

Debt Capacity Update and Results of Competitive RFP for Direct Bank Loan Financing

Powhatan County, Virginia

October 22, 2018



Goals and Objectives



- Determine the County's ability to finance FY 2019 Projects, incorporating the following 3 principles:
 1. No binding of a future Board of Supervisors;
 2. No need for recurring annual revenues to repay new debt service (i.e. no real estate tax equivalent impact); and,
 3. Allow the County's Debt Service vs. Expenditures Policy level to continue to trend down to the 12% desired level as soon as possible.

Key Assumptions



- FY 2019 Project Financing: \$9.4 million of projects funded in FY2019
- Principal and Interest in FY2020-2035
- Financing Term: 16 years
- Interest Rate Assumed for Planning: 4.01%*
- Value of 1 Cent on Real Estate: Approximately \$334,128 (FY 2019)
- Annual Growth in the Value of 1 Cent: 1% per year
- The County's Debt Service Budget is based on existing FY 2019 debt service. Includes leases closed prior 6/30/2018.

**Note: Interest rate updated since the September 13, 2018 presentation to account for actual bids received with interest rates equal to or below 4.01%.*

Future 5-Year Debt Capacity



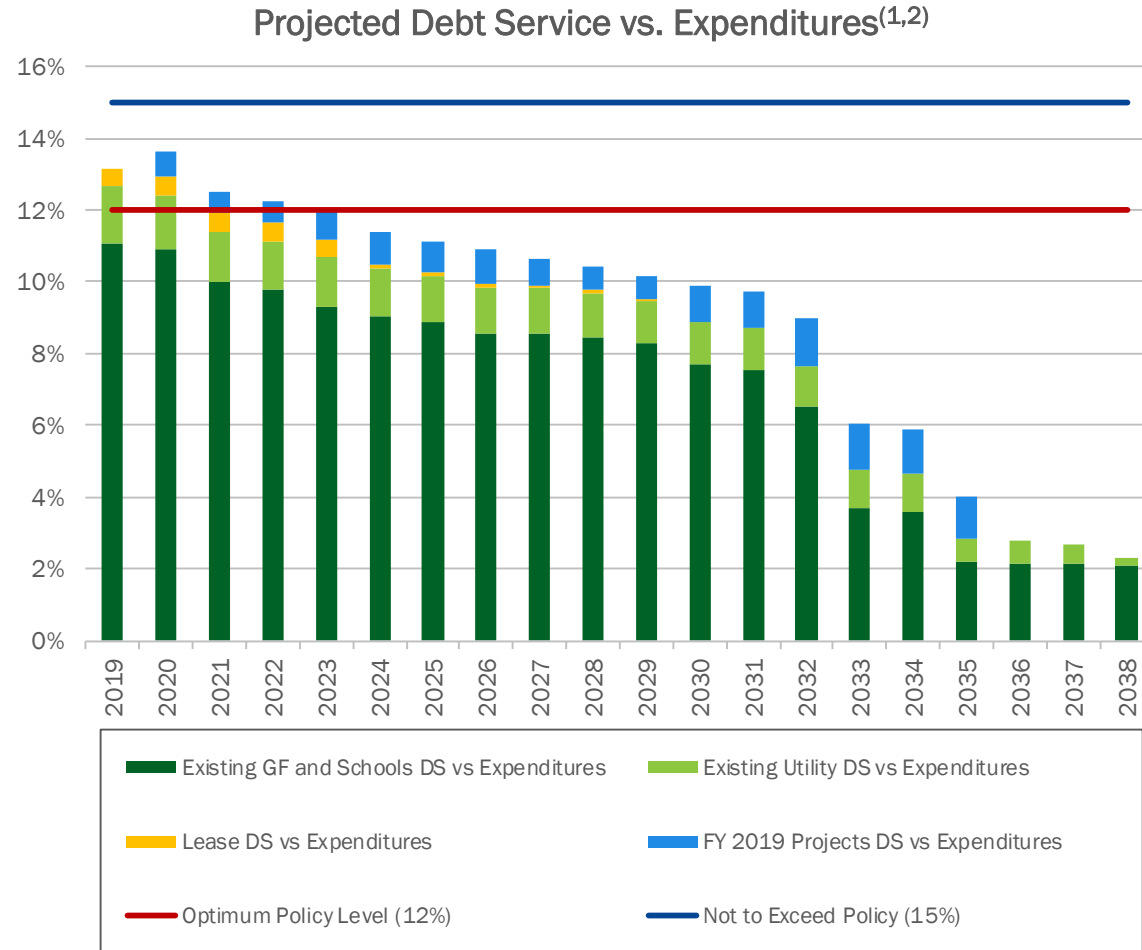
- The County's estimated 5-Year debt capacity, assuming no additional recurring annual revenues, is roughly \$13 million.
 - Of this \$13 million of capacity, the County is electing to use only \$9.4 million for the FY 2019 Projects.

