

DEBT SERVICE FUNDS

MISSION STATEMENT

To account for the accumulation for resources used to service the City's general obligation long-term debt.

DIVISION FOCUS

The activity in these funds is a function of the debt service schedule of the outstanding bond issues, as well as any covenants regarding fund and account structure that may be contained in the original selling agreement for the different bond issues.

The debt service budget is made up of two primary funds; General Obligation Improvement bonds and General Obligation Redevelopment bonds.

The General Obligation (G.O.) Improvement Bond fund provides for the collection of tax debt service levies and special assessments for the payment of principal and interest on the bonds issued for the purpose of public improvements. It is anticipated that for existing bonds the special assessment collections will be sufficient to service the outstanding debt, therefore allowing the cancellation of all tax levies for these bonds. However, during 2007 the City issued two general obligation bonds that will be paid with tax levies and special assessments. The first bond was a G.O. Capital improvement Bond that falls under Minnesota Statutes, Section 475.521, in the amount of \$4,705,000. The purpose of the issue was to help fund the City's new Central Maintenance Facility. The debt service on the bond will be paid by debt service tax levy and future land sale proceeds from the current facility site. The second issue was a G.O. Improvement Bond in the amount of \$4,250,000 issued to fund the construction of a roundabout intersection at 66th Street and Richfield Parkway. The debt service on this bond will be a combination of special assessments and debt service tax levies. In 2008, the City will sell two series of bonds, 2008A and 2009A (this issue will close in 2009) to fund the construction of the new Police/Fire/City Hall facility. The total par amount of bonds to be issued will be \$14,030,000. Finally, the City will issue \$515,000 of G.O. Capital Notes to fund rolling stock and computer equipment purchases. The debt service on all three of the issues would be accomplished through a debt service tax levy. The outstanding principal for G.O. Improvement bonds at the end of 2008 is \$23,845,000.

The G.O. Redevelopment Bonds are issued by the City of Richfield for the Richfield Housing and Redevelopment Authority (HRA). The bonds are issued to provide funding for public improvements in relation to redevelopment projects. The debt service on the outstanding bonds is provided through the collection of tax increments remitted to the HRA from Hennepin County. As part of the bond issuance, the HRA pledges the tax increment collections to the City for the purpose of the annual debt service requirements of the bonds. There are currently no plans for issuance of redevelopment bonds in the near future. The outstanding G.O. Redevelopment Bond principal at the end of 2008 is \$13,050,000.

The City continues to evaluate outstanding bond issues to determine if cost savings can be achieved by refinancing bonds or calling the bonds early. General Obligation bond debt service will be paid in full in the year 2028, with total principal and interest payments averaging approximately \$678,000 per year. Redevelopment bond debt service will be paid in full in the year 2025.

BOND RATINGS

The bond rating process is a comprehensive analysis of the City's financial practices and performances (past and current). Forecasts of future performance and projected long-term planning practices are also reviewed.

The City of Richfield has maintained an excellent bond rating for many years. The City's current rating as issued by Moody's Investors Service is Aa3.

BUDGET SUMMARY
GENERAL OBLIGATION IMPROVEMENT BONDS

| | <u>2007 Actual</u> | <u>2008 Budget</u> | <u>2008 Revised</u> | <u>2009 Budget</u> |
|-----------------------------------|------------------------|------------------------|-------------------------|------------------------|
| <u>Fund Balance - January 1</u> | \$ 2,618,716 | \$ 2,389,026 | \$ 3,194,219 | \$ 3,162,849 |
| <u>Source of Funds</u> | | | | |
| Taxes | \$ 185 | \$ 638,100 | 638,100 | \$ 1,586,980 |
| Special Assessment Collections | 351,038 | 157,610 | 157,610 | 160,000 |
| Interest | 145,318 | 100,000 | 100,000 | 100,000 |
| Bond Proceeds | 8,955,000 | - | 9,718,000 | 4,430,000 |
| Total Sources | <u>\$ 9,451,541</u> | <u>\$ 895,710</u> | <u>\$ 10,613,710</u> | <u>\$ 6,276,980</u> |
| <u>Use of Funds</u> | | | | |
| Bond Principal | \$ 100,000 | \$ 105,000 | \$ 105,000 | \$ 355,000 |
| Bond Interest | 31,057 | 429,370 | 429,370 | 818,650 |
| Fiscal Agent Charges | 800 | 1,000 | 2,500 | 2,500 |
| Other Services & Charges | 58,865 | 1,600 | 7,500 | 1,600 |
| Transfers to: | | | | |
| General Fund | - | 300,000 | 350,000 | 300,000 |
| Capital Projects Funds | 8,683,086 | - | 9,718,000 | 4,430,000 |
| Internal Service Funds | 2,230 | 32,710 | 32,710 | 2,890 |
| Total Uses | <u>\$ 8,876,038</u> | <u>\$ 869,680</u> | <u>\$ 10,645,080</u> | <u>\$ 5,910,640</u> |
| <u>Fund Balance - December 31</u> | <u>\$ 3,194,219</u> | <u>\$ 2,415,056</u> | <u>\$ 3,162,849</u> | <u>\$ 3,529,189</u> |

