

City of Hampton, Virginia Credit Profile Review Presentation to City Council

January 27, 2010

**presented by
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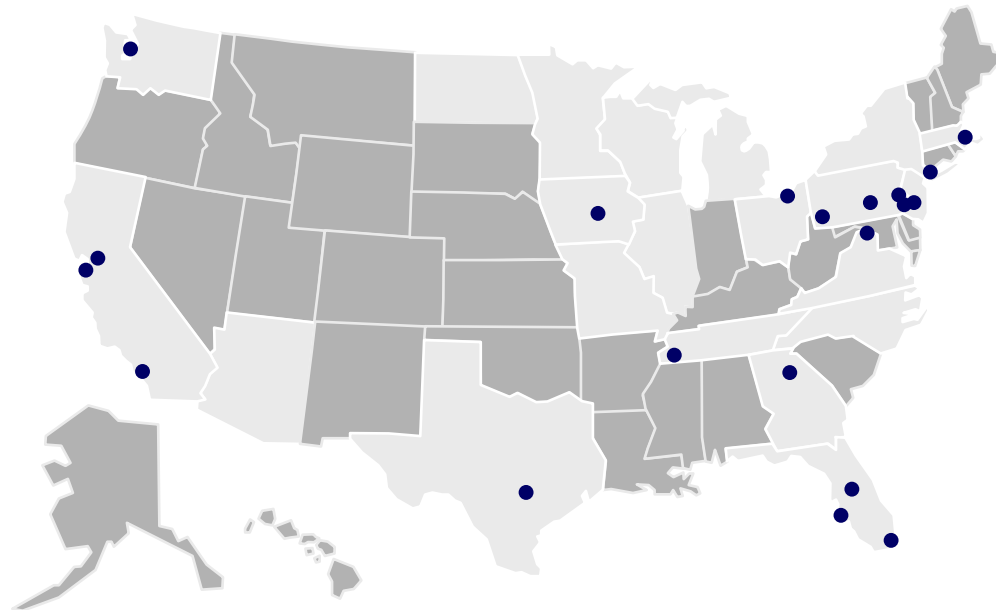


PFM Overview



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The firm was founded in 1975 on the principle of providing sound ***independent*** financial advice to state and local governments. Today we are the nation's leading advisory firm with 32 offices strategically located throughout the United States.



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Fairfax County Water Authority



City of Hampton



Hampton Roads Planning District Commission



Hampton Roads Sanitation District



City of Newport News



City of Norfolk



Prince William County



City of Roanoke



Stafford County



Virginia Port Authority



Virginia Treasury Board State Non-Arbitrage Program

2009 Year End Overall Long-Term Municipal New Issues

National Municipal Financial Advisory Ranking

Source: The Bond Buyer/Securities Data Company

	# transactions	dollars in millions
PFM	829	51,502.8
Public Resources Advisory Group	172	42,489.0
FirstSouthwest	581	22,873.1
Kaufman, Hall & Associates Inc.	129	11,120.2
RBC Capital Markets	178	9,539.8
A.C. Advisory Inc.	44	8,096.1
Govt. Development Bank for Puerto Rico	9	8,008.6
Ponder & Co.	84	7,411.1
Montague, DeRose & Associates LLC	32	6,455.3
Kelling, Northcross & Nobriga	72	6,128.7

2009 First Half Virginia Overall Long-Term Municipal New Issues

National Municipal Financial Advisory Ranking

Source: The Bond Buyer/Securities Data Company

	# transactions	dollars in millions
Public Resources Advisory Group	7	871.5
Davenport & Company LLC	11	790.2
PFM	7	564.4
Ponder & Co.	2	544.6
BB&T Capital Markets	5	474.2
First Southwest Company	2	381.6
Prager, Sealy & Co LLC	2	250.0
Strategic Solutions Center	3	216.1
Morgan, Keegan & Co. Inc.	4	200.1
Public Advisory Corporation	2	121.5

