5. Financial Summaries and Policies

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Financial Policies ~ Definition of Terms

1. **Annual Budget** ~ Total General Fund estimated revenues and appropriations.

2. **Assessed Value** ~ Refers to the assessed value of all taxable real estate within the geographic boundaries of the City of Hampton as of the most recent annual appraisal by the Assessor of Real Estate, with the exception of any amounts labeled estimates. Amounts included are based on the estimate prior to actual appraisal.

3. **Capital Expenditures** ~ Amounts appropriated to fund major capital improvements and economic development projects.

4. **CIP** ~ The Capital Improvement Plan (CIP) is a five-year expenditure plan that addresses the acquisition of property and equipment, new construction and other major improvements to existing public facilities. The first year of the CIP is incorporated into the Manager's Recommended Budget and the Council Approved Budget as the Capital Budget component for the respective fiscal year.

5. **Debt Service** ~ Payment of principal and interest related to all long-term debt according to a pre-determined payment schedule.

6. **Local Revenues** ~ Total of all General Fund revenues, except for state revenues and federal aid.

7. **Net Bonded Debt** ~ The unpaid and outstanding General Obligation bonds of the City as of June 30.

8. **Total Estimated Revenues** ~ Total General Fund estimated revenues, not including state and federal revenues received exclusively for Hampton City School operations.

9. **Unassigned Fund Balance** ~ General Fund Balance and is net of reserves and other restricted or special purpose amounts (which is sometimes referred to as a Fund Balance available for appropriation).

General Fund

The City Council adopted a set of financial parameters to guide future city expenditure patterns. These financial policies and their compliance with the Council Approved Budget (CAB) are outlined in this section.

City Tax Revenue Guideline

The Tax Revenue Guideline, approved by City Council on May 8, 2013, allows for the adjustment of the real estate tax rate in times of both real property assessment increases and decreases, and shall include other factors such as housing market conditions, personal income, population and cost of living. The Guideline provides for the real estate tax revenue growth (net of new construction), from one fiscal year to the next, limited to the equivalent percentage increase of an inflationary growth factor. The growth factor will be measured by either the consumer price index for urban dwellers (CPI-U) or resident income growth (RI) - whichever is greater in any given year. To the extent that budgetary needs require real estate revenues to grow faster than this factor, the City Manager and City Council shall clearly explain the driving force(s) so that residents may have a clear and concise understanding of the need to deviate from this financial guideline.

For fiscal year 2019, the total general fund revenues are expected to increase by about $3.3 million or 0.71%. The revenues received specifically from general property taxes, however, are expected to increase by about $3.4 million or 1.84%.

At a minimum, all revenues and fees should be examined each year to encourage diversity and less reliance on real property revenues during economic declines. To the extent that budgetary needs (new services, capital investments) require the real estate tax rate to be adjusted higher or lower than the factors identified in the guideline, the City Manager and City Council shall explicitly explain the budget driving factors causing this so that residents may have a concise and clear understanding of the need to deviate from this financial guideline.

City Financial Policy

In April 2007, the City Council amended its existing financial policies. The financial policies relate to general operating elements of the city. These policies are used as financial planning parameters during the annual budget process. The five (5) financial policies and the actual results are summarized below.

The FY19 CAB is in compliance with all five policies.

1. **Debt Limit Policy #1.** This policy is comprised of three guidelines as outlined below:

   (a) 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. The FY19 estimated general obligation debt will total about $244 million (or **2.3%**) of taxable real estate value ($10,553,320,455), which is within the policy parameter.

   (b) 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%,** i.e. $534 million of the estimated FY19 assessed value of all real and personal property subject to taxation within the city. The current level of net direct/indirect/overlapping debt is about $409.5 million of the assessed value of all taxable real and personal property, which is within the policy parameter.