General Obligation Improvement Bonds
Scheduled Debt Service Requirements - Annual Payments
December 31, 2008

| TAX LEVY REQUIREMENT | YEAR | PRINCIPAL | INTEREST | TOTAL | UNPAID PRINCIPAL |
|---------------------------------|-------------|----------------------|----------------------|-------------------|-----------------------------|
| | | | | | \$ 23,845,000 |
| 1,586,975 | 2009 | 355,000 | 818,648 | 1,173,648 | 23,490,000 |
| 1,929,043 | 2010 | 625,000 | 1,068,021 | 1,693,021 | 22,865,000 |
| 1,874,213 | 2011 | 930,000 | 1,037,329 | 1,967,329 | 21,935,000 |
| 1,871,325 | 2012 | 920,000 | 1,000,302 | 1,920,302 | 21,015,000 |
| 1,871,478 | 2013 | 955,000 | 961,452 | 1,916,452 | 20,060,000 |
| 1,874,328 | 2014 | 910,000 | 922,801 | 1,832,801 | 19,150,000 |
| 1,874,321 | 2015 | 950,000 | 884,107 | 1,834,107 | 18,200,000 |
| 1,876,716 | 2016 | 990,000 | 842,725 | 1,832,725 | 17,210,000 |
| 1,865,598 | 2017 | 1,035,000 | 798,607 | 1,833,607 | 16,175,000 |
| 1,876,295 | 2018 | 1,070,000 | 751,959 | 1,821,959 | 15,105,000 |
| 1,877,587 | 2019 | 1,125,000 | 702,657 | 1,827,657 | 13,980,000 |
| 1,878,601 | 2020 | 1,180,000 | 650,179 | 1,830,179 | 12,800,000 |
| 1,876,457 | 2021 | 1,235,000 | 594,645 | 1,829,645 | 11,565,000 |
| 1,876,157 | 2022 | 1,290,000 | 535,991 | 1,825,991 | 10,275,000 |
| 1,877,161 | 2023 | 1,350,000 | 473,843 | 1,823,843 | 8,925,000 |
| 1,879,266 | 2024 | 1,415,000 | 407,871 | 1,822,871 | 7,510,000 |
| 1,877,157 | 2025 | 1,485,000 | 337,843 | 1,822,843 | 6,025,000 |
| 1,881,337 | 2026 | 1,555,000 | 263,805 | 1,818,805 | 4,470,000 |
| 1,880,880 | 2027 | 1,635,000 | 185,611 | 1,820,611 | 2,835,000 |
| 1,239,504 | 2028 | 1,715,000 | 102,944 | 1,817,944 | 1,120,000 |
| - | 2029 | 1,120,000 | 30,240 | 1,150,240 | |
| <u>36,644,399</u> | | <u>\$ 23,845,000</u> | <u>\$ 13,371,580</u> | <u>37,216,580</u> | |