Comprehensive Services



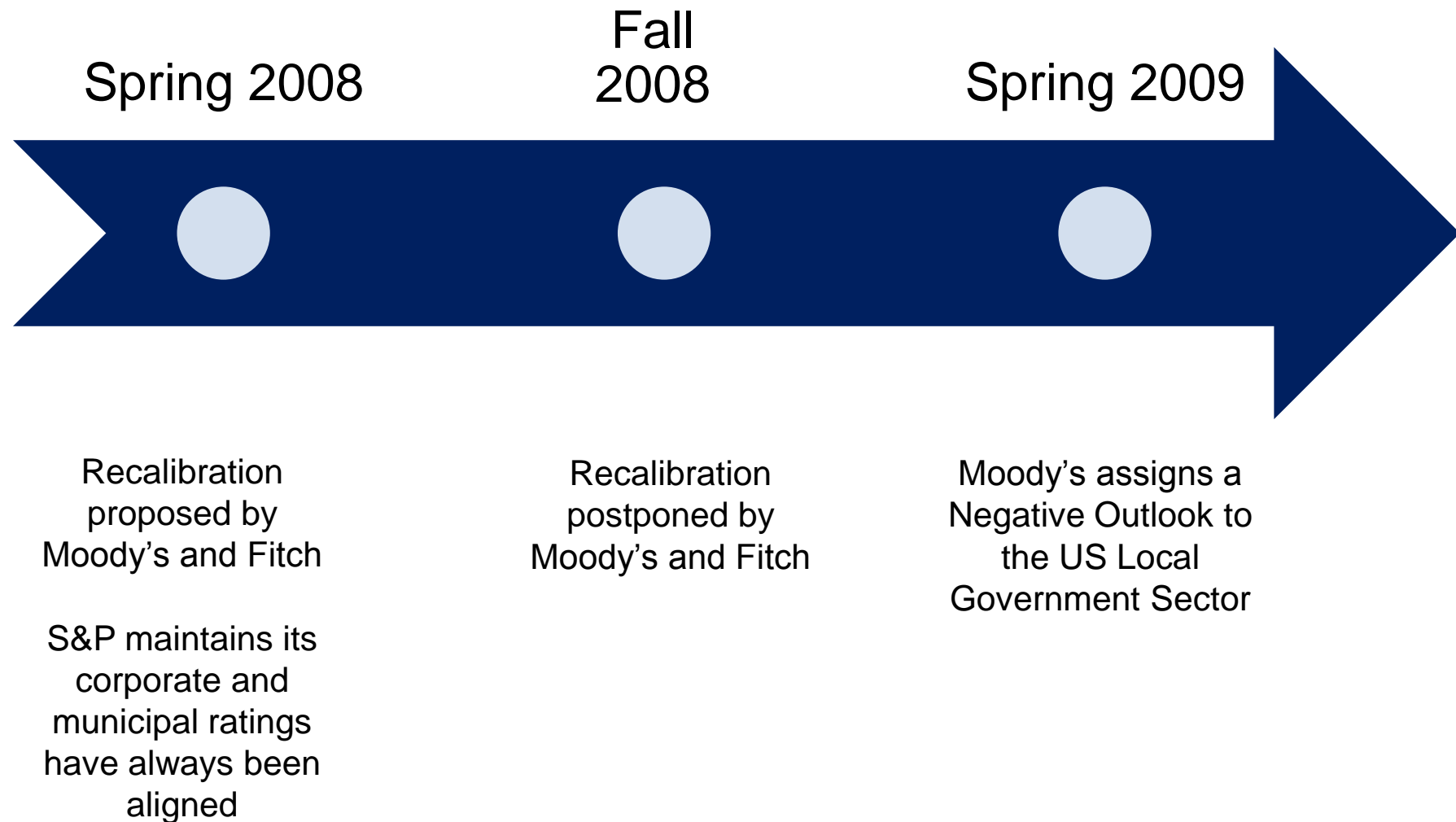
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PFM offers its clients a complete scope of services to meet all of their financial needs.

