APPLICATION FORM

All applications must include the following information. Separate applications must be submitted for each eligible program. **Deadline: June 3, 2019.** Please include this application form with electronic entry.
If you do not receive an email confirming receipt of your entry within 3 days of submission, please contact Gage Harter.

PROGRAM INFORMATION

County: KING GEORGE COUNTY

Program Title: DEBT MITIGATION PLAN

Program Category: COMMUNITY & ECONOMIC DEVELOPMENT

CONTACT INFORMATION

Name: NEIMAN C. YOUNG

Title: COUNTY ADMINISTRATOR

Department: ADMIN

Telephone: 540-775-9181 **Website:**

Email: NYOUNG@CO.KINGGEORGE.STATE.VA.US

SIGNATURE OF COUNTY ADMINISTRATOR OR DEPUTY/ASSISTANT COUNTY ADMINISTRATOR

Name: NEIMAN C. YOUNG

Title: COUNTY ADMINISTRATOR

Signature:

2019 ACHIEVEMENT AWARDS

VIRGINIA ASSOCIATION OF COUNTIES

KING GEORGE COUNTY, VIRGINIA

"DEBT MITIGATION PLAN"

Abstract of the Program:

King George County possessed an existing debt of approximately $113 million -- an issue that had plagued the community of 25,000 for well over a decade.

This debt is being paid by revenue from the County's landfill, a public/private partnership that generates over $7.5 million per year. As a result, the burden of this debt is virtually transparent to the County's taxpayers. However, the landfill's lifespan is finite, and the revenue generated from this venture will end in 26 years.

The County's leadership faced the challenge of either defeasing the debt or preparing the public to assume the burden this liability would place on the County's real estate tax.

The Problem or Need for the Program:

Like many rural communities, King George County finds itself with growing needs that strain its existing services and tax base. In 1992, the County constructed a public/private venture that allowed its landfill revenue to meet the County's capital needs in lieu of property taxes. However, the landfill has been leveraged for the next 17 of its 26 years, meaning continued reliance on it as a revenue source is not sustainable.

In light of this revelation, the County leadership reached two conclusions:

1. The County can no longer leverage any additional capital expenditures (i.e., 20-year bonds) against the landfill's remaining nine years of unleveraged revenue.

2. The County needs a plan to escalate the pay-down of its liabilities so that its debt amortization schedule would closely align with the declination of the landfill's lifespan.

Description of the Program:

King George County, in conjunction with Davenport and Associates, created a plan to escalate the amortization of capital debt. Known as the "King George County Debt Mitigation Plan", the strategy calls for municipalities to attack debt principal and avoid interest.

For example, King George County's debt in FY 18/19 totaled $113,105,290. Of this total, $80.1 million was principal and $32.9 million was interest. According to the tenets of the plan, the King George County avoids paying $ 0.41 in interest for every additional $1.00 paid toward the principal. When compounded, the implications of this strategy are staggering--$100,000 in principle saves $41,000. $1,000,000 in principal saves $410,000.

Understanding that interest avoidance is one of the best means of saving tax dollars; the King George County Board of Supervisors developed a three-pronged strategy to generate seed money to fund the plan:

1. General Fund Balance. King George County has strong fund balance levels ($6.7 million above operational reserves). From these savings, the County invested $3 million toward the principal balance of its debt.

2. Operational Budget. King George County realized an additional $1 million in its tax base as a result of the FY 2018 real estate assessments and equalization. Rather than commit all of this funding to other priorities, the County is now financially bound to reserve $190,000 of this new annual revenue for debt mitigation.

3. Budget Surplus. King George County has a history of producing year-end surpluses through conservative budgeting. As such, the County has committed to earmarking $250,000 of its annual surplus to the Debt Mitigation Plan.

The combination of all of these approaches will generate $4.76 million in addition to the $14,022,423 million of principal dissolved through the established amortization schedule. The key to the plan is to leverage the additional $4.76 million at strategic points in the debt amortization schedule to ensure the County does not conflict with early pay-off agreements and to attack the largest possible amount of accumulated principal.

For King George these strategic points are described as "Phases":

1. Phase 1: FY 18/19: $2.7 million
2. Phase 2: FY 20/21: $1.26 million
3. Phase 3: FY 22/23: $1.0 million

After two future subsequent phases, the County will have freed up a total of $7.54 million in cash flow and paid off $4.96 million in principal, thereby creating future capacity to fund required projects such as a new Courthouse and/or Fire Stations.

Responding to Economic Downturn: N/A

The Cost of the Program:

The program costs vary based on the amount of funding the locality wishes to commit to debt reduction.

The Results/Success of the Program:

On December 19, 2018, King George County completed its first payment for Phase I. The County has already realized a positive fiscal impact. Phase I paid off approximately $2,695,000 million of principal due in FY 2035 and FY 2036 and avoided $2,304,713 in interest.

