Debt Service Requirements

"Hampton is a small town that has a certain character to it and that really makes it a wonderful place to live."

Bob Harper
BOB HARPER PHOTOGRAPHY

17. Debt Service Requirements

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This section includes information on the City of Hampton's debt service requirements for the upcoming fiscal year as well as a five year period. Detailed descriptions regarding the various types of debt are also included.

CITY OF HAMPTON VIRGINIA

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Debt Service Requirements

This section contains information on the City's debt service requirement for a five year schedule. Debt service is similar to a mortgage; the City borrows funds by selling bonds and agrees to repay 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 market conditions and the City's 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.
- Debt of certain special purpose entities, such as community development authorities, shall not exceed 1% of the assessed value of all real and personal property subject to taxation within the City.
- Debt service (direct and indirect) shall not exceed 10% of total expenditures of the General Fund plus the expenditures of City's public school system.
- The City shall retire at least 60% of the principal balance of general obligation bonded debt within 10 years of the date the debt is issued.
- A minimum of 2% to 6% of General Fund revenues will be applied to capital projects each year.
- The City will maintain an Unassigned General Fund Balance equal to 10% of the total General Fund and School Operating Fund revenues. To the extent Unassigned Fund Balance falls below the policy, the shortfall shall be replenished over a three-year period.

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 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.

Literary Fund Loan

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

> "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 renovations 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.

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Transfer to Debt Service

Purpose

The purpose of Debt Service is to track the amount of money necessary to repay the principal and interest on outstanding bonds or other debt. This amount, known as the debt service requirement, refers to the total principal and interest (annual debt service) paid in a fiscal year.

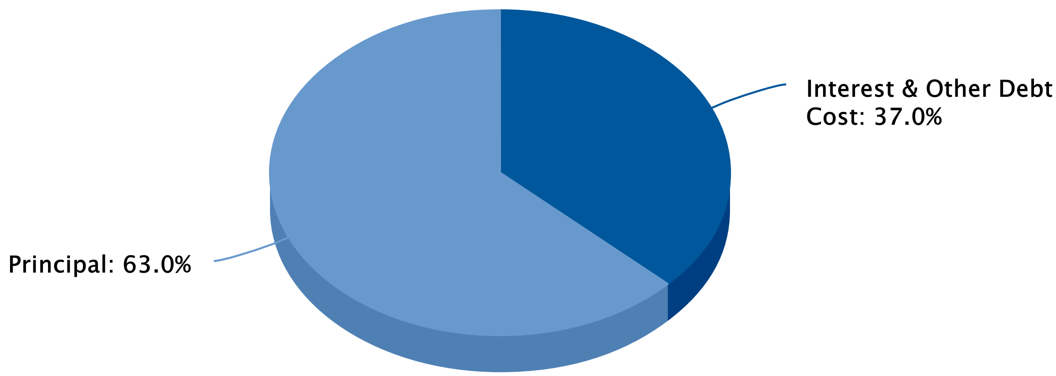
Departmental Breakdown

Departments	2020 Actual	2021 Actual	2022 Budget	2022 Adjusted	2023 Budget	Increase / (Decrease)
Interest & Other Debt Cost	10,349,510	10,580,820	13,574,230	13,574,230	12,959,438	(614,792)
Principal	22,407,064	19,331,787	21,451,277	21,451,277	22,066,069	614,792
Grand Total	**32,756,574**	**29,912,607**	**35,025,507**	**35,025,507**	**35,025,507**	**0**

Budget Note

This is a maintenance level budget.

Percentage of Team's FY 2023 Budget



Debt Service Requirements FY 2022 – 2023

	FY 2022 Budget	FY 2023 Budget	Increase / (Decrease)
General Bonded Debt:			
Principal	21,233,378	22,187,355	953,977
Interest	10,271,185	13,030,669	2,759,484
FY21 Bond Issue (1)	3,108,006	0	(3,108,006)
FY22 Bond Issue (1)	615,076	0	(615,076)
Subtotal – Bonded Debt	35,227,645	35,218,024	(9,621)
Less:			
Build America Bonds	(83,393)	(73,772)	9,621
Recovery Zone Economic Development Bonds	(36,308)	(36,308)	0
Qualified School Construction Bonds	(127,437)	(127,437)	0
Subtotal	34,980,507	34,980,507	9,621
Net Debt Service – General Bonded Debt	34,980,507	34,980,507	0
Total Debt Service BEFORE Bank Charges	34,980,507	34,980,507	0
Bank Administrative Charges	15,000	15,000	0
Letter of Credit Fees	30,000	30,000	0
Total Debt Service – General Fund	**35,025,507**	**35,025,507**	**0**

Notes:

1) FY21, FY22 and FY23 bonds were already issued and the principal and interest amounts are reflected in the FY23 budget column.

Debt Service Requirements FY 2022 – 2026

	FY 2022 Budget	FY 2023 Budget	FY 2024 Budget	FY 2025 Budget	FY 2026 Budget
General Bonded Debt:					
Principal	21,233,378	22,187,355	21,859,755	21,590,649	20,651,019
Interest	10,271,185	13,030,669	12,838,269	12,680,222	12,128,377
FY21 Bond Issue [1]	3,108,006	0	0	0	0
FY22 Bond Issue [1]	615,076	0	0	0	0
Proposed FY24 Bond Issue [2]	0	0	520,000	947,153	1,618,077
Proposed FY25 Bond Issue [3]	0	0	0	0	820,551
Proposed FY26 Bond Issue [4]	0	0	0	0	0
Subtotal – Bonded Debt	35,227,645	35,218,024	35,218,024	35,218,024	35,218,024
Less:					
Build America Bonds Subsidy	(83,393)	(73,772)	(73,772)	(73,772)	(73,772)
Recovery Zone Economic Development Bonds	(36,308)	(36,308)	(36,308)	(36,308)	(36,308)
Qualified School Construction Bonds	(127,437)	(127,437)	(127,437)	(127,437)	(127,437)
Subtotal	34,980,507	34,980,507	34,980,507	34,980,507	34,980,507
Net Debt Service-General Bonded Debt	34,980,507	34,980,507	34,980,507	34,980,507	34,980,507
Total Debt Service BEFORE Bank Charges	34,980,507	34,980,507	34,980,507	34,980,507	34,980,507
Bank Administrative Charges	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 General Fund Debt Service	**35,025,507**	**35,025,507**	**35,025,507**	**35,025,507**	**35,025,507**

Notes:

1) FY21, FY22 and FY23 bonds were already issued and the principal and interest amounts are reflected in the FY23-26 budget columns.
2) Proposed FY24 General Obligation Bond issue of $18.4 million.
3) Proposed FY25 General Obligation Bond issue of $16.6 million.
4) Proposed FY26 General Obligation Bond issue of $18.6 million.

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