- The timing / magnitude of issuance is somewhat flexible over the 5-year period.

Debt Capacity Impact: Debt Service vs. Expenditures



- The County's projected Debt Service vs. Expenditures ratio is estimated to comply with the 15% Policy Maximum and drop below the 12% Optimum Level in FY 2022/FY2023.



(1) Debt Ratios shown above include existing General Fund debt, Schools debt, Utility debt, existing and projected leases, and the estimated FY 2019 Project Financing.

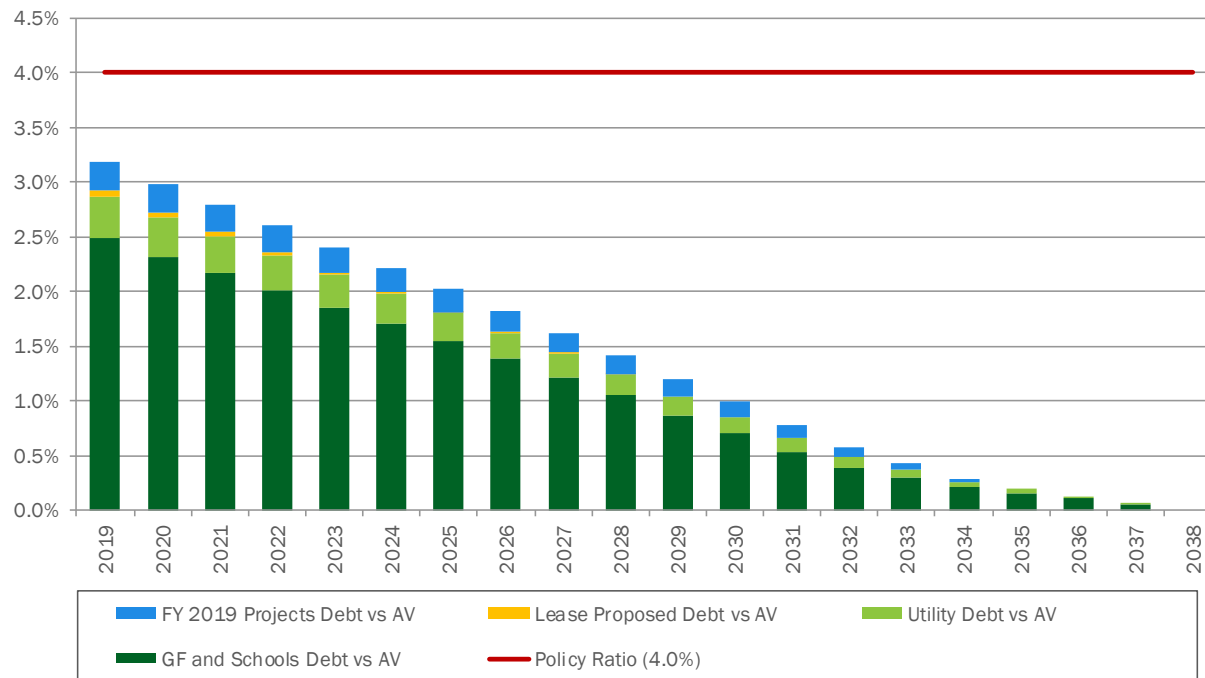
(2) Expenditures are based on the County's FY 19 budgeted expenditures of \$81,708,680 plus 2% annual growth in FY 20 and beyond. Consists of general government expenditures (including school fund expenditures).

Debt Capacity Impact: Debt vs. Assessed Value



- The County's projected Debt vs. Assessed Value ratio is estimated to comply with the 4.0% Policy Maximum for all future Fiscal Years.

Projected Debt vs. Assessed Value^(1,2)



(1) Debt Ratios shown above include existing General Fund debt, Schools debt, Utility debt, existing and proposed leases, and the estimated FY 2019 Project Financing.

(2) Assessed Value is based on the County's FY 2017 Assessed Value of \$3,684,547,331 per the FY 2017 CAFR plus 1% growth in FY 2018 and beyond.

Debt Capacity Key Takeaways



1. The County has the ability to borrow for approximately \$9.4 million of projects by the end of Calendar Year 2018, while incorporating the following 3 principles:
 - A. No binding of a future Board of Supervisors;
 - B. No need for recurring annual revenues to repay new debt service (i.e. no real estate tax equivalent impact); and,
 - C. Allow the County's Debt Service vs. Expenditures Policy level to continue to trend down to the 12% desired level as soon as possible.
2. Davenport solicited competitive bids for direct bank loan financing for the FY 2019 Projects. The bids came in well below the interest rate used for planning (i.e. 4.0% or below vs approximately 4.5%).

Debt Capacity Key Takeaways (Cont.)