   (c) Debt of special purpose entities, such as community development authorities, shall **not exceed 1%** (i.e. about $119 million) of the assessed value of all real and personal property subject to taxation within the city. The expected amount is $94.6 million of the approximate FY19 assessed value of all taxable real and personal property, which is within the policy parameter.

2. **Debt Service Limit Policy #2.** General obligation bonded debt and indirect debt shall **not exceed 10%** or $48.1 million of the city's total General Fund, School Operating Fund and Convention Center Fund expenditures of which all are included in the city's total debt service. The total annual debt service cost equals $40.6 million (or **8.4%)** of total expenditures, which is within the policy parameter.

3. **Debt Retirement Policy #3.** The city shall retire **at least 60%** of the principal balance of general bonded obligation debt within 10 years of the date the debt is issued. The city is on track to retire approximately $203 million (or **84.2%**) of general bonded obligation debt within the next 10 years, which is within the policy parameter.

4. **Equity Funding Policy #4.** This policy is comprised of two guidelines as outlined below:

   (a) A **minimum of 2% to 6%** of the estimated General Fund revenues, less School funding, shall be utilized for capital expenditures each year. For FY19, the percentage of General Fund revenues, less School funding, utilized for capital expenditures is **4.41%** (i.e. $15.1 million), which is above the minimum.

   (b) A **minimum of 10% to 15%** of the total capital improvement expenditures, over a rolling five-year period, shall be funded from General Fund revenues. For the five year period, FY19 through FY23, the city plans to use an estimated $72.4 million of General Fund revenues on capital projects, which accounts for **25%** of the CIP's total five-year expenditure plan of $289 million, substantially above the minimum.

5. **Unassigned Fund Balance Policy #5.** The city shall maintain an Unassigned Fund Balance equal to **at least 10%** of total General Fund revenues before transfers (plus the School Operating fund transfer). To the extent Unassigned Fund Balance falls below the policy, the shortfall shall be replenished over a three-year period. For FY19, these estimated revenues are projected to total about $465 million, so $46.5 million (10%) is the minimum required balance. The Unassigned Fund Balance for FY19 is estimated to be $49.7 million (or **11%**), which is within the policy parameter.

The FY19 budget is therefore in compliance with all five of the Financial Policy Guidelines.

CREDIT RATINGS

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. *See **Debt Management Policies**, for further details.*

Policy 1 - Debt to Assessed Value

Total Taxable Real Estate (RE) Assessed Value	$	10,553,320,455
Total Personal Property Assessed Value	$	1,322,657,352
Total Taxable Valuation	$	11,875,977,807

POLICY 1-A

General Obligation (direct) bonded debt shall not exceed 3% of taxable real estate assessed valuation.

3% of Taxable Real Estate (RE) Valuation	$	316,599,614
Total General Obligation (GO) Debt (1)	$	243,798,467
% of GO Debt to Taxable RE Assessed Value		2.3%
In Compliance With Policy 1-A		***Yes***

POLICY 1-B

Direct/Indirect/Overlapping debt to total taxable valuation shall not exceed 4.5%.

4.5% of Total Taxable Valuation	$	534,419,001
Net Direct/Indirect/ Overlapping Debt (2)	$	409,520,467
In Compliance With Policy 1-B		***Yes***

POLICY 1-C

Overlapping debt shall not exceed 1% of total valuation.

1% of Total Taxable Valuation	$	118,759,778
Overlapping Debt (3)	$	94,567,000
In Compliance With Policy 1-C		***Yes***

(1) Net bonded debt outstanding includes existing and proposed general obligation bonds and general obligation notes payable less bonds funded with Steam Plant revenues.

(2) Net Direct/Indirect/Overlapping Debt includes existing and proposed general obligation bonds, general obligation notes payable, and Convention Center overlapping debt, less bonds funded with Steam Plant Revenues.

(3) Overlapping debt consists of H2O Peninsula Town Center CDA debt.

