Davenport & Company

Debt Capacity and Affordability Analysis

City of Hampton's Multi-Year Capital Improvement Program

FY 2016 – FY 2020

January 20, 2016

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Background

- In 2015, Davenport & Company LLC, as Financial Advisor to the City of Hampton (the "City"), developed a comprehensive Strategic Multi-year Plan for the City's $317 million(1) Capital Improvement Program ("CIP") which covered FY 2014 – FY 2020. Key aspects of the Plan included:
  - Continued compliance with all of the City's Financial Policy Guidelines;
  - A Strategic Refinancing with the 2015 G.O. Bond issue that provided targeted cash flow savings through FY 2018 with considerable present value benefits (i.e. 8.7% present value savings);
  - Planned G.O. Bond issuances in a manner that minimize budgetary cash flow pressures and debt affordability concerns until debt service declines in FY 2019;
    - The first issuance in the Multi-year plan (2015 G.O. Bonds) provided bond financing for certain CIP Spending Needs from FY 2014 - FY 2016.
  - Reduction or elimination of "advance funding" of CIP spending via Planned G.O. debt issuances; and
  - Maintenance and improvement over time of the City's very strong "Aa1/AA+/AA+" credit ratings.

- In anticipation of the FY 2017 Budget process and CIP planning process, Davenport has been tasked with developing an updated Debt Capacity and Debt Affordability Analysis taking into account the City's most recent $211.3 million(1) FY 2016 – FY 2020 CIP.
  - **Debt Capacity** is the amount of planned debt that could be issued by the City without violating the City's Debt Management Policies.
  - **Debt Affordability** is an assessment of the projected cash flow impact of planned debt issuances taking into account the City's existing budget for debt service and any future decline in the City's existing debt service structure.

(1) Debt and other sources of funds.

Goals & Objectives.

- Incorporate the City's most recent $211.3 million[(1)] FY 2016 – FY 2020 CIP which includes approximately $77.7 million of G.O. Bond funding sources as follows:
  - The City's most recent 2015 G.O. Bonds providing approximately $25.8 million of CIP Spending;
  - The City's planned 2016 G.O. Bonds anticipated to fund approximately $15.4 million of CIP Spending; and
  - Planned future G.O. Bond issuances estimated to fund approximately $36.5 million of CIP Spending;

- Deliver an updated **Debt Capacity Analysis** that:
  - Evaluates how much remaining Debt Capacity is available within the City's existing Debt Management Policies over:
    - The next five years through FY 2021; and
    - The subsequent five years from FY 2022 through FY 2026.

- Provide an updated **Debt Affordability Analysis** that estimates how much debt can be issued through FY 2021 and in the subsequent five year period through FY 2026 before new sources of revenues are needed.
  - In addition, provide a sensitivity scenario showing how much additional debt may be issued assuming potential new revenues could be allocated to debt service.

- Develop a preliminary time schedule for the issuance of its 2016 G.O. Bonds which will fund the City's FY 2017 CIP needs.

- Present an update on potential refinancing opportunities that may generate cash flow savings for the City.

- Discuss timetable for updating Financial Policy Guidelines and Best Practices.

(1) Debt and other sources of funds.

Debt Policy Guidelines

- The City of Hampton has conservative and sound Debt Management Policies that have served the City well and which have enabled the City to achieve and maintain its very strong "Aa1/AA+AA+" credit ratings.

- The Debt Management Polices govern the City's **Debt Capacity** as it relates to G.O. Bond Financing of the City's CIP Needs:

- Our analysis examines the impact of the City's planned $77.7 million[1] of G.O. Bonds in the FY 2016 – FY 2021 CIP on the City's Debt Management Policies outlined below:

Policy 1:	G.O. Debt to Assessed Valuation of Real Estate (not to Exceed 3%).
Policy 2:	Total Direct/ Indirect/ Overlapping Debt to Total Assessed Valuation (not to exceed 4.5%).
Policy 3:	Overlapping (Special Purpose) Debt not to exceed 1% of Total Assessed Valuation.
Policy 4:	Debt Service (Direct and Indirect) shall not exceed 10% of Total Expenditures (City and Schools).
Policy 5:	The 10-Year Payout Ratio shall not be less than 60%.

(1) Includes $25.8 million already issued in the 2015 G.O. Bonds and $51.9 million of planned future issues.

Debt Capacity and Debt Affordability Scenarios Analyzed

- Davenport's Updated **Debt Capacity and Debt Affordability Analysis**, includes the following three scenarios for which we have projected debt capacity and affordability over the following time periods:
  - Next five years: FY 2016 - FY 2021; and
  - Subsequent five years: FY 2022 - FY 2026.

	Description
Scenario 1	Assumes the City's current level of debt service, currently budgeted at $33.5 million, remains constant.
Scenario 2	Assumes growth in the City's General Fund Budget for debt service increases at the same rate as the Total Budget beginning in FY 2018 • Total Budget and Debt Service Budget Growth Rates assume 0.6% per year from FY 2018 – FY 2020 and 1% per year thereafter.
Scenario 3	Assumes ¼ of 1% growth in the City's General Property and Other Local Taxes (or $575,000+ of new revenues) is allocated to General Fund Budget for debt service each year for five years beginning in FY 2019. • Each 1% growth in the City's General Property and Other Local Taxes translates into approximately $2.3 million. • ¼ of 1% growth in the City's General Property and Other Local Taxes equates to approximately $575,000, which grows over the five years beginning in FY 2019.

Key CIP Assumptions

- Davenport's Updated Debt Capacity and Debt Affordability Analysis is based on the City's most recent $211.3 million[(1)] FY 2016 – FY 2020 CIP.
  - Approximately $77.7 million is anticipated to be funded with G.O. Bonds over this time period as follows:

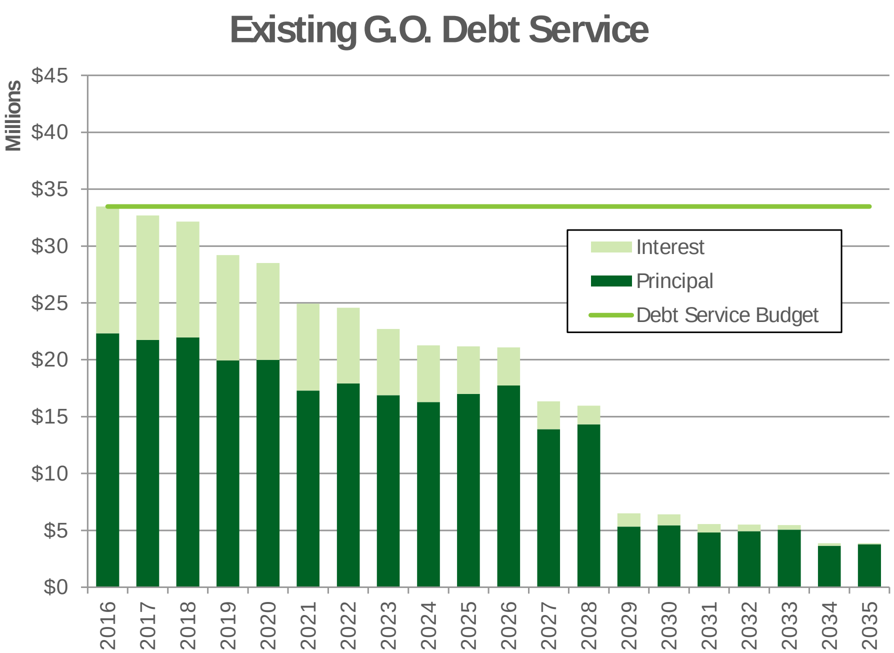
Fiscal Year	Planned G.O. Bonds (in $thousands)	
2016	$25,753	• Funded with 2015 G.O. Bonds
2017	15,384	• Planned funding from 2016 G.O. Bonds
2018	10,888	• Future Bond issues ($36.5 million) - Exact timing to be determined
2019	9,388	
2020	16,240	
Total	**$77,653**	

