

## CAPITAL BUDGET - DEBT OBLIGATIONS BUDGET

### Current Debt Obligations:

The Operating Budget includes the funding required for the City's current year payment of principal and interest (debt service) on outstanding debt. The following table illustrates the amount of debt service included in the Operating Budget.

	<b>FY 07 <u>Actual</u></b>	<b>FY 08 <u>Amended Budget</u></b>	<b>FY 09 <u>Budget</u></b>	<b>FY 10 <u>Plan</u></b>
<b>Debt Service</b>				
Revenues:				
Use of Money & Property	\$ 2,706,232	\$ 1,115,765	\$ 1,115,765	1,115,765
Revenue from the Commonwealth	<u>217,934</u>	<u>162,329</u>	<u>219,533</u>	<u>221,933</u>
Total Revenues	\$ 2,924,166	\$ 1,278,094	\$ 1,335,298	1,337,698
Use of Fund Balance				
Resources from Debt Service Fund	\$ 0	<u>\$6,104,092</u>	<u>\$2,000,000</u>	\$ 0
Total Financing from Fund Balance	\$ 0	\$6,104,092	\$2,000,000	\$ 0
Transfer from General Fund	\$ 38,720,861	\$ 38,638,016	\$ 37,225,475	\$ 36,881,192
Transfer from Construction Fund	5,046,635	0	0	0
Transfer from City Lock Box	2,900,000	1,635,520	3,171,906	3,184,656
Transfer from School Lock Box	5,456,505	0	6,813,994	9,565,260
Transfer from Conference Center	615,639	634,109	653,132	672,726
Transfers from School Funds	<u>1,483,469</u>	<u>711,202</u>	<u>682,525</u>	<u>658,950</u>
Total Financing from Other Fund	\$54,223,109	\$ 41,618,847	\$ 48,547,032	\$ 50,962,784
<b>Total Funding Resources</b>	<b>\$57,147,275</b>	<b>\$ 49,001,033</b>	<b>\$ 51,882,330</b>	<b>\$ 52,300,482</b>
Expenditure				
General Government	\$ 18,136,118	\$ 18,668,211	\$ 17,511,356	\$ 15,872,303
Education	<u>25,532,586</u>	<u>31,937,055</u>	<u>34,370,974</u>	<u>36,428,179</u>
<b>Total Expenditures</b>	<b>\$ 43,668,686</b>	<b>\$ 50,605,266</b>	<b>\$ 51,882,330</b>	<b>\$ 52,300,482</b>

### Projected Level of Future Debt Obligations:

As part of the Five Year Forecast, the Budget Office estimates the amount of debt service required annually to maintain the current level of outstanding debt. The following table illustrates the projected level of annual debt service based upon projects already included in the capital budget, exclusive of TIF debt.

	<b>FY 09 <u>Budgeted</u></b>	<b>FY 10 <u>Projected</u></b>	<b>FY 11 <u>Projected</u></b>	<b>FY 12 <u>Projected</u></b>	<b>FY 13 <u>Projected</u></b>
<b>Debt Service</b>					
General Gov't	\$ 17,511,356	\$ 15,872,303	\$ 14,784,992	\$ 16,554,826	\$ 19,896,717
Schools	34,370,974	36,428,179	38,038,808	36,982,375	38,358,367
<b>Total</b>	<b>\$ 51,882,330</b>	<b>\$ 52,300,482</b>	<b>\$ 52,823,800</b>	<b>\$ 53,537,201</b>	<b>\$ 58,255,084</b>

## LEGAL LIMITS OF CITY DEBT BUDGET

In determining the amount of debt to issue, the City evaluates the amount of additional debt service that can be supported by current year revenues as well as the City's legal debt limits and debt management policies.

### Legal Debt Limit

Pursuant to the Constitution of Virginia and the Public Finance Act, a city in Virginia is authorized to issue bonds and notes secured by a pledge of its full faith and credit. The Constitution and the Public Finance Act also limit the indebtedness that may be incurred by cities. This limit is ten (10) percent of the assessed valuation of real estate subject to local taxation.

