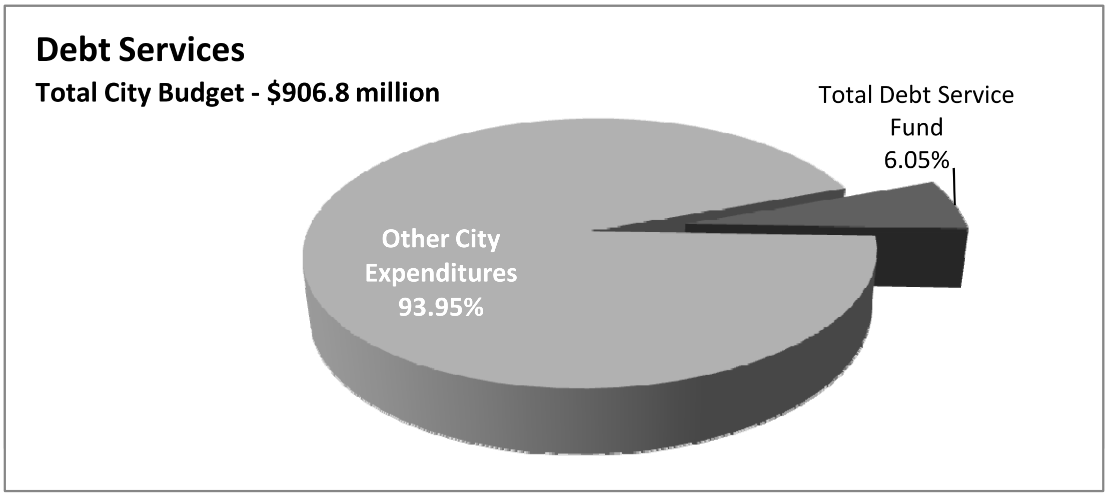
Debt Services

Summary

This function is separated because debt costs apply to all areas of the budget and to avoid overstating the cost of any one section.

Budget by Department	FY 09-10 Actual	FY 10-11 Budget	FY 11-12 Estimate	Change from prior year
General Government	16,976,347	18,082,485	18,678,126	3.3%
School Bonds & Literary Loans	34,657,120	36,417,276	36,191,157	-0.6%
Total Debt Service Fund	**51,633,467**	**54,499,761**	**54,869,283**	**0.7%**

General Government includes Tax Increment Financing Districts



Budgeted Resources:	**2009-10 Actual**	**2010-11 Budget**	**FY11-12 Estimate**	**Change from prior year**
Use of Money and Property	740,405	613,561	254,889	-58.5%
Revenue from the Commonwealth	221,933	216,439	216,439	0.0%
Transfer from:				
General Fund	37,475,581	35,548,571	31,365,708	-11.8%
City Lock Box	2,942,650	4,631,168	4,689,240	1.3%
less excess prepayments (overestimates) from prior years			(1,091,664)	
School Lock Box	7,373,025	10,777,530	11,583,881	7.5%
less excess prepayments (overestimates) from prior years			(796,508)	
Conference Center	1,000,000	1,000,000	1,000,000	0.0%
Open Space	64,430	64,430	64,430	0.0%
Greenbrier TIF	967,782	1,001,486	1,543,790	54.1%
South Norfolk TIF	26,325	-	724,694	100.0%
Other funding resources	2,865,882	646,576	-	-100.0%
Use of (Contribution to) Fund Balance	(2,044,546)		5,314,384	
	51,633,467	**54,499,761**	**54,869,283**	**0.7%**

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Description:

The Operating Budget includes the funding required for the City's current year payment of principal and interest (debt service) on outstanding debt. This does not include the debt service of Enterprise funds such as Public Utilities or the Chesapeake Expressway.

Budget by Program	FY 09-10 Actual	FY 10-11 Budget	FY 11-12 Estimate	Change from prior year
Principal	33,853,556	35,621,510	36,309,877	1.9%
Interest	17,665,646	18,823,251	18,504,406	-1.7%
Other Debt Expenses	114,265	55,000	55,000	0.0%
Debt Service-General Government and Schools	**51,633,467**	**54,499,761**	**54,869,283**	**0.7%**

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.
- 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.
- 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.
- Use lease-purchase financing cautiously with the goal of financing purchases greater than $20,000.
- 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.

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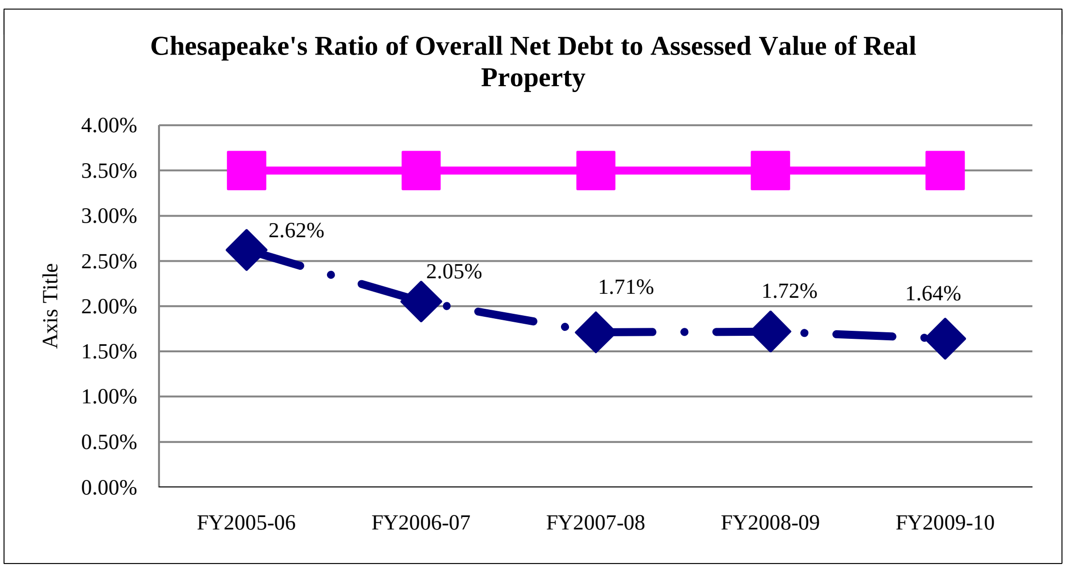
Debt Management Policies continued

- 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
- 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 long term financing.)
  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.



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.

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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, 2010. 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, 2010, the City may incur an additional $2,158,734,096 in debt without exceeding its legal debt limit.

Assessed Value of taxable real estate: as of June 30, 2010		$25,479,133,480
Legal debt limit of 10% of assessed value:		$2,547,913,348
Amount of debt applicable to legal debt limit:		
Total Bonded Debt	$538,107,791	
Less: Self-Supporting Debt not chargeable to debt limit	(110,640,000)	
Less: Amounts available for debt service	(38,288,539)	
Total Debt Applicable to Legal Debt Limit		$389,179,252
Legal Debt Margin for Creation of Additional Indebtedness:		$2,158,734,096

Notes:
*Self-Supporting Debt includes Revenue Bonds and Double Barrel Bonds.

Source: Data in this table are from the City's Comprehensive Annual Financial Report-June 30, 2010