



Debt Service

"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

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This section includes information on the City of Hampton’s debt service requirements, bond rating and legal debt margin. Also included is the debt maturity schedule for the General Fund as well as debt obligations for all budgeted Funds.





Debt service is the payment of principal and interest on borrowed funds through instruments such as general obligation bonds. Many localities utilize bond proceeds to fund capital projects such as the acquisition of property and equipment; new construction; and other major improvements to existing public facilities. Similar to mortgage loans, bond proceeds are governed strictly by federal and state laws and regulations. The repayment of bonds is usually long-term, e.g. 20 years. In most cases, government regulations require bond proceeds be expended on one-time capital projects within a certain amount of time after the issuance.

The City Council’s established financial policies include guidelines which direct the financial decisions on debt issuance. Adherence to these guidelines not only allows the City to properly plan for the required financing of capital projects while maintaining credit worthiness, it also strengthens and maintains the City’s strong financial position. Please refer to the *Financial and Budgetary Policies* section of this document.

The Debt Service Fund is an unappropriated Fund used to manage the timely payments of the City’s short and long-term debt in accordance with the City’s charter, the State Public Finance Act and the City’s self-imposed financial policies. Revenue to cover the Debt Service Fund’s expenditures comes primarily from General Fund transfers as well as transfers made by other Funds, i.e. the Steam Plant.

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. For the various terms and acronyms used in this tab, please refer to the Glossary section of this document.

Credit Rating Scale			
Moody's	S & P	Fitch	Rating Description
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High Grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	
B2	B	B	
B3	B-	B-	
Caa1	CC+	CCC+	
Caa2	CCC	CCC	
Caa3	CCC-	CCC-	



Bond Rating

A locality’s bond rating (credit rating) reflects the investment community’s confidence in the financial management, stability and ability to pay any outstanding debt of the respective locality.

The City of Hampton’s current credit ratings are as follows: Aa1 by Moody’s Investor Services; AA+ by Standard and Poor’s; and AA+ by Fitch Rating. Refer to the *Comparative and Statistical Data* section of this document to view how Hampton’s bond rating compares to neighboring localities.

Legal Debt Margin

The Commonwealth of Virginia limits the amount of general obligation debt the City can issue to 10% of the assessed valuation of real property.

As of June 30, 2022, the City’s aggregate general obligation indebtedness is estimated to be \$341,170,000, which is \$890,529,513 less than the State limit.

Legal Debt Margin Calculation as of June 30, 2022	
(expressed in thousands)	
Assesed Value	12,316,985 *
Debt Limit (10% of total assesed value)	1,231,699
Debt Applicable to Limit:	
General Obligation Debt	341,170 **
Total Net Debt (applicable to limit)	341,170
Legal Debt Margin	890,529

* Assessed value as of February 15, 2022

** Includes General Obligation Bonds and Steam Plant Bonds

Notes:

The above calculation includes all debt secured by the full faith and credit of the City. The calculation excludes installment purchase of contracts, accrued sick and annual leave, net pension obligations, net other post-employment benefits (OPEB) obligations and net pension liability.

There are no overlapping or underlying tax jurisdictions for the purpose of this calculation.



Debt Ratio

A summary table of the key debt ratios, as found in the City's Financial Policies Nos. 1 and 2, is shown below:

Ratio	Estimated for FY23	State Limit	City Financial Policy No. 1
Debt as a Percentage of Assessed Value	2.2%	10.0%	3.0%

Ratio	Estimated for FY23	City Financial Policy No. 3	City Financial Policy No. 3
Debt Service as a Percentage of General Fund Expenditures	6.9%	10.0%	10.0%
Ten (10) Year Payout Ratio [^]	68.6%	60.0%	60.0%

[^] Assessed value of total real property is \$12,316 billion as of February 15, 2022.





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.