Policy 2 - Debt Service

POLICY 2

Debt Service (direct and indirect) shall not exceed 10% of total expenditures of General Fund plus expenditures of City's public school system.

Total Expenditures	$	481,386,381
10% Total Expenditures (1)	$	48,138,638
Annual Debt Service Cost (DSC) (2)	$	40,630,915
Debt Service as % of Total Expenditures		8.4%
In Compliance With Policy 2		***Yes***

(1) Total expenditures includes School operating expenditures and Convention Center.
(2) Annual debt service cost includes debt service on all general obligation bonds and Convention Center.

Policy 3 - Debt Retirement

POLICY 3

Ten year payout ratio shall not be less than 60% for General Obligation Indebtedness.

Total General Obligation Indebtedness	$ 241,291,091 Principal
Amount retired within 10 years	$ 203,138,025 Principal
10 year payout ratio	84.2%
In Compliance With Policy 3	***Yes***

Policy 4 - Equity Funding

POLICY 4-A

Minimum of 2% to 6% of General Fund revenues applied to capital projects each year.

Total General Fund Revenues	$	471,165,931
General Fund Revenues less Revenues for Schools	$	342,902,674
2% of General Fund Revenues (less Schools)	$	6,858,053
6% of General Fund Revenues (less Schools)	$	20,574,160
General Fund Expenditures on Capital Projects	$	15,128,732
In Compliance With Policy 4-A		***Yes***

POLICY 4-B

Minimum of 10% to 15% of total Capital Improvement Plan (CIP) over a rolling five-year period to be funded from General Fund revenues.

Total FY19-23 General Fund Revenues for CIP	$	72,374,112
In Compliance With Policy 4-B		***Yes***

Policy 5 - Unassigned Fund Balance

POLICY 5

Unassigned Fund Balance shall be maintained at a level of not less than 10% of total revenues.

To the extent that the Unassigned Fund Balance is drawn upon, replenishment of such amount drawn shall occur over three years.

Total Revenues	$	471,165,931
Total Revenues Less Transfers	$	464,926,418
10% of Total Revenues Less Transfers	$	46,492,642
Unassigned Fund Balance (UFB)	$	49,700,556
UFB as % of Total Revenues Less Transfers		11%
In Compliance With Policy 5		***Yes***

Unassigned Fund Balance - Excess Analysis and History

Unassigned Fund Balance - Analysis of Excess Above Policy Requirement for FY 2019

FY 2019 Council Approved Operating Budget (Less General Fund Transfers)*	$464,926,418
Unassigned Fund Balance (Estimated Fund Balance per Policy-10% of above)	46,492,642
Projected Fund Balance at June 30, 2018	54,330,481
Estimated Fund Balance in Excess/ (Deficit) of Policy	**7,837,839**
Fund Balance Utilized in the FY 2019 Budget:	
Less: Use of Unassigned Fund Balance for FY19 Capital Improvement Plan	(4,629,925)
Estimated Unassigned Fund Balance in Excess/ (Deficit) of Policy	**$3,207,914**

***** Includes $2.0 million transfer for the Schools Operating Fund

Unassigned Fund Balance - History FY 2008 - 2018

Unassigned Fund Balance At End of	Amount (in $ Millions)	Percentage of Operating Budget
June 30, 2008	55.99	12.8%
June 30, 2009	53.74	12.3%
June 30, 2010	56.56	13.2%
June 30, 2011	50.20	11.9%
June 30, 2012	51.18	12.1%
June 30, 2013	54.19	12.4%
June 30, 2014	51.59	11.5%
June 30, 2015	52.11	11.7%
June 30, 2016	54.30	11.7%
June 30, 2017	54.33	11.9%
Projected June 30, 2018	54.33	11.5%

Note: During fiscal year 2007, City Council approved an increase in the policy guideline from 7.5% to 10%. The rating agencies consider an adequate Fund Balance to be an indicator of a strong financial position and prudent financial management.