DEBT MANAGEMENT POLICIES

The City maintains a separate Debt Service Fund that tracks long-term debt obligated for General Fund activities. Debt activity for Enterprise, Internal Service, Special Revenue and Public Works Funds are maintained in those individual funds. The Debt Service Fund accounts for the accumulation of resources for and the payment of the City's General Obligation debt. Primary resources of the Debt Service Fund are derived from transfers from the General Fund and the proceeds from re-financing bond issues.

The City borrows money by issuing bonds or notes. According to the City Code, bonds and notes in anticipation of bonds may be issued for the purposes authorized by City Council. The City issues this debt in order to fund (pay for) projects within its Capital Improvement Plan (CIP) program. There are several reasons why the City may choose to borrow money: to fund current and future needs; share the cost of a project with those utilizing the facility (project) in the future and to avoid excessive cost burden on current taxpayers.

The City sometimes uses short-term obligations (e.g. Bond Anticipation Notes, Capital Leases and Lines of Credit) to bridge the time gap between initiation of a project/purchase and the anticipated bond issuance, when the nature of a purchase precludes the issuance of long-term debt or when it is fiscally responsible to do so. Prior to the issuance of any short or long-term obligations, the City considers the effect on its financial position, the ability to repay, and the Commonwealth of Virginia's imposed legal debt limit.

Each fiscal year the capital budget, which represents the first year of the five year CIP, is adopted as a part of the overall City's Council Approved Budget. The CIP supports the acquisition, construction, renovation and infrastructure maintenance. Revenue sources include federal and state government, General Obligation Bond proceeds and contributions from the General Fund. The CIP provides a foundation to plan and structure debt in advance. The repayment period of the debt should not exceed the expected useful life of the project for which the debt is incurred. In doing so, specific sources are identified and dedicated to the retirement of debt. On April 11, 2007, the City Council adopted financial policies regarding the minimum amount of General Fund revenues that can be used to fund the CIP each year and over a rolling 5-year period.

The bonds that are issued typically fund City capital projects and the Hampton City Schools maintenance projects. The Hampton City Schools' will continue to contribute $2,000,000 to pay for part of the debt service attributed to the school major renovation and maintenance projects.

The City's credit ratings are as follows: AA+ by Standard and Poor's, Aa1 by Moody's Investor Services and AA+ by Fitch Rating. A credit rating is a financial indicator to the public/investor as to the credit worthiness (quality) of a debt issue such as bonds. These agencies evaluate the City's credit risk based on the following areas: record of debt payments on time; consistent and strong revenue growth; diverse and balanced revenue streams; reasonable, controlled expenditures; level of liquid reserves (including Fund Balance) and strong financial planning. The highest credit ratings are Aaa (Moody) and AAA (Standard & Poor's and Fitch). Both agencies have intermediate ratings and default ratings of Ca, C (Moody) and D (Standard & Poor's and Fitch). The bonds with default ratings are more likely unable to repay the debt.

DEBT SERVICE REQUIREMENTS

This section contains information on the City's debt service requirement for the next five years. Debt service is similar to a mortgage; the City borrows funds by selling bonds and agrees to re-pay the purchasers of those bonds over a 20 to 30 year period. Funds received by the City are used for the acquisition, construction and renovation of public facilities and infrastructure as well as major equipment purchases.

The rate of interest paid for borrowing these funds is determined by credit ratings from rating agencies such as Standard and Poor's, Moody's Investor Service and Fitch Rating. The City's credit worthiness is rated similar to the credit ratings of an average citizen. The better the score, the lower the interest rate charged on borrowing.

The Council Approved financial policies, amended in April 2007, set the parameters for borrowing and debt service as follows:

- General obligation debt shall not exceed 3% of the assessed value of all real estate within the City subject to taxation. The legal debt limit authorized by the Virginia State Statute limits bond issuing authority up to 10% of the assessed value.

- General obligation bonded debt together with indirect debt, which includes certain revenue backed debt and subject to appropriation or moral obligation commitments, and debt of certain special purpose entities (i.e. Community Development Authority) shall not exceed 4.5% of the estimated assessed value of all real and personal property subject to taxation within the City.

In addition to the financial policies, repayment period of the debt should not exceed the expected useful life of the capital project being funded. Included within this section, is the "Debt Service Requirement" statement which shows the repayment schedule of general bonded debt, literary loans and revenue bonds for the City.

DEFINITIONS OF VARIOUS TYPES OF DEBT

The City of Hampton's debt service requirement may include one or more of the following debt instruments: Bond Anticipation Notes (BANs); General Obligation bonded debt; Literary Loans and debt associated with land acquired using a Letter of Credit. Debt service requirements for the Enterprise, Internal Service and Special Revenue Funds are accounted for in the respective Fund's activity.

Bond Anticipation Notes

A municipal note issued to obtain temporary or short-term (one year or less) financing for projects that will be repaid through the sale of bonds of a planned long-term bond issue.