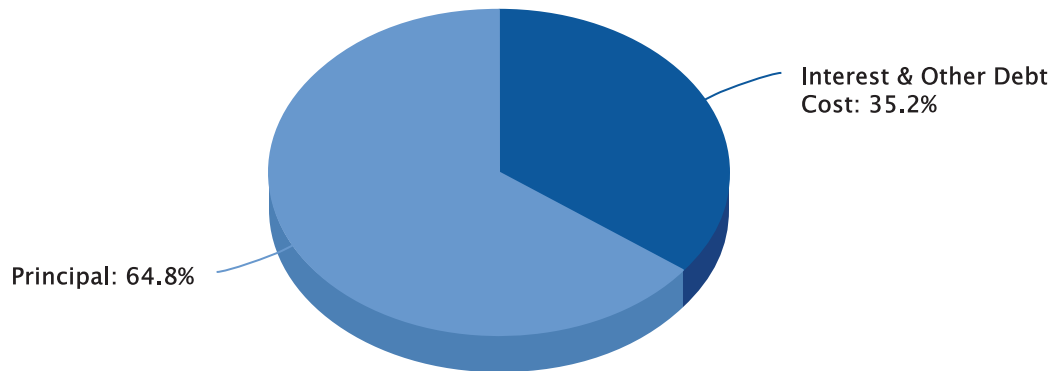
Departmental Breakdown

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	12,344,646	(1,229,584)
Principal	22,407,064	19,331,787	21,451,277	21,451,277	22,680,861	1,229,584
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





	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.



General Fund Debt Service Maturity Schedule

GENERAL OBLIGATION BONDS* Fiscal Year Ending June 30	Principal	Interest	Total
2023	20,811,951	12,706,100	33,518,051
2024	22,050,940	11,461,766	33,512,706
2025	22,054,453	10,510,738	32,565,191
2026	21,502,492	9,569,724	31,072,216
2027	21,115,000	8,533,962	29,648,962
2028	16,585,000	7,466,655	24,051,655
2029	16,280,000	6,695,095	22,975,095
2030	16,800,000	6,106,588	22,906,588
2031	16,640,000	5,410,734	22,050,734
2032	17,255,000	4,739,584	21,994,584
2033	17,860,000	4,078,996	21,938,996
2034	16,085,000	3,509,849	19,594,849
2035	20,525,000	3,007,945	23,532,945
2036	13,425,000	2,573,008	15,998,008
2037	13,795,000	2,208,976	16,003,976
2038	14,170,000	1,831,304	16,001,304
2039	14,600,000	1,407,985	16,007,985
2040	11,620,000	1,025,238	12,645,238
2041	11,940,000	688,769	12,628,769
2042	7,625,000	350,175	7,975,175
2043	7,860,000	117,899	7,977,899
Total	340,599,836	104,001,090	444,600,926

Notes:

* Note – Schedule includes General Obligation Bonds and Stormwater Bonds. Excludes Steam Plant General Obligation Bond of \$570,164 in principal and \$67,425 in interest.



General Obligation Bonds

General Long-Term Debt:

Details of general obligation bonds and loans reported in the government-wide statements at June 30, 2022 are as follows:

General Obligation Bonds Outstanding	\$340,599,836
Coupon interest rate	2.0% to 5.63%
Years of maturity	2023-2043

Debt service on the foregoing debt payable during future fiscal years ending June 30 is as follows:

Fiscal Year	Principal	Interest
2023	20,811,951	12,706,100
2024	22,050,940	11,461,766
2025	22,054,453	10,510,738
2026	21,502,492	9,569,724
2027	21,115,000	8,533,962
2028	16,585,000	7,466,655
2029-2033	84,835,000	27,030,997
2034-2038	78,000,000	13,131,082
2039-2043	53,645,000	3,590,066
Total	340,599,836	104,001,090

On March 31, 2022, the City used \$25,000,000 in cash on hand to discharge portions of the outstanding General Obligation Public Improvement Bonds, Series 2015A and the General Obligation Public Improvement Refunding Bonds, Series 2015B. Obligations of the United States Government and cash in the amount of \$24,922,271 (net of issuance costs of \$77,729) were deposited with Regions Bank, Richmond, Virginia (Escrow Agent), under an escrow deposit agreement dated as of March 31, 2022. The government obligations will mature and bear interest at times and in amounts sufficient to pay debt service requirements on the deceased bonds until their redemption date.

This transaction is in substance a defeasance of debt and, accordingly, the defeased bonds (of which \$22,800,000 remain outstanding at June 30, 2022) have been removed from the financial statements and the government obligation will not be recorded in the financial statements.

As a result of the defeasance, the City will reduce its total debt service costs by approximately \$26,864,250 for a net present value savings of \$243,622. The present value savings represents approximately 1.06% of the defeased bonds.

In the government-wide statements this transaction resulted in an economic gain of \$395,561.