  - The 2015 G.O. Bond Issue funded $25.8 million of FY 2016 CIP Spending;
  - The anticipated 2016 G.O. Bond issue totals $15.4 million and will fund FY 2017 CIP Spending; and
  - The balance of G.O. Bond issuance for the Planned Years (FY 2018 through FY 2020 CIP Spending) approximates $36.5 million.

(1) Debt and other sources of funds.

Existing General Obligation Debt Service

- Shown below is the City's Existing General Obligation (G.O.) Debt Service BEFORE the planned $77.7 million of Bond Funded CIP Spending (FY 2016 through FY 2020 needs).
  – This debt service is related to the City's G.O. Bonds which have been issued for general CIP needs and excludes G.O. Bonds related to the Steam Plant.
  – The City's budget for this debt service approximates $33.5 million as of FY 2016.



Fiscal Year	Principal	Interest	Total
2016	22,336,163	11,150,267	33,486,430
2017	21,738,152	10,959,076	32,697,228
2018	21,973,166	10,181,521	32,154,687
2019	19,943,024	9,272,941	29,215,965
2020	19,976,064	8,537,844	28,513,908
2021	17,288,787	7,648,641	24,937,428
2022	17,909,378	6,668,492	24,577,870
2023	16,881,951	5,830,983	22,712,934
2024	16,275,940	4,983,316	21,259,256
2025	16,989,453	4,180,049	21,169,502
2026	17,742,492	3,339,701	21,082,193
2027	13,885,000	2,458,931	16,343,931
2028	14,330,000	1,634,964	15,964,964
2029	5,320,000	1,175,261	6,495,261
2030	5,450,000	955,780	6,405,780
2031	4,800,000	754,675	5,554,675
2032	4,920,000	588,113	5,508,113
2033	5,050,000	410,863	5,460,863
2034	3,635,000	224,100	3,859,100
2035	3,785,000	75,700	3,860,700

Note: Excludes Convention Center and Overlapping (Special Purpose) CDA Indebtedness.

Preliminary Results: Debt Capacity

- The Table below summarizes the preliminary results based on the following scenarios

	Scenario 1	**Scenario 2**	**Scenario 3**
Bond Funded CIP Spending[1]:	$77.7 million	No Change	No Change
Additional Revenues required to pay debt service for the planned Bond Funded CIP Spending:	None Assumes no growth in $33.5 million debt service budget.	No Change	No Change
Compliance with All Debt Management Policies:	Yes	No Change	No Change
Additional Debt Capacity: FY 2016 – FY 2021 FY 2022 – FY 2026 TOTAL	 $121.4 million $113.1 million $234.5 million	No Change	No Change

- Key Observations
  - Policy 1 (G.O. Debt shall not exceed 3% of Assessed Valuation of Real Estate) is the governing policy.
  - There is no difference between the three scenarios in the City's Additional Debt Capacity since the Key CIP and Assessed Valuation Assumptions are the same.
  - Issuing additional debt up to the Remaining Debt Capacity would require new ongoing revenues for repayment and would result in the City being at or near its Debt Policy limits.

(1) Includes $25.8 million already issued in the 2015 G.O. Bonds and $51.9 million of planned future issues.

Preliminary Results: Debt Affordability

- The Table below summarizes the preliminary results based on the following scenarios

	Scenario 1	Scenario 2	Scenario 3
Bond Funded CIP Spending[1]	$77.7 million	No Change	No Change
Additional Revenues Budgeted toward G.O. Debt Service:	None Assumes no growth in $33.5 million debt service budget.	Assumes growth in the General Fund Budget for debt service of 0.6% per year from FY 2018 – FY 2020 and 1% per year thereafter.	Assumes ¼ of 1% growth in the City's General Property and Other Local Taxes (or $575,000+ of new revenues) is allocated to General Fund Budget for debt service each year for five years beginning in FY 2019.
Compliance with All Debt Management Policies:	Yes	Yes	Yes
Additional Debt Affordability:			
FY 2019 – FY 2021	$55.1 million	$65.1 million	$79.1 million
FY 2022 – FY 2026	$52.4 million	$75.8 million	$69.0 million
TOTAL	$107.5 million	$140.9 million	$148.1 million

- Key Observations
  - Even with the issuance of the additional $33 to $41 million in Scenarios 2 and 3 above, the City's Debt Ratios would remain healthy and the City would be in compliance with all Debt Management Policies.

(1) Includes $25.8 million already issued in the 2015 G.O. Bonds and $51.9 million of planned future issues.

Policy Compliance

- Based on the current CIP assumptions, the City is projected to remain in compliance with all of its Debt Management Policies through the five year CIP planning period.

	Compliance After 2016 G.O. Bonds and All Future CIP Debt	Projected FY 2017 Ratio	Projected FY 2021 Ratio
Policy 1: G.O. Debt to Assessed Valuation of Real Estate (not to Exceed 3%).	Yes	2.5%	1.9%
Policy 2: Total Direct/Indirect/Overlapping Debt to Total Assessed Valuation (not to exceed 4.5%).	Yes	3.8%	2.9%
Policy 3: Overlapping (Special Purpose) Debt not to exceed 1% of Total Assessed Valuation.	Yes	0.9%	0.7%
Policy 4: Debt Service (Direct and Indirect) shall not exceed 10% of Total Expenditures (City and Schools).	Yes	8.7%	7.6%
Policy 5: The 10-Year Payout Ratio shall not be less than 60%.	Yes	72.9%	77.1%

- Based on the City's most recent \$211.3 million(1) FY 2016 – FY 2020 CIP which includes approximately \$77.7 million of G.O. Bond funding sources, the City debt ratios are projected to remain strong.

(1) Debt and other sources of funds.

Potential Refunding Opportunity

- The City's 2009 Motorola Lease may be a potential refunding opportunity as shown below:

Lease Outstanding:	**$8,290,093**
Existing Interest Rate:	4.03%
Refunding Lease Issued:	$6,815,000 Note this is downsized by the March 1, 2016 principal payment
Assumed Interest Rate:	1.75%
Total Savings [1]:	$339,000
Avg. Annual Savings (FY 2017-2020) [1]:	$84,750
PV Savings % of Amount Refunded [1]:	3.95%

Estimated Debt Service Savings [1]

Fiscal Year	Prior 2009 Lease	Refunding Lease	Savings
2017	1,864,288	1,776,250	88,038
2018	1,864,288	1,780,300	83,988
2019	1,864,288	1,780,726	83,562
2020	1,864,288	1,780,626	83,662
Total	7,457,152	7,117,902	339,250

(1) Preliminary, subject to change. Final Maturity is 3/1/2020. The refinancing does not extend Final Maturity of original lease.