Our only business is to provide expert advice to our clients

- (i) infrastructure finance**
related to capital planning and debt management
- (ii) investment advice and portfolio management**
for bond proceeds and working capital
- (iii) strategic consulting**
relating to operating and capital budgets
- (iv) investment consulting**
structuring simple and fundamentally sound asset management strategies
- (v) structured products**
developing innovative financing techniques and investment products

Changes at Rating Agencies



Impact of Rating Agency Changes

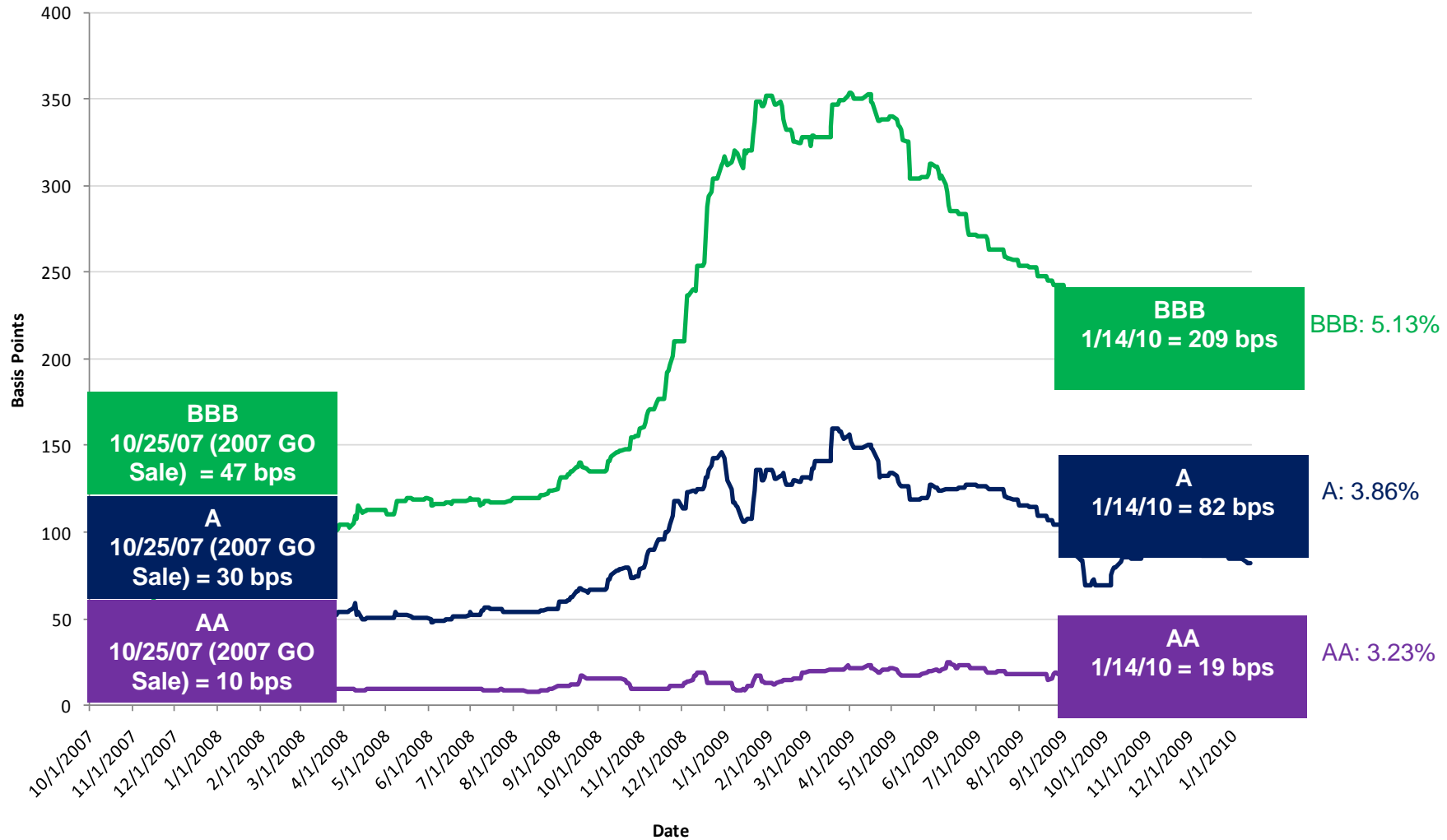


- More difficult than ever to predict what rating agencies think
- External scrutiny of ratings process by Congress and others could continue to drive changes to rating agency methodologies and internal processes
- Value of three ratings should be considered and monitored over time
- Investors still value bonds based on relative credit risk
- Potential for increased due diligence by investors
- High ratings are of increased importance, providing access to capital and low borrowing costs in an environment where buyers are focused on credit risk

Changes in Credit Spreads



General Obligation Credit Spreads vs. Triple-A Benchmark
10-Year Maturity (3.04%)



Source: Thomson Municipal Market Monitor, data as of January 14, 2010

Hampton's Current Ratings



Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2 (stable outlook)	AA (stable outlook)	AA (stable outlook)
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A1	A-	A-

Rating Agency Views



Moody's

- "...maintenance of the Aa2 rating is dependent upon maintenance of a strong financial position."
- "...Moody's believes City's solid and stable management will continue to show prudent oversight of budget, debt and capital planning."
- "Use of reserves that results in diminishment of balances relative to budget could impact credit quality"
- "...High debt burden remains manageable with above average payout...Increases in debt burden beyond the current level could impact credit quality"