General Long-Term Debt:

On February 15, 2022, the City issued \$115,615,000 General Obligation Public Improvement Bonds, Series 2022A with interest rates ranging from 2.0% to 5.0% and \$25,875,000 General Obligation Public



Improvement Refunding Bonds, Series 2022B (Taxable) with interest rates ranging from 1.2% to 2.4%. The proceeds of the Series 2022A Bonds are being used to fund various capital projects in the City and to pay costs of issuing the Series 2022A bonds. The proceeds of the Series 2022B Bonds are being used to advance refund portions of the City's Series 2015A General Obligation Public Improvement Bonds. Interest on the Bonds is due and payable semi-annually on each March 1 and September 1.

The net proceeds from the 2022B refunding bonds of \$26,130,331 (net of underwriter's discount and issuance costs of \$98,073) were deposited with Regions Bank, Richmond, Virginia (Trustee), under a refunding trust agreement dated as of February 15, 2022. The Trustee used such proceeds to purchase direct, non-callable obligations of the U.S. Treasury including state and local government series (collectively, government obligations). The government obligations will mature and bear interest at times and in amounts sufficient to pay debt service requirements on the refunded bonds until their redemption date.

This transaction is in substance a defeasance of debt and, accordingly, the refunded bonds (of which \$23,690,000 remain outstanding at June 30, 2022) have been removed from the financial statements and the government obligation will not be recorded in the financial statements.

As a result of the refunding, the City will reduce its total debt service costs by approximately \$1,610,538 for a net present value savings of \$1,398,222. The present value savings represents approximately 5.9% of the refunded bonds.

In the government-wide statements this transaction resulted in an economic gain of \$30,644.

On December 2, 2020, the City issued \$10,725,000 General Obligation Public Improvement Bonds, Series 2020A (Tax-Exempt Environmental Impact Bonds) with interest rates ranging from 0.200% to 2.160% and \$16,895,000 General Obligation Public Improvement and Refunding Bonds, Series 2020B (Taxable) with interest rates ranging from 0.327% to 1.896%. The proceeds of the Series 2020A Bonds are being used to fund various stormwater management projects in the City and to pay costs of issuing the Series 2020A bonds. The proceeds of the Series 2020B Bonds are being used to advance refund portions of the City's Series 2013 General Obligation Public Improvement Bonds. Interest on the Bonds is due and payable semi-annually on each March 1 and September 1.

The net proceeds from the 2020B refunding bonds of \$16,759,771 (net of underwriter's discount and issuance costs of \$135,229) were deposited with Regions Bank, Richmond, Virginia (Trustee), under a refunding trust agreement dated as of December 2, 2020. The Trustee used such proceeds to purchase direct, non-callable obligations of the U.S. Treasury including state and local government series (collectively, government obligations). The government obligations will mature and bear interest at times and in amounts sufficient to pay debt service requirements on the refunded bonds until their redemption date.

This transaction is in substance a defeasance of debt and, accordingly, the refunded bonds (of which \$15,500,000 remain outstanding at June 30, 2021) have been removed from the financial statements and the government obligation will not be recorded in the financial statements.

As a result of the refunding, the City will reduce its total debt service costs by approximately \$976,362 for a net present value savings of \$772,759. The present value savings represents approximately 4.99% of the refunded bonds.

In the government-wide statements this transaction resulted in an economic gain of \$1,321,979.

On October 8, 2019, the City issued \$54,000,000 General Obligation Public Improvement Bonds, Series 2019A with interest rates ranging from 1.29% to 2.85% and \$21,355,000 General Obligation Public



Improvement and Refunding Bonds, Series 2019B (Taxable) with interest rates ranging from 1.95% to 2.95%. The proceeds of the Series 2019A Bonds are being used to fund various public improvement projects in the City and to pay costs of issuing the Series 2019A Bonds. The proceeds of the Series 2019B Bonds were used to advance refund portions of the City's Series 2012A General Obligation Public Improvement Refunding Bonds and the remaining balance will be used for a strategic land acquisition. Interest on the Bonds is due and payable semi-annually on each March 1 and September 1.

On April 29, 2019, the City issued \$22,991,000 in General Obligation Public Improvement Refunding Bond, Series 2019 to Bank of America, N.A pursuant to a Bond Purchase and Loan Agreement to evidence a loan from the bank to the City. The bond matures on January 15, 2022, bears interest at the rate of 2.36%, payable semi-annually on January 15 and July 15. The interest rate is subject to adjustment upon the occurrence of an Event of Default and upon the occurrence of a Determination of Taxability on the terms set forth in the Bond and in the Agreement. Principal installments are payable on January 15, 2020, January 15, 2021 and at maturity on January 15, 2022. The bond is pre-payable at the election of the City at any time, subject to a make-whole prepayment requirement. Payment of principal and interest on the bond is a general obligation of the City secured by its full faith and credit. The bond is issued to refund for debt service savings the outstanding principal amount, \$22,625,000, of the City's General Obligation Public Improvement and Refunding Bonds, Series 2010A (Tax-exempt), maturing January 15, 2022. The Series 2010A (Tax-exempt) Bonds were redeemed on April 30, 2019.