- Key Observations
  – As the Lease debt service is paid from the CIP Budget, any potential savings may be redirected to other CIP needs.
- Next Steps
  – January 20 (Today) – City Council authorizes staff/Davenport to proceed.
  – January 22 (Friday) – Mail Request for Proposals to banks.
  – February 16 – Results due to Davenport and City.
  – February 24 – City Council Meeting – Present results and make recommendation to proceed with refinancing.
    - Council approves necessary actions to allow closing in early March.

Proposed Financing Strategy and Calendar – 2016 Bonds

- The multi-year CIP contemplates an approximate $15.4 million New Money borrowing for FY 2017 capital improvements.

- As such, the City should consider closing on any financing on or before July 1, 2016 (the beginning of FY 2017).

- Traditionally, the City has embarked on a "public sale" to obtain the necessary funding. This includes a formal rating process, development of an offering circular (Official Statement), and the cost of underwriting services.

- Davenport, in our capacity as Financial Advisor to other highly rated local governments in Virginia, has historically examined Direct Bank loan financing alternatives when the size of a transaction is in the $15 million range or less.
  - However, in today's credit environment banks are loathe to commit to a fixed rate for 20 years.

- Davenport proposes some initial research with the local, regional and national banks to determine their willingness to lock in a 20 year permanent Direct Bank loan financing, particularly interest rates are at multi-generational lows.
  - Typically, the advantage to a Direct Bank loan financing is that the City would avoid having to obtain formal credit ratings.
  - However, under the new regulatory environment the National Credit Rating Agencies are requiring formal reviews of cities of Hampton's size and issuance frequency on a nearly annual basis.

- Based on our research, we will return with a more definitive time table for implementing the anticipated New Money borrowing for FY 2017 capital improvements.

Conclusion

1. The City has managed its debt issuances in a fiscally conservative manner under sound Financial Policy Guidelines.

2. From a Debt Capacity perspective, the City has:
   - Upwards of $121.4 million of Additional Debt Capacity over the next five years through FY 2021; and
   - Another $113.1 million of Additional Debt Capacity over the subsequent five years from FY 2022 through FY 2026.
   - ***HOWEVER, issuing debt at these levels would increase the City's debt ratios to at or near Debt Policy limits and require new revenues for debt service.***

3. From a Debt Affordability perspective and without any additional revenues the City can issue:
   - Approximately $55.1 million over the FY 2019 through FY 2021; and
   - Another $52.4 million over the FY 2022 through FY 2026 time frame
   - Depending on growth assumptions for potential New Revenues used in the enclosed analysis, the City's affordability may increase by upwards of $33.4 to $40.6 million under Scenarios 2 and 3, respectively.

4. Move forward as soon as practical with the process for the 2016 G.O. Bond transaction and Lease refinancing process.

Debt Capacity/Affordability Scenarios

	Description
Scenario 1	Assumes the City's current level of debt service, currently budgeted at $33.5 million, remains constant.
Scenario 2	Assumes growth in the City's General Fund Budget for debt service increases at the same rate as the Total Budget beginning in FY 2018 • Total Budget and Debt Service Budget Growth Rates assume 0.6% per year from FY 2018 – FY 2020 and 1% per year thereafter.
Scenario 3	Assumes ¼ of 1% growth in the City's General Property and Other Local Taxes (or $575,000+ of new revenues) is allocated to General Fund Budget for debt service each year for five years beginning in FY 2019. • Each 1% growth in the City's General Property and Other Local Taxes translates into approximately $2.3 million. • ¼ of 1% growth in the City's General Property and Other Local Taxes equates to approximately $575,000, which grows over the five years beginning in FY 2019.

Scenario 1: Preliminary Results – Debt Capacity

Remaining Debt Capacity

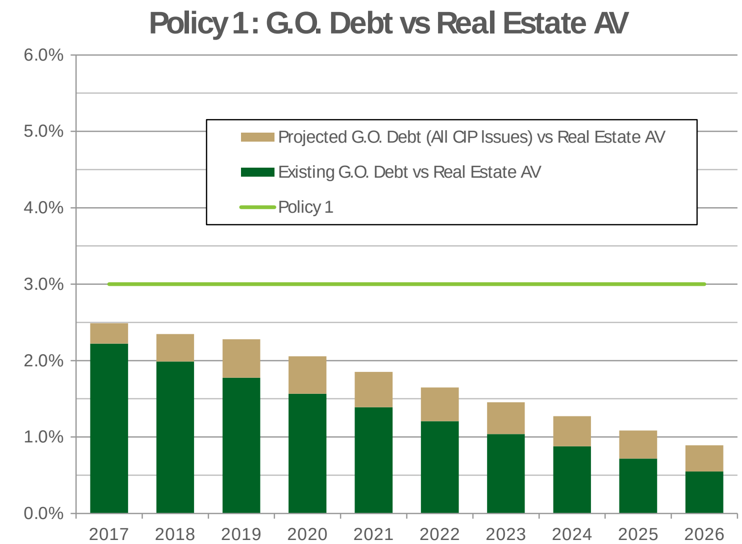
- Next Five Years (From FY 2017 through FY 2021): the City has projected **Debt Capacity of $121.4** million ***AFTER all CIP Debt Issues are*** i

Fiscal Year	Incremental Additional Debt Capacity	Governing Policy
2017	51,865,000	Policy 1: which limits G.O. Debt to 3% of Assessed Valuation of Real Estate.
2018	15,185,000	
2019	7,635,000	
2020	24,305,000	
2021	22,380,000	
5 Yr Total	**121,370,000**	
2022-26	**113,155,000**	
10 Yr Total	**234,525,000**	

- Subsequent Five Years (From FY 2022 through FY 2026): The City is projected to have another $113.2 million in additional Debt Capacity.

- It is important to note that the if the City were to issue the above amounts of debt, the City would be near or at its governing policy limits.
  - In addition, issuing these levels of debt would exceed current Debt Affordability that is built into the City's existing Budget.

Governing Policy



Assumes 1% growth in RE Valuation

Fiscal Year	Existing G.O. Debt vs Real Estate AV	Projected G.O. Debt (All CIP Issues) vs Real Estate AV	Total Debt vs Real Estate AV	Policy 1	Incremental Additional Debt Capacity
2017	2.2%	0.3%	2.5%	3.0%	51,865,000
2018	2.0%	0.4%	2.3%	3.0%	15,185,000
2019	1.8%	0.5%	2.3%	3.0%	7,635,000
2020	1.6%	0.5%	2.1%	3.0%	24,305,000
2021	**1.4%**	**0.5%**	**1.9%**	**3.0%**	**22,380,000**
2022	1.2%	0.4%	1.6%	3.0%	23,120,000
2023	1.0%	0.4%	1.5%	3.0%	22,220,000
2024	0.9%	0.4%	1.3%	3.0%	21,740,000
2025	0.7%	0.4%	1.1%	3.0%	22,590,000
2026	**0.5%**	**0.3%**	**0.9%**	**3.0%**	**23,485,000**
TOTAL Through FY 2026					**234,525,000**

