

Debt Service - Departmental Performance Report

Debt Service						
The mission of the Debt Service budget is to provide for the principal and interest payments, issuance charges and bank charges on long-term obligations obtained by the City for General Government, Schools, Utilities (i.e., Water and Sewer and Storm Water) purposes. Also included are obligations under the Agriculture Reserve Program.						
Objective/Performance Measure	Unit	Annual Target	Actual 2008	Actual 2009	Est. 2010	Proj. FY 2011
Financial						
The debt service for general government debt will not exceed 10% of the general govt. budget						
Ratio of Gen. Govt. Debt to Gen. Govt. Budget	%	10.0	7.5	8.0	8.1	8.4
The general government net debt per capita will not exceed \$2,400						
General Government Debt Per Capita	\$	2,400	2,262	2,275	2,287	2,339
The general government net debt per capita will not exceed 6.5% of per capita income						
Ratio of Per Capita Debt to Per Capita Income	%	6.5	5.2	5.1	5.2	5.1
The general government net debt will not exceed 3.5% of assessed value						
Ratio of Gen. Govt. Debt to Assessed Value of Real Property	%	3.5	1.7	1.7	2.1	2.0

Major Changes

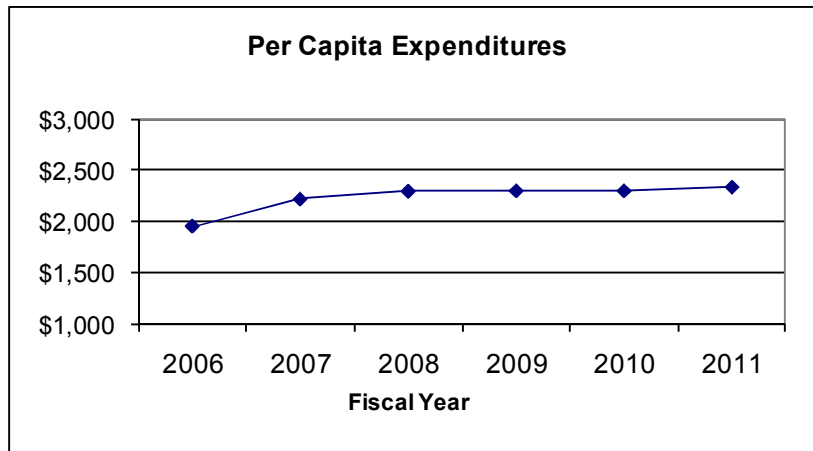
In January 2010, the City refunded \$99.6 million of General Obligation Bonds which will save \$8 million of interest through FY 2022-23, the remaining term of the bonds. Scheduled for Spring 2010 are issuances of: \$60 million of General Obligation Bonds; \$17 million of Public Facility Revenue Bonds, and up to \$85 million for refunding of Public Facility Revenue Bonds. There are also plans for issuances of approximately \$60 million of Water and Sewer Revenue Bonds in late Spring 2010 and the possibility of around \$10 million of Storm Water Revenue Bonds in Fall 2010. There is also the projected issuance of \$84.3 million of General Obligation Bonds and \$19.5 million of Public Facility Revenue Bonds in Spring 2011. The total debt service budget for FY 2010 totals \$129,450,872 for the General Debt Fund. The Water and Sewer Utility Fund includes \$16,389,014 and the Storm Water Utility Fund includes \$2,011,002 for debt service.

Change	Impact
A \$3,246,966 reserve has been appropriated in conjunction with a new capital project 4-505, Modernization for Kempsville and Bow Creek Recreation Centers.	<ul style="list-style-type: none"> The reserve comes from 0.3 cents of the real estate tax and from amounts originally designated for Parks and Recreation operations and funding from the existing dedicated Recreation Center Referendum funding.
Planned refunding of up to \$85 million of Public Facility Revenue Bonds.	<ul style="list-style-type: none"> The size of the refunding and the amount of savings are subject to bond market conditions.

Departmental Overview

Debt Service - Debt service is issued for three major purposes: City, Schools and Utilities (water and sewer and storm water). To guide future capital improvement program development and address long term debt management issues, City Council uses the following guidelines for the management of debt, in addition to the City Council indicators, as listed below.

- The City will issue bonds for capital improvements with a cost in excess of \$250,000 or which cannot be financed from current revenues.
- When the City finances capital projects by issuing bonds, it will pay back the debt within a period not to exceed the expected useful life of the projects.
- Where possible, the City will develop, authorize and issue revenue, special fee or other self-supporting debt instruments instead of general obligation bonds.
- The debt structure of the government will be managed in a manner that results in minimal deviation from the indicators listed in this policy.
- The City will maintain good communications regarding its financial conditions. It will regularly evaluate its adherence to its debt policies. The City will promote effective communications with bond rating agencies and others in the marketplace based on full disclosure.