On June 27, 2018, the City issued \$46,070,000 in General Obligation Public Improvement Bonds, Series 2018A with interest rates ranging from 3.25% to 5.0% and \$9,185,000 in General Obligation Public Improvement Refunding Bonds, Series 2018B (Taxable) with interest rates ranging from 3.45% to 4.0%. The Series 2018B Bonds were issued to redeem on their date of issuance the City's \$9,250,000 General Obligation Bond Anticipation Note, Series 2017 issued on October 31, 2017. Interest on the Bonds is due and payable semi-annually each March 1 and September 1.

On October 31, 2017, the City issued its \$9,250,000 General Obligation Bond Anticipation Note, Series 2017 (the "BAN") to Branch Banking and Trust Company to evidence a loan from the bank to the City. The BAN matured on October 1, 2018, bears interest at the rate of 2.07%, payable semi-annually on April 1 and October 1, and is subject to optional prepayment in whole at the election of the City at any time on and after January 1, 2018 in an amount equal to the principal amount thereof plus accrued and unpaid interest to the prepayment date. The BAN is issued in anticipation of the issuance of long-term bonds by the City, the proceeds of which will be used to refund and redeem the BAN and fund other public improvement projects. The BAN is a general obligation of the City secured by its full faith and credit and taxing power.

On April 23, 2015, the City issued \$46,770,000 in General Obligation Public Improvement Bonds, Series 2015A with interest rates ranging from 3.5% to 5.0% and \$56,250,000 in General Obligation Public Improvement Refunding Bonds, Series 2015B with an interest rate of 5.0%. The proceeds of the 2015B Bonds were used to refund portions of the City's Series 2007 General Obligation Bonds in the amount of \$63,320,000 and the remaining balance will be used to finance the cost of general capital improvement projects of the City. Interest on the Bonds is due and payable semi-annually on each March 1 and September 1.

On April 24, 2013, the City issued \$38,865,000 in General Obligation Public Improvement Bonds, Series 2013 with interest ranging from 2% to 5%. The proceeds of the bonds will be used to finance the cost of general capital improvements of the City, including construction of a new courthouse.

On June 20, 2012, the City issued \$26,390,000 in General Obligation Public Improvement Refunding Bonds, Series 2012A (Tax- Exempt) and \$18,380,000 General Obligation Public Improvement Refunding



Bonds, Series 2012B (Taxable) with interest rates ranging from .51% to 5%. The proceeds of the bonds were used to refund portions of the City's Series 2002, 2002A, 2004 and 2005A General Obligation Bonds.

On July 8, 2010, the City issued \$2,545,000 in General Obligation Virginia Public School Authority Qualified School Construction Bonds, Series 2010C with interest payable at the rate of 5.31% per annum. The proceeds of the bonds were used to pay for the cost of lighting upgrades in the City schools.

On March 3, 2010, the City issued \$65,595,000 in General Obligation Public Improvement and Refunding Bonds, Series 2010A with interest ranging from 2% to 5% and \$7,190,000 in General Obligation Public Improvement Direct Pay Build America and Recovery Zone Economic Development Bonds, Series 2010B with interest ranging from 4.34% to 5.63%. The proceeds of the bonds were used to refund portions of the City's Series 1998, 2002, 2002A, 2005A, and 2007 General Obligation Bonds and the remaining balance will be used to finance the cost of general capital improvement projects of the City.

On October 25, 2007, the City issued \$145,815,000 in General Obligation Public Improvement and Refunding Bonds, Series 2008 with interest ranging from 4.00% to 5.00%. The proceeds of the bonds were used to refund bond anticipation notes issued by the City in April 2007 in the amount of \$29,540,000 and the remaining balance will be used to finance the cost of general capital improvement projects of the City.