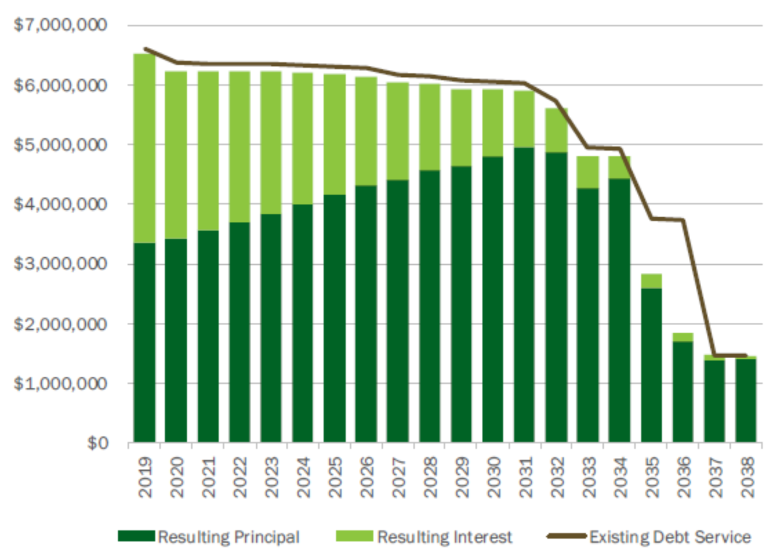
Worthiness of Award:

Despite the challenges in the fiscal environment, King George County has increased its financial transparency and is proactively addressing its debt in a manner that least impacts its tax base. These accomplishments meet the following Achievement Award Program Criteria:

- Fills gaps in or taps new revenue sources;
- Obtaining measurable results and improving constituent services;
- Using innovative techniques that are not common practice in counties of similar population or size;
- Promoting general governmental accountability and transparency.

Debt Reduction/Mitigation – Results of Phase 1

- In December 2018, the County strategically utilized approximately $3 million of funds dedicated to Debt Reduction/ Mitigation.
  - Paid off approximately $2.7 million of principal due in FY 2035 and FY 2036;(1) and
  - Eliminated the related interest that would have been paid in FY 2019 – 2036.(2)



Prior Debt Service		Cash Flow Freed-Up by Debt Paydown	Resulting/ Existing Debt Service
FY	Total	Total	Total
Total	$107,478,532	$4,999,713	$102,478,820
2019	$6,596,542	$69,059	$6,527,483
2020	6,365,675	138,119	6,227,557
2021	6,361,670	138,119	6,223,551
2022	6,359,190	138,119	6,221,072
2023	6,352,348	138,119	6,214,229
2024	6,332,413	138,119	6,194,294
2025	6,305,097	138,119	6,166,978
2026	6,271,761	138,119	6,133,642
2027	6,177,379	138,119	6,039,260
2028	6,147,770	138,119	6,009,651
2029	6,070,849	138,119	5,932,730
2030	6,062,875	138,119	5,924,756
2031	6,036,733	138,119	5,898,614
2032	5,735,976	138,119	5,597,857
2033	4,944,888	138,119	4,806,769
2034	4,937,028	138,119	4,798,909
2035	3,750,509	961,466	2,789,044
2036	3,743,331	1,897,406	1,845,925
2037	1,470,675	-	1,470,675
2038	1,455,825	-	1,455,825

(1) The County purchased State and Local Government Series (SLGS) securities from the US Treasury on 12/19/2018 using Debt Reduction/Mitigation funds held in an escrow account at US Bank. The SLGS will be used to pay off the 2012 VRA bonds at their call date on 11/1/22.

(2) As part of the Phase 1 Debt Paydown the County paid off $2,695,000 of principal and eliminate $2,304,713 of interest.

DAVENPORT & COMPANY

February 26, 2019

Editorial: Credit King George with thinking ahead

BY THE EDITORIAL PAGE STAFF OF THE FREE LANCE-STAR (APRIL 11, 2018)

WITH ALL the day-to-day issues localities face, keeping an eye trained on the future is not easy. But King George seems to be giving itself a reputation for doing just that, based on issues the Board of Supervisors has chosen to take on in recent weeks and years.

Readers may recall that King George was the first of the Taylorsville Basin localities to study its options and amend its zoning ordinance to resist and restrict fracking. It took years of research and legal wrangling to settle on enforceable language, but the supervisors finally did it.

Now, the forward thinking has turned to setting ground rules for mixed-use developments and reducing county debt—two important issues to get in front of as the county not only grows in the years and decades ahead but blends a more suburban demographic with its rural heritage.

The last thing any locality should do is ignore the likelihood of future growth and then be unprepared or caught off guard when it materializes. With residential and commercial development pressure coming from Naval Support Facility Dahlgren at the eastern end of the county, and the expansion of the Fredericksburg region pushing in from the west, a growth squeeze is a certainty for King George.

Mixed-use developments—MUD— are a way the county can orchestrate that growth by blending residential and commercial development together. That helps reduce the loss of open space, while keeping residents closer to services, stores and restaurants they frequent, and limiting traffic on local roads.

Given the parameters planners and supervisors are considering for their MUD ordinance, such as a maximum 16 housing units per acre, density becomes a hard pill for a historically rural county to swallow.

Communities that have seen this early stage of growth know that multi-family housing is what's needed as workers with young families willingly make a commute in exchange for more housing bang for their buck.

