Financial Summaries and Policies

"I choose Hampton because it's a family-oriented city."

Shola Asenuga

OWNER, KINGSWAY PHYSICAL THERAPY

5. Financial Summaries and Policies

CITY OF HAMPTON VIRGINIA

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JULY 9 1610

Financial Policies – Definition of Terms

1. **Annual Budget** ~ Total General Fund estimated revenues and appropriations.
2. **Bonded Debt** ~ The portion of indebtedness represented by outstanding bonds, including general obligation promissory notes, backed by the full faith and credit of the City and its taxing authority.
3. **Assessed Value** ~ Refers to the assessed value of all taxable real estate within the geographic boundaries of the City. Amounts included may be based on the estimate prior to actual appraisal.
4. **Capital Expenditures** ~ Amounts appropriated to fund major capital improvements and economic development projects.
5. **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.
6. **Debt Service** ~ Payment of principal and interest related to all long-term debt according to a predetermined payment schedule.
7. **General Obligation Bonds** ~ Long-term obligations backed by the "full faith and credit" pledge of the City's General Fund revenues.
8. **Local Revenues** ~ Total of all General Fund revenues, excluding state revenues and federal aid.
9. **Net Bonded Debt** ~ The unpaid and outstanding General Obligation Bonds of the City as of June 30.
10. **Total Estimated Revenues** ~ Total General Fund estimated revenues, excluding state and federal revenues received exclusively for Hampton City School operations.
11. **Unassigned Fund Balance** ~ General Fund Balance is net of reserves and other restricted or special purpose amounts (which is sometimes referred to as a Fund Balance available for appropriation).

Policy 1 – Debt to Assessed Value

Total Taxable Real Estate (RE) Assessed Value	$13,783,953,073
Total Personal Property Assessed Value	$1,836,923,971
Total Taxable Valuation	$15,620,877,044

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	$413,518,592
Total General Obligation (GO) Debt [1]	$299,392,885
% of GO Debt to Taxable RE Assessed Value	2.2%
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	$702,939,467
Net Direct/Indirect/Overlapping Debt [2]	$443,517,885
In Compliance with Policy 1-B	***Yes***

POLICY 1-C
Overlapping Debt shall not exceed 1% of Total Valuation.

1% of Total Taxable Valuation	$156,208,770
Overlapping Debt [3]	$83,870,000
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 and Stormwater 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 and Stormwater revenues.

[3] Overlapping debt consists of H20 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	$581,958,724
10% of Total Expenditures [1]	$59,241,218
Annual Debt Service Cost (DSC) [2]	$40,884,644
Debt Service as % of Total Expenditures	6.9%
In Compliance with Policy 2	***Yes***

[1] Total expenditures include 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	$299,392,885 Principal
Amount retired within 10 years	$205,315,680 Principal
10 year payout ratio	68.6%
In Compliance with Policy 3	***Yes***

Policy 4 – Equity Funding

POLICY 1-A
Minimum of 2% to 6% of General Fund revenues applied to capital projects each year.

Total General Fund Revenues	$581,958,724
General Fund Revenues less Revenues for Schools	$399,327,643
2% of General Fund Revenues (less Schools)	$7,986,553
6% of General Fund Revenues (less Schools)	$23,959,659
General Fund Expenditures on Capital Projects	$17,446,784
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 FY23-27 General Fund Revenues for CIP	$77,633,573
In Compliance with Policy 4-B	***Yes***

Policy 5 – Unassigned Fund Balance

POLICY 5
Unassigned Fund Balance (UFB) 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	$581,958,724
Total Revenues less Transfers	$573,378,161
10% of Total Revenues less Transfers	$57,337,816
Unassigned Fund Balance (UFB)	$70,878,314
UFB as % of Total Revenues less Transfers	12%
In Compliance with Policy 5	***Yes***

Debt Management Policy

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 refinancing 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 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 five-year period.

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

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