



**17. Debt Service**

<b>Table of Contents</b>	<b>Section-Page</b>
Debt Management Policies	17-02
Overview of Debt Service Requirements	17-03
Definitions of Various Types of Debt	17-04
Transfer to Debt Service	17-06
Debt Service Requirements	17-07
Debt Service Requirements - Next Four Years	17-08

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



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. The primary funding sources 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 five-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.



This section contains information on the City's debt service requirement for the next four 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 similarly to the credit ratings of an average citizen. The better the score, the lower the interest rate charged on borrowing.

The City Council adopted financial policies, amended in April 2007, setting 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, the 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.



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 Services, 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 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.”

## **Qualified School Construction Bonds**

Qualified School Construction Bonds (QSCBs) are one of several types of tax credit bonds authorized under IRC Section 54A, that allow a credit to investors that hold such bond on one or more of the quarterly credit allowance dates. QSCBs may be issued to construct, rehabilitate or repair a public school facility or may be used to acquire land on which such facility is to be constructed with such proceeds. A State or local government within the jurisdiction of which the public school facility is located is qualified to issue the bond.

## **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.



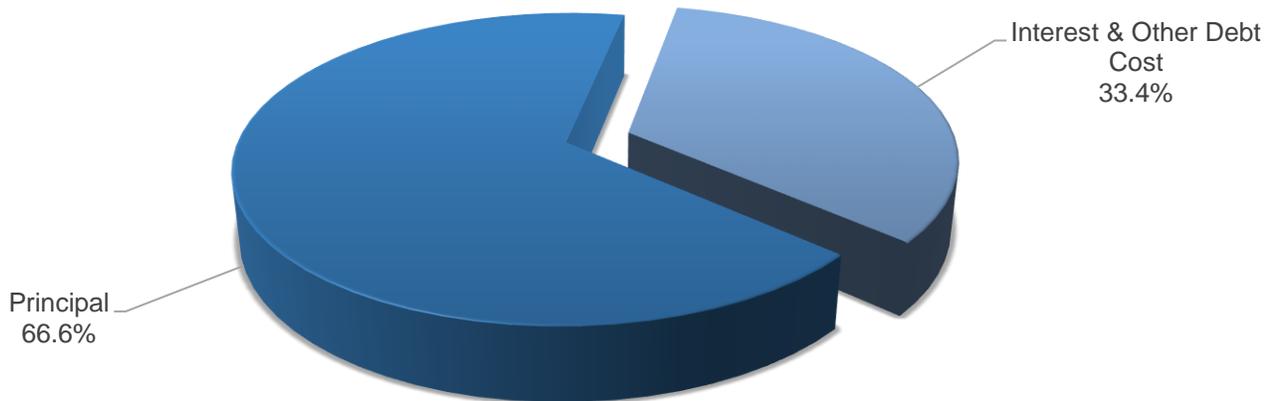
**Purpose**

The purpose of the Debt Service group 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.

**Expenditure Summary**

Expenditures	2016 Actual	2017 Actual	2018 Budget	2018 Adjusted	2019 Budget	Increase/ (Decrease)
Principal	22,336,163	21,738,152	21,973,166	21,973,166	21,772,279	(200,887)
Interest & Other Debt Cost	10,931,040	10,739,711	11,419,806	11,419,806	12,432,532	1,012,726
<b>Grand Total</b>	<b>33,267,203</b>	<b>32,477,863</b>	<b>33,392,972</b>	<b>33,392,972</b>	<b>34,204,811</b>	<b>811,839</b>