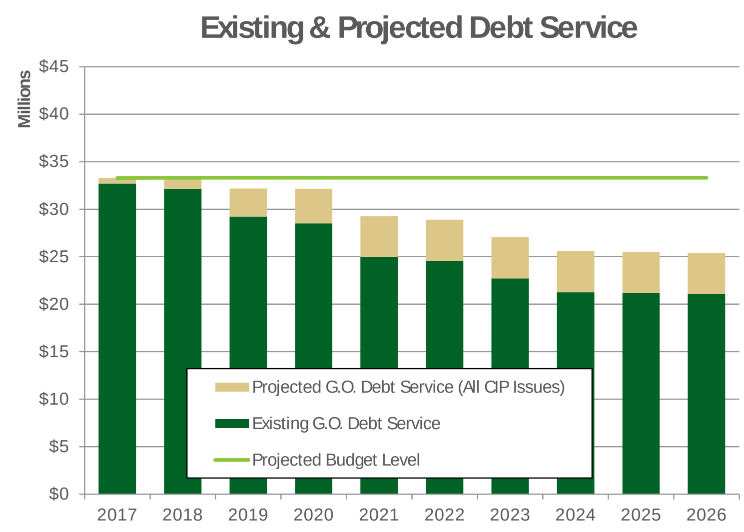
Scenario 1: Preliminary Results – Debt Affordability

Remaining Debt Affordability

- Over the next five years (from FY 2017 through FY 2021), the City has projected **Debt Affordability of $55.1 million based on the current $33.3 million budget level for G.O. Debt Service.**

Fiscal Year	Incremental Debt Affordability	Debt Service Budget Assumption	New Revenues Allocated to Debt Service Budget
2017	0	33,325,000	0
2018	0	33,325,000	0
2019	15,580,000	33,325,000	0
2020	175,000	33,325,000	0
2021	39,370,000	33,325,000	0
5 Yr Total	**55,125,000**		
2022-26	**52,395,000**	33,325,000 [1]	
10 Yr Total	**107,520,000**		

(1) Debt Service budget per year.



Fiscal Year	Total Existing and Projected G.O. Debt Service	Projected Budget Level	Debt Service Freed up/ (Revenue Shortfall) vs Budget Level	Incremental Debt Affordability
2017	33,290,993	33,290,993	0	0
2018	33,315,327	33,315,327	0	0
2019	32,168,951	33,315,327	1,146,376	15,580,000
2020	32,156,103	33,315,327	1,159,224	175,000
2021	**29,258,998**	**33,315,327**	**4,056,329**	**39,370,000**
2022	28,899,440	33,315,327	4,415,887	4,890,000
2023	27,034,505	33,315,327	6,280,823	25,345,000
2024	25,580,826	33,315,327	7,734,501	19,755,000
2025	25,491,072	33,315,327	7,824,255	1,220,000
2026	**25,403,763**	**33,315,327**	**7,911,564**	**1,185,000**
TOTAL Through FY 2026				**107,520,000**

- From FY 2022 through FY 2026, the City is projected to have another $52.4 million in additional Debt Affordability based on current budget levels for G.O. Debt Service.
  - It is important to note that the above amounts assume that no additional new revenues are dedicated to debt service.
- If the City issued the above amounts, its debt ratios are projected to approximate FY 2017 levels.

Scenario 2: Preliminary Results – Debt Capacity

Remaining Debt Capacity – No Change vs Scenario 1

- Next Five Years (From FY 2017 through FY 2021): the City has projected **Debt Capacity of $121.4** million ***AFTER all CIP Debt Issues are***

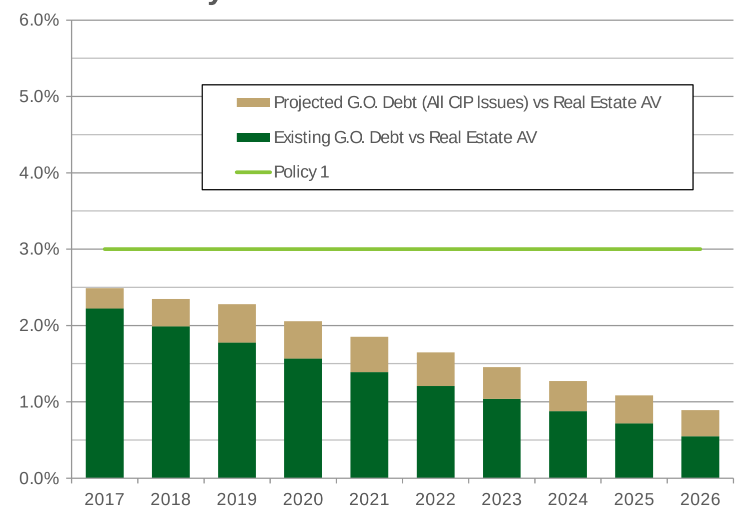
Fiscal Year	Incremental Additional Debt Capacity	Governing Policy
2017	51,865,000	
2018	15,185,000	Policy 1: which limits G.O. Debt to 3% of Assessed Valuation of Real Estate.
2019	7,635,000	
2020	24,305,000	
2021	22,380,000	
5 Yr Total	**121,370,000**	
2022-26	**113,155,000**	
10 Yr Total	**234,525,000**	

- Subsequent Five Years (From FY 2022 through FY 2026): The City is projected to have another $113.2 million in additional Debt Capacity.

- It is important to note that the if the City were to issue the above amounts of debt, the City would be near or at its governing policy limits.
  - In addition, issuing these levels of debt would exceed current Debt Affordability that is built into the City's existing Budget.

Governing Policy

Policy 1: G.O. Debt vs Real Estate AV



Assumes 1% growth in RE Valuation

Fiscal Year	Existing G.O. Debt vs Real Estate AV	Projected G.O. Debt (All CIP Issues) vs Real Estate AV	Total Debt vs Real Estate AV	Policy 1	Incremental Additional Debt Capacity
2017	2.2%	0.3%	2.5%	3.0%	51,865,000
2018	2.0%	0.4%	2.3%	3.0%	15,185,000
2019	1.8%	0.5%	2.3%	3.0%	7,635,000
2020	1.6%	0.5%	2.1%	3.0%	24,305,000
2021	**1.4%**	**0.5%**	**1.9%**	**3.0%**	**22,380,000**
2022	1.2%	0.4%	1.6%	3.0%	23,120,000
2023	1.0%	0.4%	1.5%	3.0%	22,220,000
2024	0.9%	0.4%	1.3%	3.0%	21,740,000
2025	0.7%	0.4%	1.1%	3.0%	22,590,000
2026	**0.5%**	**0.3%**	**0.9%**	**3.0%**	**23,485,000**
TOTAL Through FY 2026					**234,525,000**

Scenario 2: Preliminary Results – Debt Affordability

Remaining Debt Affordability: +$33.5 million Increase vs Scenario 1

- Over the next five years (from FY 2017 through FY 2021), the City has projected **Debt Affordability of $65.1 million based on New Revenues allocated toward G.O. Debt Service beginning in FY 2018.**