The City Charter further limits the City's power to create debt. It provides that no bonds and notes (other than refunding bonds) secured by a pledge of the City's full faith and credit shall be issued until their issuance has been authorized by a majority of the qualified voters of the City voting in an election on the question. The City Charter further provides, however, that the City Council may authorize the issuance of such bonds or notes without an election in any calendar year in an amount not to exceed \$4,500,000 plus amount of debt retired the previous calendar year as new annual borrowing authority. Also, the charter states the amount of such bonds or notes together with existing indebtedness of the City shall not exceed eight (8) percent of the assessed valuation of real estate in the City subject to local taxation, as shown by the last preceding assessment for taxes. Contractual obligations of the City other than bonds and notes are not included within the prohibitions described in this paragraph.

### Calculation of Legal Debt Limit

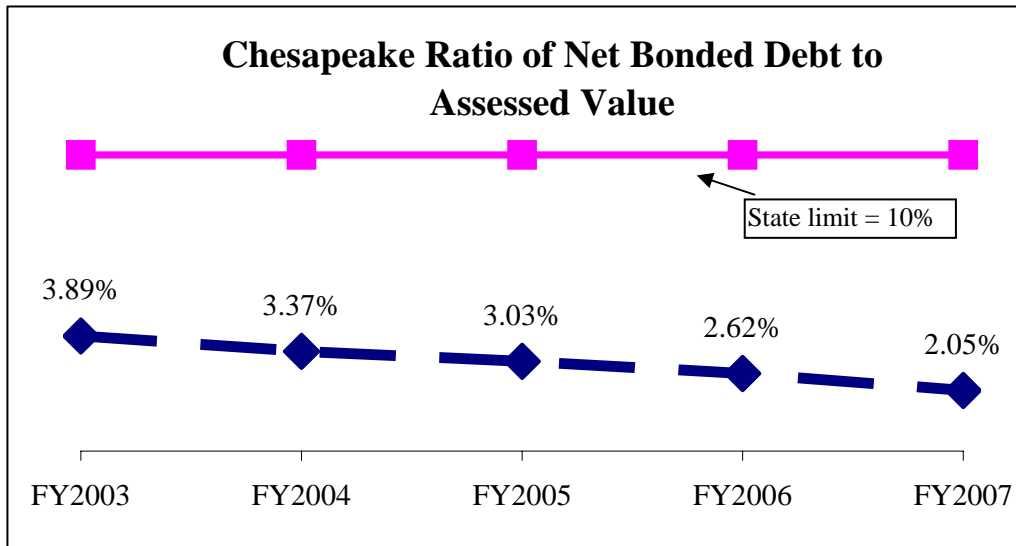
The following table illustrates the calculation of the legal debt margin as of June 30, 2007. According to the current statutes of the Commonwealth of Virginia, the City's general obligation bonded debt issuance must not exceed 10% of the total assessed value of real property. As illustrated in the chart, as of June 30, 2007, the City may incur an additional \$1,789,798,539 in debt without exceeding its legal debt limit.

Assessed value of taxable real estate: as of June 30, 2007		\$22,067,528,772
Legal debt limit of 10% of assessed value:		<u>\$2,206,752,877</u>
Amount of debt applicable to legal debt limit:		
Total Bonded Debt:	\$ 533,661,431	
Add: Long Term Payables	345,000	
Less: Self – Supporting Debt *	<u>-117,052,093</u>	
Total Debt Applicable to Legal Debt Limit		<u>416,954,338</u>
Legal Debt Margin for Creation of Additional Indebtedness:		<u>\$1,789,798,539</u>
Notes:		
*Self - Supporting Debt includes Revenue Bonds, Double Barrel Bonds, and Debt Fund Balance.		
Self - Supporting Debt is not included charge against the Debt Limit.		
Source: Data in this table are from the City's Comprehensive Annual Financial Report for June 30, 2007.		

### Legal Debt Limit Compared to Current Level of Indebtedness

The City has consistently been below the legal limit set by the Commonwealth of Virginia. The FY 2006-07 ratio of overall net debt to assessed value was 2.05%. The following chart provides a historical illustration of the City's level of indebtedness.

