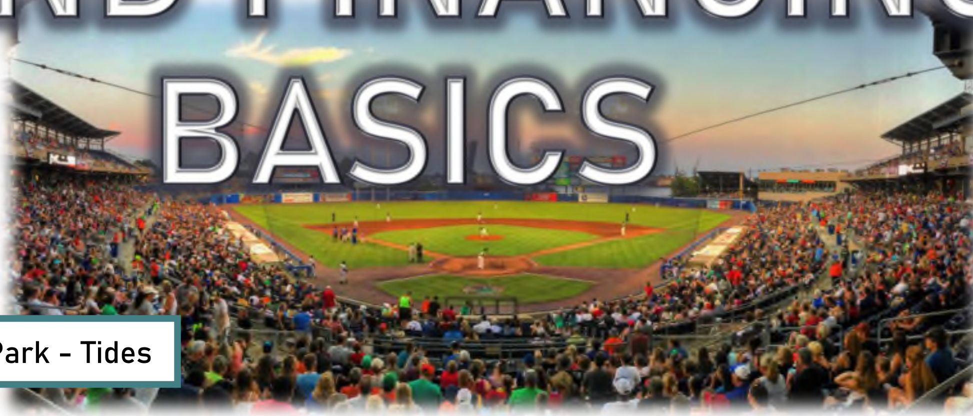
Ohio Creek Watershed Project

BOND FINANCING BASICS



Harbor Park - Tides

Half Moone Cruise Center - Carnival Cruise Line

THE CITY OF NORFOLK
FINANCE

As of July 2022

What is "bond financing"?

Bond financing is a type of long-term borrowing used to raise money for capital projects. The City receives money by selling bonds to investors. The City must pay back the amount borrowed, plus interest, to those investors over time.

What types of bonds are issued?

The City issues two major types of bonds: General Obligation and Revenue.

General Obligation (G.O.) Bonds are bonds that are secured by the full faith and credit of the City (i.e. the General Fund of the City). General obligation bonds are used to fund a variety of projects that benefit citizens, such as libraries, police stations and schools. G.O. bonds must be approved by City Council and follow certain public hearing requirements. The City's general obligation bonds carry strong bond credit ratings and low risk of non-payment to investors.

Revenue Bonds are bonds that are secured by dedicated fees. Revenue bonds must be approved by Council and meet additional new debt issuance requirements set forth in the legal documents governing the sale of the bonds. For example, the Water Utility Fund can finance the rehabilitation of a water treatment plant through revenue bonds that will be repaid from water fees charged to its users. Compared to G.O. bonds, revenue bonds have a more limited source of repayment, though these bonds also typically carry low risk of non-payment to investors.

Moore's Bridges Water Treatment Plant

Ohio Creek Watershed Project

Jordan-Newby Anchor Branch Library at Broad Creek

The City's Water Utility Fund's capital improvements are funded through revenue bonds, while its Storm Water Utility and Wastewater Utility Fund capital improvements are funded through a combination of self-supporting (i.e., repaid with storm water and wastewater fee revenue) G.O. and revenue bonds. The City's operations for its Parking, Towing and Waste Management Funds are funded through self-supporting G.O. bonds.

When are bonds needed?

The City issues bonds to provide funding for a wide variety of general infrastructure improvements that directly help meet basic needs and improve the quality of life of every Norfolk resident. G.O. bonds are a type of borrowing used by local governments to finance capital projects such as schools; public safety improvements, including police and fire facilities; street improvements; transportation projects such as new roads and sidewalks; neighborhood improvements like curbs and gutters; economic development, including promoting business growth and vitality; parks, recreation and open space facilities; cultural institutions, including the zoo and museums; and community recreation centers. These investments are identified and prioritized in the City's Capital Improvement Program (CIP).

Bonds are issued because it allows the City to spread the substantial costs of funding its capital program over multiple years, similar to a home mortgage. This kind of financing also allows the costs of capital projects to be spread over a number of years that better matches the expected useful life so that each generation (current and future) of taxpayers and users contributes a portion for the use of the infrastructure assets financed.

Richard A. Tucker Library

Broad Creek Legacy Park

St. Paul's Revitalization Project

Munson Park

What's the value of tax-exempt bonds?

Typically, Norfolk's bonds are sold on a tax-exempt basis meaning that bondholders (or investors) are not required to pay federal and state income taxes on the interest payments they receive. Conversely, when private corporations sell bonds, investors must pay taxes on interest payments received. To Norfolk, the value of tax-exemption is lower interest rates on its bonds relative to taxable debt.

What is equipment financing?

Norfolk occasionally finances its equipment need. For example, the City may fund the purchase of school buses or fire engines and trucks with bonds or capital leases. Similar to financing a car, Norfolk repays the debt quickly to match the useful life of the equipment (e.g., typically in 3 to 10 years).

What does it cost to borrow?

The City's cost to borrow money depends on the interest rate on the debt and the number of years over which it will be repaid. The City's G.O. bonds are typically paid off over a period of 20 years. As an example, at an interest rate of 4 percent, the cost of paying off debt over 20 years would be about $1.42 for each dollar borrowed — $1 for the dollar borrowed and 42 cents for the interest.

Larchmont Elementary School

What is the legal debt limit?

For cities, the Commonwealth of Virginia imposes a legal limit of ten (10) percent of the assessed valuation of taxable real property as a ceiling on the amount of G.O. borrowings without a referendum. Based on the assessed valuation of taxable real property, the City's legal debt limit exceeds $2.3 billion and as of the end of Fiscal Year 2022, the City has utilized just over half of its ten (10) percent limitation at 5.4%. While this is the legal limitation, the City is aware it cannot take on expenditures beyond its fiscal means and therefore has adopted debt ratios to limit the amount of debt outstanding.

Bond Ratings

Similar to the impact of a borrower's personal credit rating on a home mortgage, municipal bond credit ratings are one factor that impacts the interest rate on bonds. The credit ratings on Norfolk's bonds are very strong, driving low borrowing rates and high market demand for its bonds.

Throughout history, municipal bonds have generally been considered a safe and attractive investment, as defaults and bankruptcies are rare incidents. In fact, Virginia localities do not have legal authority to declare bankruptcy, affording them greater creditworthiness.

Norfolk's Municipal Bond Ratings

	General Obligation Bonds	Water Revenue Bonds
Moody's:	Aa2	Aa2
S&P:	AAA	AA+
Fitch:	AA+	AA+

Source: Department of Finance — As of July, 2022