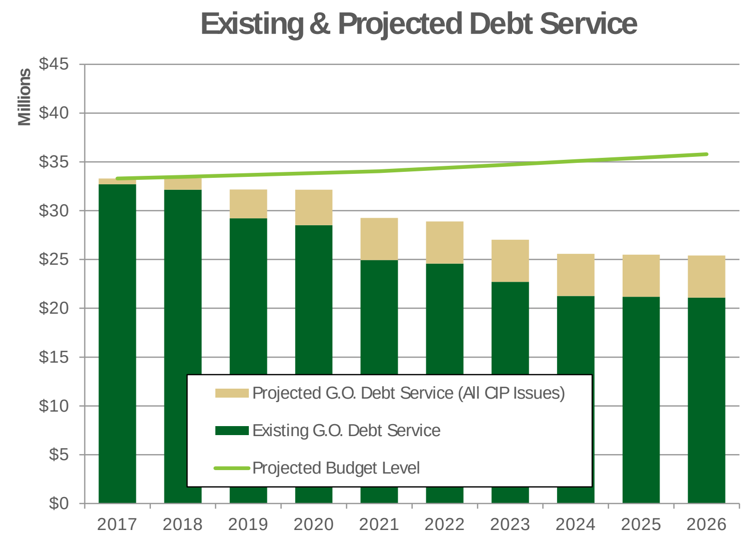
Fiscal Year	Incremental Debt Affordability	Debt Service Budget Assumption	New Revenues Allocated to Debt Service Budget
2017	0	33,300,000	0
2018	0	33,475,000	175,000
2019	20,365,000	33,675,000	200,000
2020	2,770,000	33,850,000	175,000
2021	42,000,000	34,050,000	200,000
5 Yr Total	**65,135,000**		
2022-26	**75,840,000**	Increases	1,548,562 (1)
10 Yr Total	**140,975,000**		**2,298,562** (2)

(1) Cumulative New Revenue growth from FY 2022 through FY 2026

(2) Cumulative New Revenues growth from FY 2018 through FY 2026.

- From FY 2022 through FY 2026, the City is projected to have another $75.8 million in additional Debt Affordability based on New Revenues allocated toward G.O. Debt Service.
  – New Revenues assume City's budget for G.O. Debt Service grows at the same rate as the Total Budget[3].

- If the City issued the above amounts, its debt ratios are projected to approximate FY 2017 levels.



Fiscal Year	Total Existing and Projected G.O. Debt Service	Projected Budget Level	Debt Service Freed up/ (Revenue Shortfall) vs Budget Level	Incremental Debt Affordability
2017	33,290,993	33,290,993	**0**	0
2018	33,315,327	33,478,310	**162,983**	0
2019	32,168,951	33,667,500	**1,498,549**	20,365,000
2020	32,156,103	33,858,582	**1,702,479**	2,770,000
2021	**29,258,998**	**34,051,574**	**4,792,576**	**42,000,000**
2022	28,899,440	34,389,801	**5,490,361**	9,480,000
2023	27,034,505	34,731,411	**7,696,906**	29,990,000
2024	25,580,826	35,076,436	**9,495,610**	24,445,000
2025	25,491,072	35,424,912	**9,933,840**	5,955,000
2026	**25,403,763**	**35,776,872**	**10,373,109**	**5,970,000**
TOTAL Through FY 2026				**140,975,000**

(3) Assumed Growth Rates: 0.6% per year from FY 2018 – FY 2020 and 1% per year thereafter.

Scenario 3: Preliminary Results – Debt Capacity

Remaining Debt Capacity – No Change vs Scenario 1

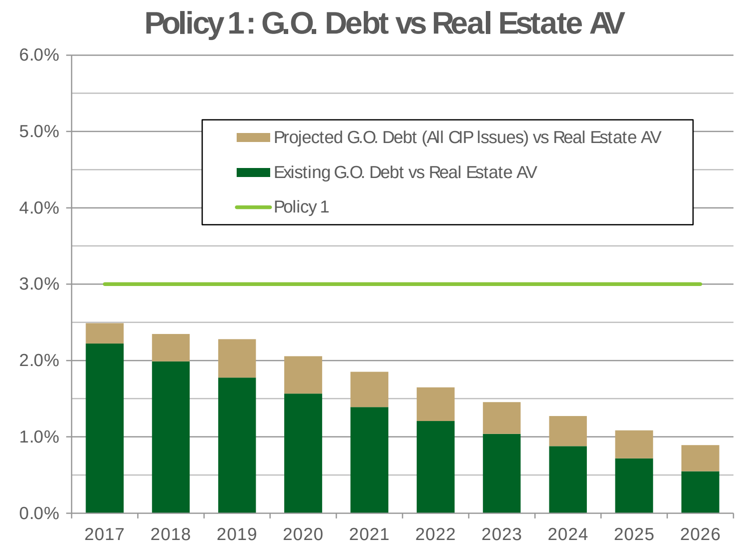
- Next Five Years (From FY 2017 through FY 2021): the City has projected **Debt Capacity of $121.4** million ***AFTER all CIP Debt Issues are factored in.***

Fiscal Year	Incremental Additional Debt Capacity	Governing Policy
2017	51,865,000	Policy 1: which limits G.O. Debt to 3% of Assessed Valuation of Real Estate.
2018	15,185,000	
2019	7,635,000	
2020	24,305,000	
2021	22,380,000	
5 Yr Total	**121,370,000**	
2022-26	**113,155,000**	
10 Yr Total	**234,525,000**	

- Subsequent Five Years (From FY 2022 through FY 2026): The City is projected to have another $113.2 million in additional Debt Capacity.

- It is important to note that the if the City were to issue the above amounts of debt, the City would be near or at its governing policy limits.
  - In addition, issuing these levels of debt would exceed current Debt Affordability that is built into the City's existing Budget.

Governing Policy



Assumes 1% growth in RE Valuation

Fiscal Year	Existing G.O. Debt vs Real Estate AV	Projected G.O. Debt (All CIP Issues) vs Real Estate AV	Total Debt vs Real Estate AV	Policy 1	Incremental Additional Debt Capacity
2017	2.2%	0.3%	2.5%	3.0%	51,865,000
2018	2.0%	0.4%	2.3%	3.0%	15,185,000
2019	1.8%	0.5%	2.3%	3.0%	7,635,000
2020	1.6%	0.5%	2.1%	3.0%	24,305,000
2021	**1.4%**	**0.5%**	**1.9%**	**3.0%**	**22,380,000**
2022	1.2%	0.4%	1.6%	3.0%	23,120,000
2023	1.0%	0.4%	1.5%	3.0%	22,220,000
2024	0.9%	0.4%	1.3%	3.0%	21,740,000
2025	0.7%	0.4%	1.1%	3.0%	22,590,000
2026	**0.5%**	**0.3%**	**0.9%**	**3.0%**	**23,485,000**
TOTAL Through FY 2026					**234,525,000**