Build America Bonds (BABS) Subsidy

The 2009 American Recovery and Reinvestment Act (ARRA) contained a provision for a new type of municipal security designed to assist localities in raising funds for local infrastructure projects. This program, entitled "Build America Bonds," was established as part of President Barack Obama's stimulus legislation as a means of lowering the borrowing cost for state and local bond issuers, thus directing more funds towards construction projects that would, in return, generate jobs.

Capital Lease

A capital lease is similar to a loan agreement and is used for the purchase of a capital asset. Repayment is structured in installments with fixed terms (number of months/years) and is non-cancelable. The financing company's (lessor) services are limited to financing the asset; the City (lessee) pays all other costs including insurance, maintenance and taxes. Essentially, capital leases are considered a sale by the lessor and a purchase by the City (lessee), even though the title remains with the lessor. Leased assets are capitalized and shown on the City's balance sheet as a fixed asset with a corresponding non-current liability (lease payable).

Debt Service

Debt Service refers to the amount of money necessary to repay the principal and interest on outstanding bonds or other debt. This amount, also known as the ***debt service requirement***, refers to the total principal and interest (annual debt service) paid in a fiscal year. "Total debt service" refers to the total principal and interest paid throughout the life of a bond issue.

General Bonded Debt

General Bonded Debt is a long term debt obligation that is backed by the "full faith and credit" pledge of the City's General Fund revenues.

Line-of-Credit

A line-of-credit is utilized to quickly take advantage of an opportunity to purchase physical assets such as real property. The City has no outstanding lines-of-credit to date.

The City Council has adopted financial policies relating to the amount of outstanding debt; the amount of overlapping debt; annual debt service costs and the payout ratio on general obligations indebtedness. The Commonwealth of Virginia imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowing which may be issued by the City. For more details regarding the City's policies on debt, refer to the ***Compliance with City Financial Policies*** section of this document.

DEFINITIONS OF VARIOUS TYPES OF DEBT

Literary Loans

In accordance with the *Code of Virginia* 22.1-146, Virginia State:

> "The Board of Education may make loans or, subject to the approval of the General Assembly, loan interest rate subsidy payments from the Literary Fund to the school boards of the several school divisions making application therefor in the manner prescribed by law, authorized by the governing body and the school board, for the purposes of (i) erecting, altering or enlarging school buildings in such school divisions; (ii) purchasing and installing educational technology equipment and infrastructure; (iii) equipping school buses for alternative fuel conversions and for construction of school bus fueling facilities for supplying compressed natural gas or other alternative fuels; and (iv) refinancing or redemption of negotiable notes, bonds, and other evidences of indebtedness or obligations incurred by a locality on behalf of a school division which has an application for a Literary Fund loan for an approved school project pending before the Board of Education. For the purpose of this section, "alternative fuels" means motor fuels other than gasoline and diesel fuel."

The City's indebtedness includes a loan from the State Literary Loan Fund to fund major repairs and renovation at Hampton High School.

Recovery Zone Economic Development Bonds Subsidy

A new type of bond created by the American Recovery and Reinvestment Act (ARRA) passed by U. S. Congress in February 2009 is the Recovery Zone Economic Development Bonds Subsidy. The proceeds may be used to finance City projects with economic development outcomes. These projects would have to take place in a "Recovery Zone" which is defined as an area of the City that has significant poverty, unemployment, home foreclosures or general distress or that has already been federally designated as an Empowerment Zone or Renewal Community.

Revenue Bonds

The Hampton History Museum issued revenue bonds which are a special type of municipal bond where repayment is solely from revenues generated from and associated with the Hampton History Museum. Only those revenues specified in the legal contract between the bond holder and bond issuer are required to be used for repayment of the principal and interest of the bonds; other revenues such as property tax revenues are not to be encumbered.

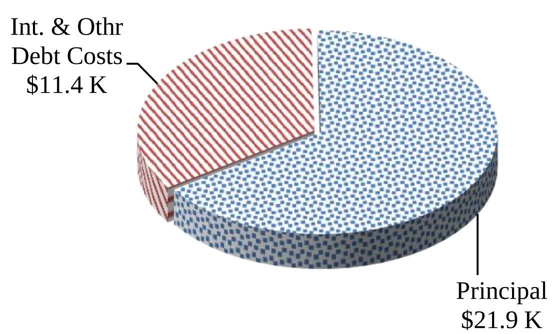
TRANSFER TO DEBT SERVICE
Fiscal Years 2015 - 2018