BUDGET SUMMARY
GENERAL OBLIGATION REDEVELOPMENT BONDS

| | <u>2007 Actual</u> | <u>2008 Budget</u> | <u>2008 Revised</u> | <u>2009 Budget</u> |
|-----------------------------------|------------------------|------------------------|-------------------------|------------------------|
| <u>Fund Balance - January 1</u> | \$ 30,817 | \$ 30,817 | \$ - | \$ - |
| <u>Source of Funds</u> | | | | |
| Transfers from - | | | | |
| Component Unit | \$ 1,509,464 | \$ 1,548,870 | \$ 1,548,860 | \$ 1,545,600 |
| Total Sources | <u>\$ 1,509,464</u> | <u>\$ 1,548,870</u> | <u>\$ 1,548,860</u> | <u>\$ 1,545,600</u> |
| <u>Use of Funds</u> | | | | |
| Principal Bonds | \$ 850,000 | \$ 895,000 | \$ 895,000 | \$ 930,000 |
| Bond Interest | 687,600 | 652,370 | 652,360 | 614,100 |
| Fiscal Charges | 2,681 | 1,500 | 1,500 | 1,500 |
| Total Uses | <u>\$ 1,540,281</u> | <u>\$ 1,548,870</u> | <u>\$ 1,548,860</u> | <u>\$ 1,545,600</u> |
| <u>Fund Balance - December 31</u> | <u>\$ -</u> | <u>\$ 30,817</u> | <u>\$ -</u> | <u>\$ -</u> |

GENERAL OBLIGATION REDEVELOPMENT BONDS
SCHEDULED DEBT SERVICE REQUIREMENTS - ANNUAL PAYMENTS
December 31, 2008

| <u>YEAR</u> | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> | <u>UNPAID PRINCIPAL</u> |
|-------------|----------------------|---------------------|----------------------|-----------------------------|
| | | | | 13,050,000 |
| 2009 | 930,000 | 614,090 | 1,544,090 | 12,120,000 |
| 2010 | 975,000 | 572,560 | 1,547,560 | 11,145,000 |
| 2011 | 1,020,000 | 527,700 | 1,547,700 | 10,125,000 |
| 2012 | 1,075,000 | 479,360 | 1,554,360 | 9,050,000 |
| 2013 | 595,000 | 440,300 | 1,035,300 | 8,455,000 |
| 2014 | 620,000 | 411,570 | 1,031,570 | 7,835,000 |
| 2015 | 655,000 | 380,920 | 1,035,920 | 7,180,000 |
| 2016 | 690,000 | 348,240 | 1,038,240 | 6,490,000 |
| 2017 | 730,000 | 313,260 | 1,043,260 | 5,760,000 |
| 2018 | 665,000 | 278,260 | 943,260 | 5,095,000 |
| 2019 | 700,000 | 243,680 | 943,680 | 4,395,000 |
| 2020 | 740,000 | 207,100 | 947,100 | 3,655,000 |
| 2021 | 775,000 | 168,480 | 943,480 | 2,880,000 |
| 2022 | 820,000 | 127,700 | 947,700 | 2,060,000 |
| 2023 | 865,000 | 84,600 | 949,600 | 1,195,000 |
| 2024 | 915,000 | 38,940 | 953,940 | 280,000 |
| 2025 | 280,000 | 7,700 | 287,700 | - |
| | <u>\$ 13,050,000</u> | <u>\$ 5,244,460</u> | <u>\$ 18,294,460</u> | |

**COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2008**

| | | |
|--|----------------------|-------------------------------|
| Market Value of Taxable Property | | <u>\$3,223,571,400</u> |
| Debt Limit 2% of Market Value of Taxable Property | | \$ 64,471,428 |
| Amount of Debt Applicable to Debt Limit: | | |
| Total Bonded Debt | \$ 46,390,000 | |
| Less: | | |
| Redevelopment Bonds | \$ 13,050,000 | |
| Special Assessment Bonds | 1,195,000 | |
| Water & Sewer Revenue Bonds | 5,875,000 | |
| Storm Sewer Revenue Bonds | 2,435,000 | |
| Ice Arena Revenue Bonds | 1,185,000 | <u>23,740,000</u> |
| Total Debt Applicable to Debt Limit | | <u>22,650,000</u> |
| Available Debt Capacity | | <u>\$ 41,821,428</u> |

The redevelopment bonds are paid primarily from tax increment and will be paid in full in 2025. General obligation improvement are paid from special assessment collections, interest earnings, and tax levies. General obligation bonds will be paid in full in 2029. It is anticipated that for existing bonds the special assessment collections will be sufficient to service that portion of the outstanding debt. However, for bond issues in 2007 and 2008 authorized tax levies will be used.

The City will continue to limit long-term borrowing to capital improvements or projects that cannot be financed from current revenues.

The City's Debt Service policies are summarized in the Introductory Section.