

DEBT POLICY

1. The City will maintain a policy of full disclosure on financial reports and bond prospectus.
2. The City will maintain communications with bond rating agencies and continue to strive for improvements in the City's bond rating.
3. The City will adhere to its debt covenants.
4. The City will review its debt capacity every three years.
5. The City will pay for all capital projects and capital improvements on a pay-as-you-go basis using current revenues whenever possible. If a project or improvement cannot be financed with current revenues, long-term debt will be recommended.
6. The City will refrain from issuing long-term debt for a period in excess of the expected useful life of the capital project.
7. The City will use special assessment revenue or other self-supporting bonds instead of general obligation bonds, when practical.
8. The City will seek refinancing of outstanding debt if it is determined that the City will benefit by reduced interest expense over the remaining life of the bonds.

DEBT LIMIT

The Mayor and Council are empowered to borrow monies up to \$1,000,000 and not exceeding one percent of the total taxable assessment for a general tax in the aggregate outstanding at any one time without referendum. These monies may be used to finance public storm sewers, streets, and appurtenances. Any other borrowing must be approved by a referendum vote of the qualified voters of the City of Dover.

The aggregate of the amounts borrowed on the full faith and credit of the City of Dover shall not exceed a sum equal to 25 percent of the total assessed value of real property within the City of Dover.

The Mayor and Council are empowered to issue special assessment revenue bonds to finance public projects for which the City may levy and collect special assessments. These bonds do not obligate the faith and credit of the City, but are payable solely from the proceeds of the special assessments pledged. These bonds are authorized without referendum vote by a resolution having a three-fourths vote of the Council and approval of the Mayor.

NOTE: For a more thorough description of Debt Limit, refer to Article IV Section 50 of the City Charter.

**CITY OF DOVER
BOND RATINGS AS OF JUNE 30, 2007**

| BOND TYPE | RATING AGENCY | RATING |
|--|------------------|------------|
| General Obligation Insured Bonds | Moody's Fitch | AAA AAA |
| Water/Wastewater Insured Bonds | Moody's Fitch | AAA AAA |
| Electric Revenue Bonds Taxable Series, Insured | Moody's Fitch | AAA AAA |
| Electric Revenue Bonds Tax Exempt Series, Non-Insured | Moody's Fitch | A1 A+ |

LONG-TERM OBLIGATIONS AS OF JUNE 30, 2007

The City had certain capital leases on vehicles and construction equipment. The lease payments were budgeted in the applicable department budget as an annual appropriation. All of the City's leases expired as of June 30, 2007.

Long-Term indebtedness of the City of Dover consists of the following general purpose General Obligation Bonds:

| GENERAL OBLIGATION BONDS | GENERAL PURPOSE |
|--------------------------------|---------------------|
| 1993 Series | \$ 160,000 |
| 2003 Series | 2,635,000 |
| TOTAL | \$ 2,795,000 |

The total General Obligation Bonds outstanding amount includes \$350,000 payable within one year.

CHANGE IN LONG-TERM DEBT

The following tables summarize the debt transactions for the year ended June 30, 2007, including bonds and capital leases payable within one year.

GENERAL LONG-TERM DEBT

| ITEM | BALANCE JULY 1, 2006 | ADDITIONS | REDUCTIONS | BALANCE JUNE 30, 2007 | PAYABLE WITHIN ONE YEAR |
|---|-------------------------|---------------------|---------------------|--------------------------|----------------------------|
| Vehicle & Equipment Leases | \$ 23,384 | \$ - | \$ 23,384 | \$ - | \$ - |
| Compensated Absences | 1,145,341 | 1,282,826 | 1,060,012 | 1,368,155 | 727,263 |
| General Obligation Bonds | 3,140,000 | - | 345,000 | 2,795,000 | 350,000 |
| Subtotal of General Long-Term Debt | \$ 4,308,725 | \$ 1,282,826 | \$ 1,428,396 | \$ 4,163,155 | \$ 1,077,263 |

ENTERPRISE FUNDS DEBT Water/Wastewater Fund

| ITEM | BALANCE JULY 1, 2006 | ADDITIONS | REDUCTIONS | BALANCE JUNE 30, 2007 | PAYABLE WITHIN ONE YEAR |
|--|-------------------------|-------------------|---------------------|--------------------------|----------------------------|
| Vehicle & Equipment Leases | \$ 9,287 | \$ - | \$ 9,287 | \$ - | \$ - |
| Compensated Absences | 104,762 | 100,840 | 103,460 | 102,142 | 43,739 |
| Revenue Bonds – Water and Wastewater | 6,475,000 | - | 1,360,000 | 5,115,000 | 620,000 |
| State of Delaware Municipal Revenue Bond | 578,065 | - | 32,408 | 545,657 | 33,585 |
| Subtotal of Water/Wastewater Fund | \$ 7,167,114 | \$ 100,840 | \$ 1,505,155 | \$ 5,762,799 | \$ 697,324 |