3. Market interest rates have increased substantially in the last 45 days.

10-Year U.S. Treasury	
August 22, 2018	2.82%
October 5, 2018	3.23%
Increase	+ 41 bps

4. The direct bank loan proposals are held firm through late November to allow the Board of Supervisors, EDA, and School Board to take the required actions to authorize the FY 2019 Project Financing, if so desired by the County.

Note: There is no way to know with certainty whether interest rates will be higher or lower in the future.

Summary of Bank Loan Proposals



- The County received favorable proposals for the FY 2019 Project Financing from two banking institutions – BB&T and Sterling National Bank.
- Should the County desire to move forward, Davenport will work with Bond Counsel to prepare documents for approval at the October 22 meeting.
- A summary of the proposals is shown below.

	BB&T	Sterling
Interest Rate	3.96%	3.919%
Interest Rate Held Through	11/23/2018	11/23/2018
Prepayment Provisions	- Years 1-8: 1% Prepayment Penalty - Years 9-16: No Prepayment Penalty	- Years 1-4: No Call - Years 5-8: 1% Prepayment Penalty - Years 9-16: No Prepayment Penalty

Notes:
- Shown above is only a summary of the bids received. Please see term sheets for full details on the terms and conditions of each bid.



Appendix

Debt Affordability



- The Real Estate Tax Equivalent Impact of the FY 2019 Project Financing is shown below:

	A	B	D	E	F	G = sum A-F	H	I	J	K = H+I+J	L = G - K	M
Fiscal Year	Total Existing Principal ⁽¹⁾	Total Existing Interest ⁽¹⁾	Proposed Long-Term Principal	Proposed Long-Term Interest	Proposed FY2019 Lease Debt Service	Total Resulting Debt Service	2019 Debt Service Budget	Offsetting FY2019 Lease Revenues	Revenues equal to 50% of Projected EPC Savings	Total Revenues Available for Debt Service	Additional Dollars Needed	Real Estate Tax Equivalent Impact ⁽²⁾
2019	\$5,761,386	\$4,581,746	\$0	\$0	\$397,229	\$10,740,361	\$10,343,132	\$397,229	\$0	\$10,740,361	\$0	
2020	6,006,175	4,327,433	43,274	516,370	443,781	11,337,034	10,343,132	443,781	0	10,786,913	550,121	
2021	5,608,093	4,085,865	86,049	386,513	443,781	10,610,301	10,343,132	443,781	130,250	10,917,163	0	
2022	5,817,779	3,843,280	117,037	383,062	443,781	10,604,940	10,343,132	443,781	134,158	10,921,071	0	
2023	5,853,407	3,587,792	323,767	378,369	443,781	10,587,116	10,343,132	443,781	138,182	10,925,095	0	
2024	6,057,921	3,308,390	425,767	365,386	93,104	10,250,568	10,343,132	93,104	142,328	10,578,563	0	
2025	6,336,265	3,016,241	454,570	348,313	93,104	10,248,493	10,343,132	93,104	146,598	10,582,833	0	
2026	6,515,019	2,713,311	596,207	330,085	93,104	10,247,725	10,343,132	93,104	150,068	10,586,304	0	
2027	7,014,955	2,376,197	416,711	306,177	93,104	10,207,144	10,343,132	93,104	154,570	10,590,806	0	
2028	7,438,672	2,017,368	322,118	289,467	93,104	10,160,729	10,343,132	93,104	159,207	10,595,443	0	
2029	7,741,160	1,707,643	334,463	276,550	46,552	10,106,368	10,343,132	46,552	163,983	10,553,667	0	
2030	7,550,000	1,462,872	792,785	263,138	0	10,068,795	10,343,132	0	168,903	10,512,035	0	
2031	7,820,000	1,183,272	834,122	231,347	0	10,068,741	10,343,132	0	158,918	10,502,050	0	
2032	7,210,000	872,728	1,189,890	197,899	0	9,470,517	10,343,132	0	163,686	10,506,817	0	
2033	4,550,000	601,631	1,218,382	150,184	0	6,520,197	10,343,132	0	168,596	10,511,728	0	
2034	4,700,000	440,922	1,248,016	101,327	0	6,490,265	10,343,132	0	173,654	10,516,786	0	
2035	2,840,000	314,031	1,278,839	51,281	0	4,484,151	10,343,132	0	178,864	10,521,995	0	
2036	2,935,000	222,928	0	0	0	3,157,928	10,343,132	0	0	10,343,132	0	
2037	3,025,000	129,431	0	0	0	3,154,431	10,343,132	0	0	10,343,132	0	
2038	2,690,000	40,975	0	0	0	2,730,975	10,343,132	0	0	10,343,132	0	
Total	\$113,470,832	\$40,834,055	\$9,682,000	\$4,575,466	\$2,684,428	\$171,246,781						0.00¢

(1) Includes General Government, Schools, and Water & Sewer debt service.

(2) Assumes 1 additional penny on the real estate tax rate is equivalent to additional revenues of \$334,128 in FY2019. Assumes penny value growth rate of 1% per year.

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