Scenario 3: Preliminary Results – Debt Affordability

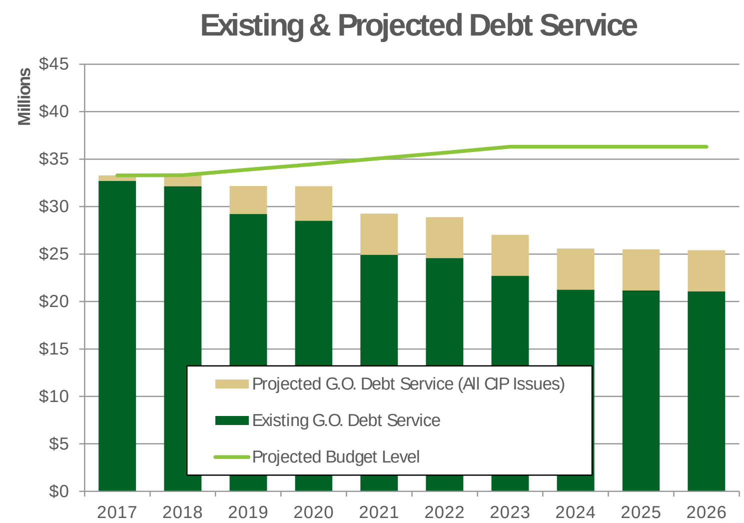
Remaining Debt Affordability: $40.6 million Increase vs Scenario 1

- Over the next five years (from FY 2017 through FY 2021), the City has projected **Debt Affordability of $79.1 million based on New Revenues allocated toward G.O. Debt Service from FY 2019 – FY 2023.**

Fiscal Year	Incremental Debt Affordability	Debt Service Budget Assumption	New Revenues Allocated to Debt Service Budget	
2017	0	33,325,000	0	
2018	0	33,325,000	0	
2019	23,420,000	33,900,000	575,000	
2020	8,155,000	34,475,000	575,000	
2021	47,485,000	35,075,000	600,000	
5 Yr Total	**79,060,000**			
2022-26	**69,050,000**	Increases	1,227,006	(1)
10 Yr Total	**148,110,000**		**2,977,006**	(2)

(1) Cumulative New Revenue growth from FY 2022 through FY 2023.
(2) Cumulative New Revenues growth from FY 2019 through FY 2023.

- From FY 2022 through FY 2026, the City is projected to have another $69.1 million in additional Debt Affordability based on New Revenues allocated toward G.O. Debt Service from FY 2019 – FY 2023.
  - New Revenues assume ¼ of 1% growth in the City's General Property and Other Local Taxes allocated to debt service each year for five years beginning in FY 2019.
- If the City issued the above amounts, its debt ratios are projected to approximate FY 2017 levels.

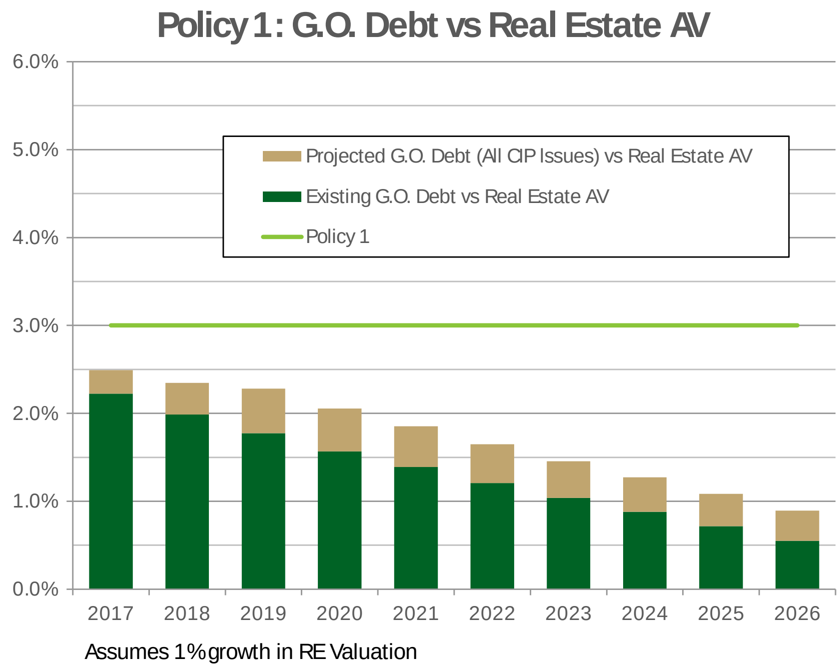


Fiscal Year	Total Existing and Projected G.O. Debt Service	Projected Budget Level	Debt Service Freed up/ (Revenue Shortfall) vs Budget Level	Incremental Debt Affordability
2017	33,290,993	33,290,993	0	0
2018	33,315,327	33,315,327	0	0
2019	32,168,951	33,892,327	1,723,376	23,420,000
2020	32,156,103	34,479,321	2,323,218	8,155,000
2021	**29,258,998**	**35,076,480**	**5,817,482**	**47,485,000**
2022	28,899,440	35,683,982	6,784,542	13,145,000
2023	27,034,505	36,302,006	9,267,501	33,745,000
2024	25,580,826	36,302,006	10,721,179	19,755,000
2025	25,491,072	36,302,006	10,810,934	1,220,000
2026	**25,403,763**	**36,302,006**	**10,898,243**	**1,185,000**
TOTAL Through FY 2026				**148,110,000**

Debt Policy Projections

Policy 1: G.O. Debt vs. Real Estate

- G.O. Debt shall not exceed 3% of the Taxable Assessed Valuation of Real Estate.



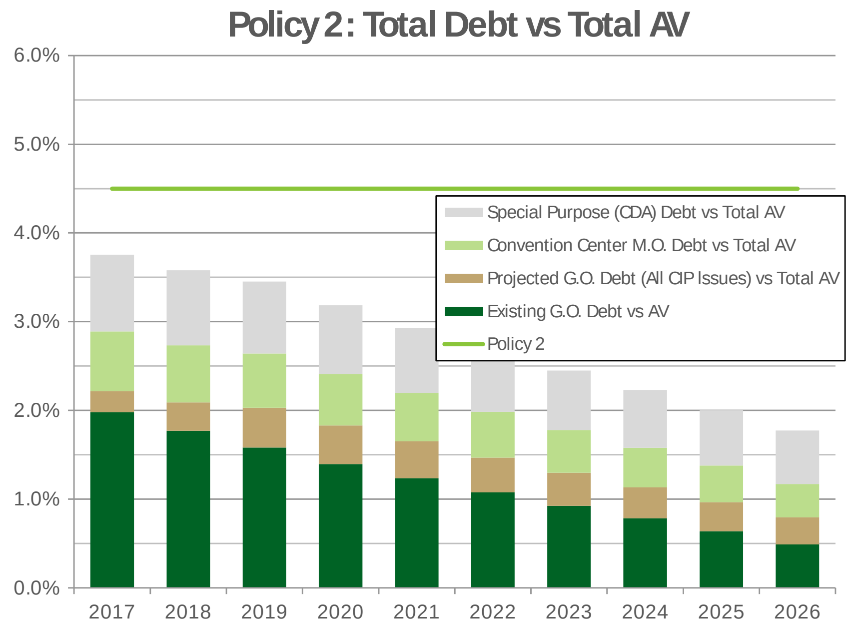
Fiscal Year	Existing G.O. Debt vs Real Estate AV	Projected G.O. Debt (All CIP Issues) vs Real Estate AV	Total Debt vs Real Estate AV	Policy 1
2017	2.2%	0.3%	2.5%	3.0%
2018	2.0%	0.4%	2.3%	3.0%
2019	1.8%	0.5%	2.3%	3.0%
2020	1.6%	0.5%	2.1%	3.0%
2021	**1.4%**	**0.5%**	**1.9%**	**3.0%**
2022	1.2%	0.4%	1.6%	3.0%
2023	1.0%	0.4%	1.5%	3.0%
2024	0.9%	0.4%	1.3%	3.0%
2025	0.7%	0.4%	1.1%	3.0%
2026	**0.5%**	**0.3%**	**0.9%**	**3.0%**

- Note: Calculations shown above incorporate the City's most recent $211.3 million(1) FY 2016 – FY 2020 CIP which includes approximately $77.7 million of G.O. Bond funding sources comprised of:
  - The City's most recent 2015 G.O. Bonds providing approximately $25.8 million of CIP Spending;
  - The City's planned 2016 G.O. Bonds anticipated to fund approximately $15.4 million of CIP Spending; and
  - Planned future G.O. Bond issuances estimated to fund approximately $36.5 million of CIP Spending;

(1) Debt and other sources of funds.