- Source: Moody's report dated Oct 23, 2007

S&P

- "Strong local economy with access to the deep and diverse Hampton Roads regional economy"
- "Strong financial management and conservative budgeting have contributed to the city's favorable financial position."
- "High debt burden on both a per capita and debt to market basis"
- Source: S&P report dated Oct 22, 2007

Fitch

- "The City continues to diversify and has benefited from sizable private investment...sparking a renaissance for both residential and commercial tax bases."
- "Strong financial management guided by prudent fiscal and debt affordability guidelines."
- "Debt ...although manageable, are above average for this rating category and are expected to remain level..."
- Source: Fitch report dated Oct 22, 2007

Trends Since Last Rating Review in October 2007



- Growth in taxable assessed value from FY2006 to FY2009, now moderating significantly
- Increase in General Fund balance from FY2006 to FY2009, now decelerating
 - Slight downward trend in undesignated General Fund balance as a percentage of General Fund revenues
 - \$200,000 General Fund surplus in FY2009 versus \$15.2 million surplus in FY2008
- Increase in debt burden as a percent of assessed value, spurred by moderating tax base growth
- Increase in debt service compared to expenditures, spurred by contracting budget expenditures

Summary of Peer Group Comparison



Hampton Outperforms Peer Group

- Total General Fund Balance as a % of General Fund Revenues
- Unreserved General Fund Balance as a % of General Fund Revenues
- Unreserved, Undesignated General Fund Balance as a % of General Fund Revenues

Hampton Consistent with Peer Group

- Debt Outstanding as a % of Assessed Value
- Debt Per Capita

Hampton Underperforms Peer Group

- None

Peer Group	Ratings
Hampton, VA	Aa2/AA/AA
Virginia Beach, VA	Aa1/AAA/AA+
Chesapeake, VA	Aa2/AA+/NR
Richmond, VA	Aa3/AA/AA
Norfolk, VA	A1/AA/AA
Newport News, VA	Aa2/AA/NR
Suffolk, VA	Aa3/AA/AA-
Roanoke, VA	Aa3/AA/AA