At the same time, many would agree that what seems to be lacking in King George is an identifiable town center that serves as a hub for business and commercial activity during the day, while also offering an alluring nightlife.

The MUD concept seems a natural for the area east of the courthouse, where the new sheriff's office and YMCA are located. Officials are entertaining the prospect that development opportunities in that area might also bring them a much-needed new courthouse as part of the deal.

Discussion of a development with up to 660 residential units and a substantial commercial component within the courthouse area at State Route 3 and Indiantown Road is enough to give county officials heartburn. But surely, growth is less painful when you're ahead of it and able to direct it than when you're trying to catch up to it.

County officials are also looking to get ahead of the existing $113 million debt that could cripple the county's future progress. They know that the local sugar daddy, the King George County Landfill, will eventually cease generating the revenues that let the county keep property taxes artificially low.

When he took the job a year ago, County Administrator Neiman Young recognized the future financial threat posed by the debt and has sought to deal with it.

A proposed one-time $3 million payment from reserves would get the ball rolling, and subsequent annual payments of $1 million would continue to pay down the debt. These payments toward the principle would actually be investments, considering that the interest saved would help the debt go away sooner, leaving the county with millions of dollars to use in other ways.

Increasing some fees and restructuring others to weave in business incentives are also part of the county's effort to improve its financial outlook.

The goal here is to put the county in the best possible position for orderly growth and a secure financial future. No one can predict the future, other than to assume it will be expensive and hold surprises. But the fact that these issues are on the table and being addressed now will certainly pay dividends for the county down the road.

THE BOND BUYER

King George considers 'forward-thinking' plan to lower debt
By Cathy Dyson, The Free Lance-Star,
Fredericksburg, Va. Published April
02 2018, 2:58pm EDT

More in Refinance, Virginia

Like a homeowner making extra mortgage payments when times are good, King George County, Va., is looking to pay down its debt before times get bad — and one of its primary sources of revenue is no longer available.

The Board of Supervisors is working on an ambitious plan that would reduce about 30 percent of the county's debt in the next five years. To accomplish that, the county would move money from reserve funds — which basically are savings accounts set up to ensure government functions in an orderly fashion — and allocate more new funds each year to debt payments.

No other localities in the state have put together such a "forward-thinking" plan, said Kyle Laux, senior vice president of Davenport & Co. The Richmond firm provides financial counseling for King George, Caroline and Spotsylvania counties, as well as others in Virginia and the mid-Atlantic region.

"What the county administrator and board are doing is unique ... and it's unique in a really good way," Laux said. "It's thinking long-term about the county."

Several Board of Supervisors members campaigned on the need for King George to reduce its debt, which stands at $113 million. When County Administrator Neiman Young joined the staff in February 2017, he was shocked that nothing was being done to address it.

At a work session two months ago, Young laid out numbers that caused those listening to gasp out loud. While the county has a proverbial golden goose with the King George Landfill, most of the money generated from trash is already accounted for — for the next 20 years. Even with the expansion in place, the landfill is expected to reach capacity in 29 years.

That means that for the next two decades, $6.2 million of the $7.5 million the county gets annually from the landfill already is devoured by debt. The debt is from capital projects including schools, fire houses and other county buildings.

Officials wanted to change those numbers and asked Davenport to come up with a plan. At a recent work session, supervisors favored applying $3 million from general and capital improvement reserves toward debt. The move wouldn't disrupt the county's financial policies, which dictate that King George has a certain amount set aside, Laux said.

To the $3 million one-time lump sum the county would add about $1 million each year for four years from revenues. Some of that would come from additional money King George would get after reassessments were done this year and the rest from an annual surplus.

Davenport would use the funds — initially forecast at $7 million — to pay down debt in three different payments between 2019 and 2023. Because every dollar paid on the debt principal saves about 41 cents in interest, the plan would free up about $11.1 million in cash flow and pay off $6.57 million in principal, according to Davenport.

But as the supervisors found out during the work session, the amount pulled annually from revenue sources probably would fluctuate as the county meets operational needs. The board decided to put school resource officers in two of the county's three elementary schools, and salaries, equipment and vehicles will cost $222,600. King George already has officers at its middle and high schools and will apply for a grant to get a deputy for the third elementary school.

Along with other operational expenses it's facing, King George probably would be able to set aside $200,000 from revenues in fiscal 2019 instead of $750,000 as proposed.

"It doesn't necessarily blow up our plan, but it's doing something rather than nothing," Board of Supervisors Chairman Richard Granger said.

Laux agreed.

He said government debt is like a home mortgage, not a credit card. King George's existing debt is based on a fixed rate, and the principal is repaid annually. If supervisors don't go forward with plans to pay down the debt sooner, the county is scheduled to repay about half of its debt within 10 years, according to a Davenport report.

But because paying down the principal faster frees up money, King George's debt reduction and mitigation plan should reduce about 30 percent of the county's debt over the next five years, which equates to roughly $22 million, Laux said.

"This is going to be huge," Young said. “And necessary, said Supervisor Ruby Brabo. "The landfill is going to go away, folks. We either raise your taxes 30 cents or we make sure the debt is paid off before it does."