Policy 2: Total Debt vs. Total Assessed Valuation

- Total Direct/Indirect/Overlapping Debt shall not exceed 4.5% of the Total Taxable Assessed Valuation.



Assumes 1% growth in RE and PP Valuation

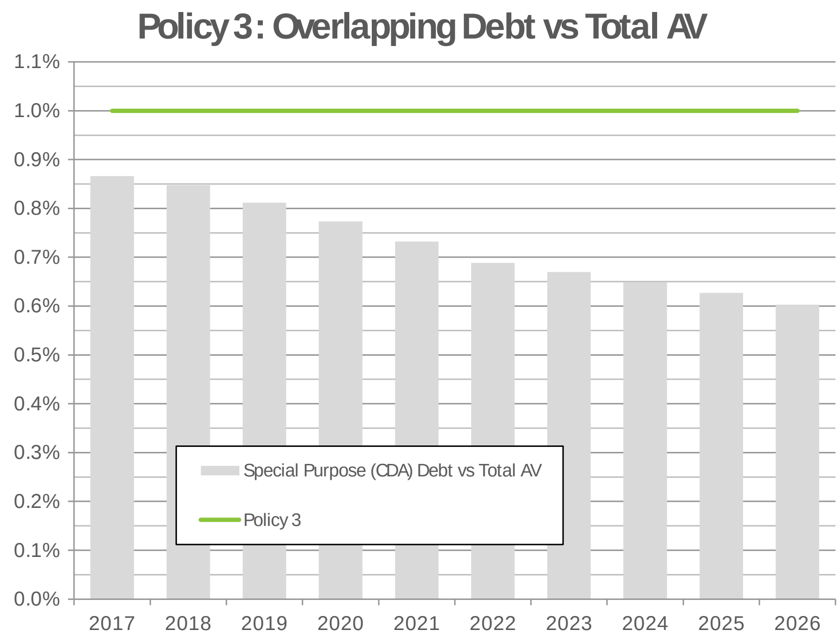
Fiscal Year	Existing G.O. Debt vs AV	Convention Center M.O. Debt vs Total AV	Special Purpose (CDA) Debt vs Total AV	Projected G.O. Debt (All CIP Issues) vs Total AV	Total Debt vs AV	Policy 2
2017	2.0%	0.7%	0.9%	0.2%	3.8%	4.5%
2018	1.8%	0.6%	0.8%	0.3%	3.6%	4.5%
2019	1.6%	0.6%	0.8%	0.4%	3.5%	4.5%
2020	1.4%	0.6%	0.8%	0.4%	3.2%	4.5%
2021	**1.2%**	**0.5%**	**0.7%**	**0.4%**	**2.9%**	**4.5%**
2022	1.1%	0.5%	0.7%	0.4%	2.7%	4.5%
2023	0.9%	0.5%	0.7%	0.4%	2.4%	4.5%
2024	0.8%	0.4%	0.6%	0.3%	2.2%	4.5%
2025	0.6%	0.4%	0.6%	0.3%	2.0%	4.5%
2026	**0.5%**	**0.4%**	**0.6%**	**0.3%**	**1.8%**	**4.5%**

- Note: Calculations shown above incorporate the City's most recent \$211.3 million[(1)] FY 2016 – FY 2020 CIP which includes approximately \$77.7 million of G.O. Bond funding sources comprised of:
  - The City's most recent 2015 G.O. Bonds providing approximately \$25.8 million of CIP Spending;
  - The City's planned 2016 G.O. Bonds anticipated to fund approximately \$15.4 million of CIP Spending; and
  - Planned future G.O. Bond issuances estimated to fund approximately \$36.5 million of CIP Spending;

(1) Debt and other sources of funds.

Policy 3: Overlapping Debt vs. Total Assessed Valuation

- Overlapping Debt shall not exceed 1.0% of the Total Taxable Assessed Valuation.



Assumes 1% growth in RE and PP Valuation

Fiscal Year	Special Purpose (CDA) Debt vs Total AV	Policy 3
2017	0.9%	1.0%
2018	0.8%	1.0%
2019	0.8%	1.0%
2020	0.8%	1.0%
2021	**0.7%**	**1.0%**
2022	0.7%	1.0%
2023	0.7%	1.0%
2024	0.6%	1.0%
2025	0.6%	1.0%
2026	**0.6%**	**1.0%**

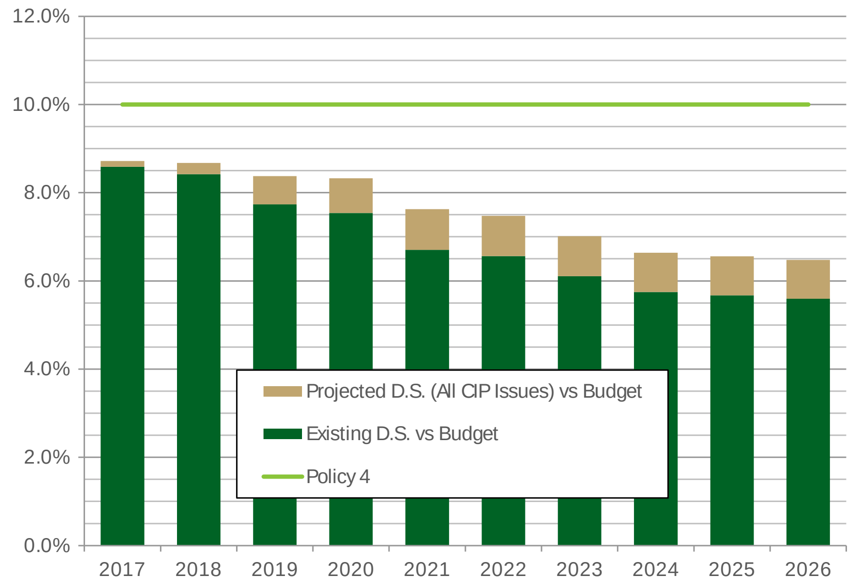
- Note: Calculations shown above incorporate the City's most recent \$211.3 million(1) FY 2016 – FY 2020 CIP which includes approximately \$77.7 million of G.O. Bond funding sources comprised of:
  - The City's most recent 2015 G.O. Bonds providing approximately \$25.8 million of CIP Spending;
  - The City's planned 2016 G.O. Bonds anticipated to fund approximately \$15.4 million of CIP Spending; and
  - Planned future G.O. Bond issuances estimated to fund approximately \$36.5 million of CIP Spending;

(1) Debt and other sources of funds.

