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Agency denies county's bid to refinance bonds

Caroline's financial advisor calls trend with creditors 'troubling'

By Tim Cox
Editor

A state agency that provides bond financing for local governments has rejected a request by Caroline County to refinance existing bonds.

The county's application to the Virginia Resources Authority (VRA) was turned down because of its financial condition and increases in debt service expected in the future.

It is the latest of a string of bad financial news the county has received in recent years, a trend that its chief financial advisor termed "troubling."

The county was expecting to refinance the bonds at a lower interest rate and save money. The savings apparently had been factored into the proposed budget of acting county administrator Alan Partin. Without the savings, though, the budget will need to be increased by about $50,000.

That's not all. If the county is unable to secure financing in the future from the VRA, it likely will have to turn to other borrowing options that will be more expensive. In addition, it could find itself in a position when funds may not be available when it wants to borrow or may not be able to borrow at all.

'As the universe of borrowing options is reduced, the county will potentially face higher rates due to credit concerns, could face timing issues (i.e. funds not available when you need them) or may have no funding option at all in certain instances.'

Courtney Rogers
Davenport & Co.

The denial by the VRA and the reaction of the county's financial advisor were spelled out in e-mails written by Peter D'Alema, director of program management for the VRA, and Courtney Rogers, a senior vice president for Davenport & Co., the county's financial advisor. Copies of the e-mails were obtained by *The Caroline Progress*.

The county applied to refinance bonds issued in 2002 to build the new courthouse and in 2005 for Lewis and Clark Elementary

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School and Caroline Middle School. The bonds have a combined outstanding balance of $13 million.

"We have completed the credit analysis related to this loan request, and based on the current financial condition of the county and the future increases in debt service payable from both the general fund and enterprise (utilities) fund, VRA is unable to offer a commitment on the proposed loan at this time," D'Alema wrote to Caroline finance director Frances Hatcher in an e-mail dated March 21.

D'Alema acknowledged that the Board of Supervisors was considering increasing the real estate tax rate as part of the proposed 2012-13 budget process. "In the event the board adopts an adequate increase, we would reconsider this loan request based on a sufficient improvement in the revenues of the general fund, subject to review and approval by VRA's credit committee," he added.

The VRA would need a resolution from the supervisors by April 30 in order to participate in the next round of borrowing, he noted.

"Our concern as your financial advisor is that the universe of borrowing options for the county decreases if VRA is no longer an option," Rogers wrote in an e-mail to the supervisors two days later "As the universe of borrowing options is reduced, the county will potentially face higher rates due to credit concerns, could face timing issues (i.e. funds not available when you need them) or may have no funding option at all in certain instances."

Rogers told the supervisors they would need to increase their proposed budget by $50,000 since the savings anticipated from the financing were factored into it.

He also recommended the supervisors borrow from the Virginia Public School Authority the additional $1.5 million they agreed to fund for the Bowling Green school project. "At this time we are not aware that VSA reviews each individual credit like VRA does," he wrote. "However, that could change at any time."

Rogers was more concerned with helping the supervisors borrow funds for a new radio system. However, the supervisors subsequently agreed at a budget work session not to fund a new radio system in the 2012-13 budget.

The rejection by the VRA was the latest in three instances where the county's financial condition was called into question, noted Rogers.

"The county's trend with creditors is troubling," he told the supervisors.

Davenport was helping the county with debt restructuring in 2009 when Union Bank increased its bid rate because of a "decline in financials" from 2008-09, he reminded them. The decline prompted the bank to downgrade its internal rating of the county, which in turn led to a higher rate.

In addition, three banks declined to bid on vehicle leases requested by the county a year ago, noted Rogers.

"Now we have the Virginia Resources Authority concerned that the level of projected revenues won't be able to sustain the collective projected expenditures of the county over time," he wrote. "They are seeing the increase in debt service on both the general government-schools debt and the utility debt and are concerned about where the revenues to cover these obligations will come from."

The VRA is concerned about Caroline's ability to pay the debt service on a project to improve and expand the county's wastewater treatment plant because county officials were counting on growth in new connections to fund the debt service – growth that is continuing to slow, Rogers observed.

Davenport and Co. subsequently provided a detailed report to the supervisors about the county's financial status, a report they reviewed at a recent budget work session.

However, that report did not directly address the concerns raised by Rogers in his e-mail.