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## City must reduce debt, not continue big spending

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DEBT SERVICE for the city of Virginia Beach, not including utilities, is projected to cost more than \$132 million next year, which would entirely fund the budgets for citywide police and fire protection at last year's levels.

City-led discussions, including carefully orchestrated town hall meetings last fall, have focused on raising taxes and fees, cutting essential services or some combination of both to resolve the \$111 million budget gap.

But Virginia Beach has avoided talking about its appetite for financing economic development projects with debt service. As revenues decline, the increasing cost of debt service poses a serious problem to the city's financial health.

Since 2002, the Virginia Beach Development Authority has issued more than \$393 million in public facility revenue bonds to finance such major projects as the Convention Center, the Sandler Center, 31st Street garage and Town Center infrastructure. In 2003, debt service on these bonds was barely \$820,000 but by 2009 had ballooned to well more than \$32 million, an increase of nearly 4,000 percent.

By contrast, debt payments for general obligation bonds increased a moderate 6 percent, and debt payments for utilities, funded by their own revenue streams, actually decreased during the same period.

Claims such as "Town Center pays for itself" and ad campaigns like "The Gift of Tourism" promote the illusion that projects financed with public facility revenue bonds are flourishing and even contributing to the general fund. But individual profit-and-loss statements, reflecting revenues and expenses and detailing the net contribution of each venue to the general fund, are unavailable. Moreover, the city is bound by contract with the development authority to pay the debt service for these bonds. Each year the City Council appropriates payment for these projects, regardless of how much or how little revenue they generated.

Revenues to pay debt costs on these bonds are taken off the top of citywide tax streams. The city's taxes on meals, hotel stays, admissions and cigarettes, as well as the incremental property taxes from the special taxing district that includes Town Center, never make it to the general fund to pay for essential services. Rather, the general fund is tapped to make up any shortfall.

The city is approaching the maximum debt allowed per resident: \$2,400. The proposed budget acknowledges, "If debt associated with the Convention Center, Theater and Open Space Programs are excluded, the city would barely exceed its old, very conservative threshold."

The proposed budget indicates the need to increase this limit and alludes to possible debt financing of citizen-supported projects such as the animal shelter and new recreation center. But the truth is the city must increase debt capacity in order to finance a headquarters hotel, light rail and other projects.

The **Cato Institute** recommends the use of municipal debt only in emergencies, or for very large, multi-year infrastructure projects. In 2009, the city issued \$82 million in new debt, while debt service costs were \$128 million. The net effect is akin to an individual using his credit card to obtain a cash advance so he can then use the cash to make the minimum payment on his monthly statement. Is this the "financially sustainable city providing excellent services" to which our City Council is committed?

The council appears ready to capitulate to political pressure and not support the proposed 3-cent tax increase, which would generate less than \$14 million. Meanwhile, this same council is poised to issue \$68 million in new debt.

Debt is nothing less than deferred taxes plus interest. A portion of the current 89-cent tax rate will be used for debt service this year -- on bonds issued in previous years. One-time budget fixes postpone and worsen the inevitable need for meaningful spending cuts combined with debt reduction policies.

Virginia Beach needs courageous leaders who are capable of navigating the city through the financial straits in the years ahead.

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