**Percentage of Group's FY 2019 Budget**





	<b>FY 2018 Budget</b>	<b>FY 2019 Budget</b>	<b>Increase / (Decrease)</b>
<b>GENERAL BONDED DEBT:</b>			
Principal	21,973,166	21,772,279	(200,887)
Interest	10,181,521	10,133,767	(47,754)
Proposed FY17 Bond Issue (1)	610,104	601,658	(8,446)
Proposed FY18 Bond Issue (2)	835,978	512,523	(323,455)
Proposed FY19 Bond Issue (3)	-	1,393,195	1,393,195
<b>Subtotal</b>	<b>33,600,769</b>	<b>34,413,422</b>	<b>812,653</b>
Less-Build America Bonds Subsidy	(91,136)	(91,430)	(294)
Less-Recovery Zone Economic Dev Bonds Subsidy	(35,846)	(35,961)	(115)
Less-Qualified School Construction Bonds Subsidy	(125,815)	(126,220)	(405)
<b>Net Debt Service-General Bonded Debt</b>	<b>33,347,972</b>	<b>34,159,811</b>	<b>811,839</b>
 Total Debt Service BEFORE Bank Charges	 33,347,972	 34,159,811	 811,839
Bank Administrative Charges	15,000	15,000	-
Letter of Credit Fees	30,000	30,000	-
<b>Total Debt Service from Gen. Fund Resources</b>	<b>33,392,972</b>	<b>34,204,811</b>	<b>811,839</b>

**Notes:**

- 1) Proposed FY17 bond issue of \$15 million.
- 2) Proposed FY18 bond issue of \$12.6 million.
- 3) Proposed FY19 bond issue of \$32 million. (Includes Boo Williams Sportsplex acquisition approved mid-year in FY 2018 for approximately \$9 million)



## Debt Service Requirements - Next Four Years

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>GENERAL BONDED DEBT:</b>					
Principal	21,973,166	21,772,279	21,553,709	20,425,785	20,281,300
Interest	10,181,521	10,133,767	9,213,978	9,058,017	7,545,778
Proposed FY17 Bond Issue (1)	610,104	601,658	1,106,775	1,106,775	1,106,775
Proposed FY18 Bond Issue (2)	835,978	512,523	942,809	942,809	942,809
Proposed FY19 Bond Issue (3)	-	1,393,195	2,604,312	2,604,312	2,604,312
Proposed FY20 Bond Issue (4)	-	-	-	1,603,885	2,573,997
Proposed FY21 Bond Issue (5)	-	-	-	-	1,346,612
Proposed FY22 Bond Issue (6)	-	-	-	-	-
<b>Subtotal</b>	<b>33,600,769</b>	<b>34,413,422</b>	<b>35,421,583</b>	<b>35,741,583</b>	<b>36,401,583</b>
Less-Build America Bonds Subsidy	(91,136)	(91,430)	(91,430)	(91,430)	(91,430)
Less-Recovery Zone Economic Dev Bonds Subsidy	(35,846)	(35,961)	(35,961)	(35,961)	(35,961)
Less-Qualified School Construction Bonds Subsidy	(125,815)	(126,220)	(126,220)	(126,220)	(126,220)
<b>Net Debt Service-General Bonded Debt</b>	<b>33,347,972</b>	<b>34,159,811</b>	<b>35,167,972</b>	<b>35,487,972</b>	<b>36,147,972</b>
<b>Total Debt Service BEFORE Bank Charges</b>	<b>33,347,972</b>	<b>34,159,811</b>	<b>35,167,972</b>	<b>35,487,972</b>	<b>36,147,972</b>
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
<b>Total Debt Service from Gen. Fund Resources</b>	<b>33,392,972</b>	<b>34,204,811</b>	<b>35,212,972</b>	<b>35,532,972</b>	<b>36,192,972</b>

**Notes:**

- 1) Proposed FY17 bond issue of \$15 million.
- 2) Proposed FY18 bond issue of \$12.6 million.
- 3) Proposed FY19 bond issue of \$32 million. (Includes Boo Williams Sportsplex acquisition approved mid-year in FY 2018 for approximately \$9 million)
- 4) Proposed FY20 bond issue of \$31.8 million.
- 5) Proposed FY21 bond issue of \$26.7 million.
- 6) Proposed FY22 bond issue of \$31.9 million.