Policy 4: Debt Service vs. Expenditures

- Debt Service shall not exceed 10% of Total Expenditures (City and Schools).

Policy 4: Debt Service vs Total Budget



Assumes 0.6% growth in Budget through FY 2020; 1% thereafter

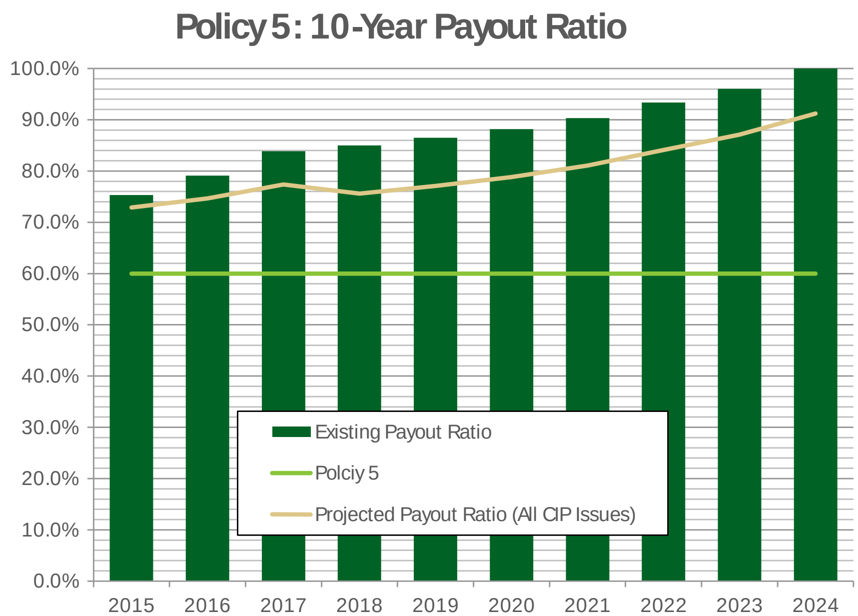
Fiscal Year	Existing D.S. vs Budget	Projected D.S. (All CIP Issues) vs Budget	Total D.S. vs Budget	Policy 4
2017	8.6%	0.1%	8.7%	10.0%
2018	8.4%	0.3%	8.7%	10.0%
2019	7.7%	0.6%	8.4%	10.0%
2020	7.5%	0.8%	8.3%	10.0%
2021	**6.7%**	**0.9%**	**7.6%**	**10.0%**
2022	6.6%	0.9%	7.5%	10.0%
2023	6.1%	0.9%	7.0%	10.0%
2024	5.7%	0.9%	6.6%	10.0%
2025	5.7%	0.9%	6.6%	10.0%
2026	**5.6%**	**0.9%**	**6.5%**	**10.0%**

- Note: Calculations shown above incorporate the City's most recent $211.3 million[(1)] FY 2016 – FY 2020 CIP which includes approximately $77.7 million of G.O. Bond funding sources comprised of:
  - The City's most recent 2015 G.O. Bonds providing approximately $25.8 million of CIP Spending;
  - The City's planned 2016 G.O. Bonds anticipated to fund approximately $15.4 million of CIP Spending; and
  - Planned future G.O. Bond issuances estimated to fund approximately $36.5 million of CIP Spending;

(1) Debt and other sources of funds.

Policy 5: 10-Year Payout Ratio

- The 10-year Payout Ratio shall not be less than 60%.



Fiscal Year	Existing Payout Ratio	Projected Payout Ratio (All CIP Issues)	Polciy 5
2017	75.3%	72.9%	60.0%
2018	79.1%	74.7%	60.0%
2019	83.9%	77.4%	60.0%
2020	85.0%	75.6%	60.0%
2021	**86.5%**	**77.1%**	**60.0%**
2022	88.2%	78.8%	60.0%
2023	90.3%	81.0%	60.0%
2024	93.4%	84.1%	60.0%
2025	96.1%	87.1%	60.0%
2026	**100.0%**	**91.2%**	**60.0%**

- Note: Calculations shown above incorporate the City's most recent $211.3 million[(1)] FY 2016 – FY 2020 CIP which includes approximately $77.7 million of G.O. Bond funding sources comprised of:
  - The City's most recent 2015 G.O. Bonds providing approximately $25.8 million of CIP Spending;
  - The City's planned 2016 G.O. Bonds anticipated to fund approximately $15.4 million of CIP Spending; and
  - Planned future G.O. Bond issuances estimated to fund approximately $36.5 million of CIP Spending;

(1) Debt and other sources of funds.

Current FY 2016 – FY 2020 CIP

Capital Improvement Plan (CIP) Assumptions

- The City's most recent $211.3 million (includes debt and other sources) FY 2016 – FY 2020 CIP.
  - Approximately $77.7 million is anticipated to be funded with G.O. Bonds over this time period as follows:
    - The 2015 G.O. Bond Issue funded $25.8 million of FY 2016 CIP Spending;
    - The anticipated 2016 G.O. Bond issue totals $15.4 million and will fund FY 2017 CIP Spending; and
    - The balance of G.O. Bond issuance for the Planned Years (FY 2018 through FY 2020 CIP Spending) approximates $36.5 million.

	Budget	Planned Years				FY 2016-FY 2020	% of
	2016	2017	2018	2019	2020	Total	Total
	Amounts in $000						
General Fund Revenues							
General Fund Revenue Projects (1)	$8,253	$8,992	$8,482	$8,482	$8,582	$42,792	20.3%
Committed Fund Balance	0	0	0	0	0	0	0.0%
Urban Maintenance/ VDOT Match	6,586	7,101	6,160	6,281	6,281	32,409	15.3%
Subtotal General Fund Revenues	$14,839	$16,093	$14,643	$14,763	$14,863	$75,201	35.6%
Bond Funds							
G.O. Bonds - City Investment	20,466	10,096	5,600	4,100	10,952	51,214	24.2%
G.O. Bonds - School Investment	5,288	5,288	5,288	5,288	5,288	26,438	12.5%
Subtotal Bond Funds	$25,753	$15,384	$10,888	$9,388	$16,240	$77,651	36.8%
Other Revenues (2)	13,103	11,806	8,920	10,975	13,635	58,439	27.7%
Total Sources of Funds	$53,695	$43,283	$34,450	$35,126	$44,738	$211,292	100.0%
CIP Policy 1 - General Fund Revenue (% of Budget)							
Annual: 2% to 6% Target (3)	4.5%	4.9%	4.5%	4.5%	4.6%		
CIP Policy 2 - General Fund Revenue (% of Total CIP Sources)							
Rolling 5 YR: 10% to 15% Target	35.6%	- -	- -	- -	- -		

Notes

(1) Includes General Fund Balance (amounts over policy); Annual budgeted amounts; and dedicated tax increase (City/ Schools)

(2) Includes Capital Project Fund Balance, Commonwealth, Congestion Mitigation Air Quality, Economic Development, Stormwater, VDOT and Wastewater Funds.

(3) Based on FY 2016 General Fund Budget (Excluding schools) of approximately $326.3 million.

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