Expenditure Summary

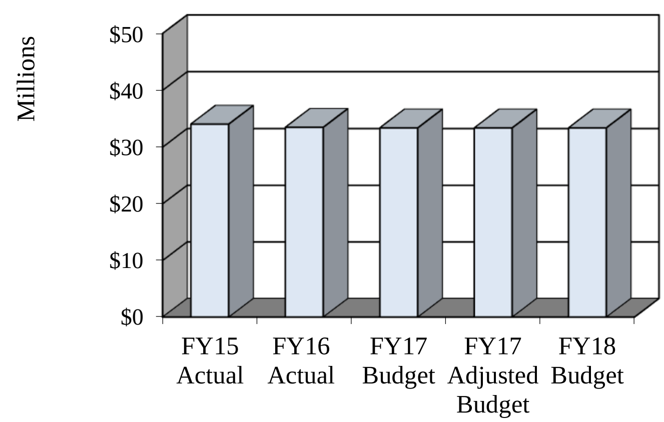
	FY15 Actual	FY16 Actual	FY17 Budget	FY17 Adjusted Budget	FY18 Budget	Increase/ (Decrease)
Expenditures						
Principal	23,152,483	22,336,163	22,336,163	22,336,163	21,973,166	**(362,997)**
Interest and Other Debt Costs	10,899,116	11,156,303	11,056,809	11,056,809	11,419,806	**362,997**
Grand Total	**34,051,599**	**33,492,466**	**33,392,972**	**33,392,972**	**33,392,972**	**0**

Budget Note: *This is a maintenance level budget.*

FY 2018 Service Summary



Budget Comparison FY15-18



DEBT SERVICE REQUIREMENTS
Fiscal Years 2017-2018

General Bonded Debt:	FY17 Budget	FY18 Budget	Net Increase/ (Decrease)
Principal	$22,336,163	$21,973,166	($362,997)
Interest	10,959,076	10,181,521	(777,555)
Proposed FY17 Bond Issue (1)	305,801	610,104	304,303
Proposed FY18 Bond Issue (2)	0	514,077	514,077
Capacity for Future Bonds (3)	0	321,901	321,901
Subtotal	33,601,040	33,600,769	(271)
Less-Build America Bonds Subsidy	(91,234)	(91,136)	98
Less-Recovery Zone Economic Dev Bonds Subsidy	(35,884)	(35,846)	38
Less-Qualified School Construction Bonds Subsidy	(125,950)	(125,815)	135
Net Debt Service-General Bonded Debt	**33,347,972**	**33,347,972**	**0**
Total Debt Service BEFORE Bank Charges	33,347,972	33,347,972	0
Bank Administrative Charges and Bond issuance costs	15,000	15,000	0
Letter of Credit Fees	30,000	30,000	0
Total Debt Service from General Fund Resources	**$33,392,972**	**$33,392,972**	**$0**

Notes:

1) Proposed FY17 bond issue of $15 million.
2) Proposed FY18 bond issue of $12.6 million.
3) Capacity for future bond projects assuming level debt service.

FY18 COUNCIL APPROVED BUDGET

DEBT SERVICE REQUIREMENTS
Fiscal Years 2017 -2021

GENERAL BONDED DEBT	FY17 Budget	FY18 Budget	FY19 Projected	FY20 Projected	FY21 Projected
Principal	$22,336,163	$21,973,166	$19,943,024	$19,976,064	$17,288,787
Interest	10,959,076	10,181,521	9,272,941	8,537,844	7,648,641
Proposed FY17 Bond Issue (1)	305,801	610,104	1,161,312	1,161,312	1,161,312
Proposed FY18 Bond Issue (2)	0	514,077	978,527	978,527	978,527
Proposed FY19 Bond Issue (3)	0	0	1,280,208	1,403,208	1,340,208
Proposed FY20 Bond Issue (4)	0	0	0	520,491	861,361
Proposed FY21 Bond Issue (5)	0	0	0	0	1,567,482
Capacity for Future Bonds (6)	0	321,901	964,757	1,023,323	2,754,451
Subtotal	**33,601,040**	**33,600,769**	**33,600,769**	**33,600,769**	**33,600,769**
Less-Build America Bonds Subsidy	(91,234)	(91,136)	(91,136)	(91,136)	(91,136)
Less-Recovery Zone Economic Development Bonds Subsidy	(35,884)	(35,846)	(35,846)	(35,846)	(35,846)
Less-Qualified School Construction Bonds Subsidy	(125,950)	(125,815)	(125,815)	(125,815)	(125,815)
Net Debt Service-General Bonded Debt	**$33,347,972**	**$33,347,972**	**$33,347,972**	**$33,347,972**	**$33,347,972**
Total Debt Service BEFORE Bank Charges	33,347,972	33,347,972	33,347,972	33,347,972	33,347,972
Bank Administrative Charges and Bond issuance costs	15,000	15,000	15,000	15,000	15,000
Letter of Credit Fees	30,000	30,000	30,000	30,000	30,000
Total Debt Service from General Fund	**$33,392,972**	**$33,392,972**	**$33,392,972**	**$33,392,972**	**$33,392,972**

*represents principal payments

Notes:

1) Proposed FY17 bond issue of $15 million.

2) Proposed FY18 bond issue of $12.6 million.

3) Proposed FY19 bond issue of $16.5 million.

4) Proposed FY20 bond issue of $10.2 million.

5) Proposed FY21 bond issue of $19.3million.

6) Capacity for future bond projects assuming level debt service.