Trends and Issues

- As a reflection of the City’s strong economic condition, Standard & Poor’s continues to rate the City’s bonds as AAA. The City still maintains bond ratings a notch below AAA for Moody’s and Fitch Rating agencies.
- The City has consistently taken advantage of the favorable interest rate environment to refund previously issued debt. While a proposed refunding of Public Facility Revenue Bonds of approximately \$85 million is scheduled in Spring 2010, the bond market conditions will ultimately determine the actual size and savings and if refunding is feasible at that time.

- An important issue confronting the City is how to meet the infrastructure needs of the City and Schools without exceeding our debt per capita limit of \$2,400. Also, if the limit is to be raised, what level would be regarded as financially prudent to protect our bond rating?
- Projected Debt** - The total outstanding debt for the City is projected to be \$1.2 billion by June 30, 2011, as summarized in the table.

Projected Outstanding Debt As of June 30, 2011		
Purpose	Amount	Percent
Schools	\$ 318,828,232	26.0%
General Government	718,541,704	58.7%
Utilities	187,926,099	15.3%
Total	\$ 1,225,296,035	100.0%

- Legal Debt Limit** - According to State statute, the City's legal debt margin for general obligation debt is limited to 10% of the assessed value of real property. Revenue bonds, such as those for utilities are not subject to the State limit. Historically, the City's outstanding debt has represented only a fraction of the legal debt limit. For FY 2010-11, the City's assessed value of real property is estimated at \$52.6 billion. By the end of the fiscal year, the City's projected debt amount will only be 2.0% of the total assessed value.
- Debt Service by Purpose** - The table below illustrates the debt service by functional area. The utility amounts include both Water and Sewer, and Storm Water debt. The general government amount includes all other City debt and the Agricultural Reserve Program debt.

Summary of Debt Service by Purpose			
Purpose	FY 2009-10 Adjusted	FY 2010-11 Budget	% Change
Schools	\$ 44,183,674	\$ 43,859,978	-0.7%
General Government*	82,574,053	84,448,405	2.3%
Utility	19,004,240	18,895,039	-0.6%
Total	\$ 145,761,967	\$ 147,203,422	1.0%

* Does not include a \$647,466 Reserve for Recreation Centers

- Debt Service by Fund** - Debt Service costs appear in three individual funds. The total amount for FY 2010-11 is shown in the following table.

Summary of Debt Service by Fund			
Fund	FY 2009-10 Adjusted	FY 2010-11 Budget	% Change
General Debt*	\$ 127,361,951	\$ 128,803,406	1.1%
Water and Sewer	16,389,014	16,389,014	0.0%
Storm Water	2,011,002	2,011,002	0.0%
Total	\$ 145,761,967	\$ 147,203,422	1.0%

* Does not include a \$647,466 Reserve for Recreation Centers

Council Amendment

On May 11, 2010, City Council voted to rescind the proposed tax rate increase for real estate. A portion of that increase as well as funding originally dedicated to renovation of the existing recreation centers was included in the Proposed Operating Budget to fund a reserve for renovations to the Kempsville and Bow Creek Recreation Centers. The reserve has been reduced by \$2,599,500. Also, this budget includes \$19,486,000 of Public Facility Revenue Bonds for the construction of project #4-071 Williams Farm Community Recreation Center.

Debt Service - Departmental Resource Summary

	FY 2009 Actual	FY 2010 Adjusted	FY 2011 Adopted	Variance from FY 2010
<u>Program Summary</u>				
<u>302 General Debt Fund</u>				
<u>Expenditures</u>				
Debt Service	121,696,175	128,009,417	129,450,872	1,441,455
Total Expenditures	<u>121,696,175</u>	<u>128,009,417</u>	<u>129,450,872</u>	<u>1,441,455</u>
<u>Revenues</u>				
Debt Service	126,350,067	128,009,417	129,450,872	1,441,455
Total Revenues	<u>126,350,067</u>	<u>128,009,417</u>	<u>129,450,872</u>	<u>1,441,455</u>
General City Support	<u>(4,653,892)</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Total Department Expenditure	 121,696,175	 128,009,417	 129,450,872	 1,441,455
Total Department Revenue	<u>126,350,067</u>	<u>128,009,417</u>	<u>129,450,872</u>	<u>1,441,455</u>
Total General City Support	<u>(4,653,892)</u>	<u>0</u>	<u>0</u>	<u>0</u>