## LEGAL LIMITS OF CITY DEBT BUDGET



### Debt Service to Requirements

One of the credit industry's debt management guidelines used in determining the fiscal health of a city is the debt service to expenditure ratio. The City's debt service was 9.1% of General Fund requirements in FY 2006-07. Debt service is projected to be 9.3% of total requirements in FY 2007-08 and 8.8% in FY 2008-09. This does not include lease revenue debt.

Note: This ratio is a measure of what proportion debt service is of total general government expenditures. It is not the ratio referred to by the rating agencies which is total revenues of the government to total assessed real estate value.

### Debt Per Capita

The City's current debt policy is that per capita net general obligation and net overlapping debt shall not exceed \$3,000 per capita. In FY 2006-07, the bonded debt per capita was \$2,046.

## **DEBT MANAGEMENT POLICIES**

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### **Long Term Debt Management Policies**

- Long-term borrowing will not be used to finance current operations or normal maintenance.
- Long-term borrowing for capital improvements will be confined to such improvements and projects that cannot be financed from current revenues.
- Capital improvements that are financed by issuing General Obligation Bonds, Revenue Bonds, or other long-term debt, will be repaid within a period less than the expected useful life of the improvements.
- General Obligation Bonds will be used for projects that benefit the citizens of Chesapeake.
- Overall net debt will not exceed three and one-half percent of the assessed valuation of the taxable real property in the City of Chesapeake, which is less than the ten percent debt limit required by the State.
- Overall net debt per capita will be managed so that it will not exceed \$3,000.
- Every attempt will be made to keep the average maturity of general obligation bonds, exclusive of enterprise debt, at or below twelve years and retire 50 percent of the debt during the twelve-year period.
- Where possible and appropriate, the City will develop, authorize, and issue revenue or other self-supporting debt instruments in lieu of general obligation bonds.
- Revenue bonds will comply with the coverage required for parity bonds in original resolutions and prior bond covenants.

### **Medium Term Debt**

- Lease-purchase or other debt instruments may be used as a medium-term (four to ten years) method of borrowing for the financing of vehicles, specialized types of equipment, or other capital improvements.
- The equipment or improvements must have an expected useful life of more than four years.
- The City of Chesapeake will determine and utilize the least costly financing method available.

Such debt arrangements will be repaid within the expected useful life of the equipment or improvement acquired.

## **DEBT MANAGEMENT POLICIES**

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### **Short Term Debt**

- Short-term borrowing may be utilized for temporary funding of anticipated bond proceeds, anticipated grant payments or other expected revenues.
- Short-term debt, such as tax-exempt commercial paper, bond anticipation notes, tax anticipation notes, and grant anticipation notes, may be used when it provides immediate financing and an interest advantage, or the advantage to delay long-term debt until market conditions are more favorable. The City of Chesapeake will determine and utilize the least costly method for short-term borrowing.
- Short-term debt will not exceed the following limits:

Anticipated Revenues - An amount equal to the estimated amount of the source of which it is in anticipation of receiving. (Anticipated revenues are revenues such as federal and state grants received, and anticipated proceeds from a bond sale.)

Other Expected Revenues - An amount equal to the estimated amount of the expected revenues. (Expected revenues are revenues such as federal and state grants that will be forthcoming for a project where there has been an expenditure of funds, but as yet those agencies have not been billed for the funding expended.)

- Short-term debt will be repaid as soon as possible after the anticipated or expected source of funds is received. Such debt may be rolled over if it is in the best interest of the City of Chesapeake to do so when the anticipated or expected source has not yet been received.

### **Other Debt Considerations**

For any Enterprise Fund operation that is supporting debt, either directly or indirectly, an annual rate study will be performed to ensure that the fees and rates for service are sufficient to meet the debt service requirements of the debt being supported. If the fees and rates are not sufficient, then they will be increased as necessary to provide adequate funds for the operation as well as the debt service requirements of the outstanding debt.

### **Bond Rating Agencies**

The passage of time modifies the position of an issuer of debt in the market. For this reason, communication will be maintained with bond rating agencies with respect to the City of Chesapeake's bonds and its financial condition. A policy of full disclosure will be followed on every financial report and official statement for debt.

### **Debt Management Policy Review and Amendment**

Debt management policies will be reviewed from time to time in order to ensure compliance with changes in the State Constitution, Statutes, and the City of Chesapeake Charter. Council may amend these policies as necessary.