On April 6, 2005, the City issued \$53,210,000 in General Obligation Public Improvement Bonds, Series 2005A with interest ranging from 3.00% to 5.00% and \$10,000,000 in Taxable General Obligation Public Improvement Bonds, Series 2005B with an interest rate of 5.04%. The proceeds of the Bonds will be used to finance capital improvements in the City.

On August 20, 2004, the City issued \$29,630,000 in General Obligation Public Improvement Refunding Bonds, Series 2004 with interest ranging from 2.00% to 5.00%.

The City's outstanding general obligation bonds and direct placement general obligation bonds contain a provision that in the event of default, amounts outstanding become immediately due if the City is unable to make payment.

In prior years, the City defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On June 30, 2021, \$32,505,000 defeased bonds were outstanding.

Enterprise Fund:

Solid Waste Fund

On March 23, 2018, the City entered into an equipment lease purchase agreement for \$2,600,000 with Key Government Finance, Inc. to purchase ten refuse trucks. The Lease is payable in 16 quarterly remaining equal installments of \$139,358 at an interest rate of 2.623%. As of June 30, 2022, the outstanding balance on the lease is \$557,430.



Debt service on the foregoing debt payable during fiscal year ending June 30, 2023 is as follows:

Fiscal Year	Principal	Interest
2023	548,411	9,019

Enterprise Fund:

Steam Plant

In April 2005, the City issued \$53,210,000 in General Obligation Public Improvement Bonds, Series 2005A with interest ranging from 3.00% to 5.00%. The Refuse-Steam Plant used \$2,000,000 of the bond proceeds to finance the mandated replacement of the air pollution retrofit.

On April 1, 2002, the City issued \$30,155,000 in General Obligation Public Improvement Bonds, Series 2002 with interest ranging from 4.25% to 5.00%. The Refuse-Steam Plant used \$5,000,000 of the bond proceeds to finance an air pollution control system.

All of these general obligation bonds are expected to be repaid from the resources of the Refuse-Steam Plant Fund; therefore, the bonds are accounted for in this fund.

Debt service on the foregoing debt is payable during future fiscal years ending June 30 as follows:

Fiscal Year	Principal	Interest
2023	133,049	26,370
2024	139,060	20,217
2025	145,547	13,785
2026	152,508	7,053
Total	570,164	67,425

Revenue Bonds

Enterprise Fund:

Hampton Roads Convention Center Fund

On November 20, 2019, the City issued \$66,150,000 in Convention Center Refunding Direct Placement Revenue Bonds, Series 2019C with interest ranging from 1.952% to 3.097%. The proceeds of the bonds were used to refund \$33,750,000 of the City's Convention Center Direct Placement Revenues Bonds, Series 2012A and \$28,065,000 of the City's Convention Center Revenue Bonds, Series 2011A. As of June 30, 2022, the outstanding balance is \$77,079,448.

On June 13, 2012, the City issued \$33,750,000 in Convention Center Refunding Direct Placement Revenue Bonds, Series 2012A with interest ranging from 4.826% to 5.125%. The proceeds of the bonds were used to refund a portion of the City's Convention Center Direct Placement Revenue Bonds, Series 2002.



**Debt Service
Obligations for
All Budgeted Funds**

On June 2, 2011 the City issued \$52,460,000 in Convention Center Refunding Direct Placement Revenue Bonds, Series 2011 with interest ranging from 2.922% to 5.125%. The proceeds of the bonds were used to refund a portion of the City's Convention Center Direct Placement Revenue Bonds, Series 2002.

Convention Center Direct Placement Revenue Bonds (Bonds) in the amount of \$106,305,000 were issued November 1, 2002 with interest ranging from 3.50% to 5.25%. The proceeds of the Bonds were used to finance the cost of the construction of a convention center, to retire a \$7,585,000 Revenue Bond Anticipation Note issued in connection with the project and to pay interest on the Series 2002 Bonds. The bonds are payable solely from and collateralized by, revenues derived by the City from ownership and operation of the project.

According to the indenture, if an event of default occurs and is continuing, the Trustee may, and if requested by the holders of 25% in aggregate principal amounts of direct placement revenue bonds then outstanding shall, by notice to the City, declare the entire unpaid principal and interest on the bonds due and payable.

In prior years, the City defeased certain revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements.

Direct placement revenue bond debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest
2023	4,235,000	1,669,137
2024	4,330,000	1,579,277
2025	4,420,000	1,483,640
2026	4,530,000	1,379,990
2027-2031	24,550,000	5,083,409
2032-2035	22,425,000	1,393,995
Total	64,490,000	12,589,448

