more than 10% by FY 2025.
3. The County's 10-year tax-supported debt and lease payout ratio should be maintained at or above 65% at the end of each adopted five-year CIP.

The State Code of Virginia does not establish legal debt limits for counties. Given guidance from the credit rating agencies and advice from the County's financial advisors, the Board adopted these debt ratios as a means to keep debt in check relative to the overall County budget. These ratios set boundaries on debt.

Question: Over what length of time are bonds repaid?
Answer: The County matches the payback to the expected life of the capital asset being purchased. Generally, the County issues 5-year, 7-year, 12-year, 15-year and 20-year bonds.