ELECTRIC REVENUE FUND

| ITEM | BALANCE JULY 1, 2006 | ADDITIONS | REDUCTIONS | BALANCE JUNE 30, 2007 | PAYABLE WITHIN ONE YEAR |
|--|-------------------------|-------------------|---------------------|--------------------------|----------------------------|
| Vehicle & Equipment Leases | \$ 36,221 | \$ - | \$ 36,221 | \$ - | \$ - |
| Compensated Absences | 577,260 | 218,079 | 411,950 | 383,389 | 147,573 |
| Revenue Bonds | 20,680,000 | - | 1,730,000 | 18,950,000 | 1,780,000 |
| Subtotal of Electric Revenue Fund | \$ 21,293,481 | \$ 218,079 | \$ 2,178,171 | \$ 19,333,389 | \$ 1,927,573 |
| Subtotal of Enterprise Funds Debt | \$ 28,460,595 | \$ 318,919 | \$ 3,683,326 | \$ 25,096,188 | \$ 2,624,897 |

| | | | | | |
|---------------------------------------|----------------------|---------------------|---------------------|----------------------|---------------------|
| Grand Totals of Long-Term Debt | \$ 32,769,320 | \$ 1,601,745 | \$ 5,111,722 | \$ 29,259,343 | \$ 3,702,160 |
|---------------------------------------|----------------------|---------------------|---------------------|----------------------|---------------------|

DEBT SERVICE REQUIREMENTS

The following are the debt service requirements to maturity on the City's general obligation bonds, revenue bonds, and capital leases.

Governmental Activities:

| FISCAL YEAR | 1993 GENERAL OBLIGATION BONDS | | 2003 GENERAL OBLIGATION BONDS | | TOTAL |
|--------------|-------------------------------|-----------------|-------------------------------|-------------------|---------------------|
| | Principal | Interest | Principal | Interest | |
| 2008 | \$ 80,000 | \$ 6,150 | \$ 270,000 | \$ 81,318 | \$ 437,468 |
| 2009 | 80,000 | 2,050 | 285,000 | 75,269 | 442,319 |
| 2010 | – | – | 260,000 | 68,410 | 328,410 |
| 2011 | – | – | 270,000 | 60,850 | 330,850 |
| 2012 | – | – | 275,000 | 52,262 | 327,262 |
| 2013 | – | – | 285,000 | 42,738 | 327,738 |
| 2014 | – | – | 295,000 | 32,440 | 327,440 |
| 2015 | – | – | 220,000 | 22,950 | 242,950 |
| 2016 | – | – | 230,000 | 14,285 | 244,285 |
| 2017 | – | – | 245,000 | 4,900 | 249,900 |
| TOTAL | \$ 160,000 | \$ 8,200 | \$ 2,635,000 | \$ 455,422 | \$ 3,258,622 |

Business-Type Activities:

| FISCAL YEAR | WATER/WASTEWATER FUND | | | | 2004 ELECTRIC REVENUE FUND | | TOTAL |
|--------------|-----------------------|---------------------|-------------------------|-------------------|----------------------------|---------------------|----------------------|
| | REVENUE BONDS | | MUNICIPAL REVENUE BONDS | | TAXABLE REVENUE BONDS | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2008 | \$ 620,000 | \$ 157,748 | \$ 33,585 | \$ 19,343 | \$ 1,780,000 | \$ 797,104 | \$ 3,407,780 |
| 2009 | 640,000 | 142,706 | 34,804 | 18,124 | 1,840,000 | 726,448 | 3,402,082 |
| 2010 | 655,000 | 125,022 | 36,070 | 16,859 | 1,905,000 | 647,580 | 3,385,531 |
| 2011 | 290,000 | 116,322 | 37,379 | 15,550 | 1,995,000 | 560,300 | 3,014,551 |
| 2012 | 300,000 | 106,422 | 38,737 | 14,192 | 2,080,000 | 464,620 | 3,003,971 |
| 2013 | 310,000 | 95,572 | 40,144 | 12,785 | 2,180,000 | 361,070 | 2,999,571 |
| 2014 | 320,000 | 84,052 | 41,601 | 11,326 | 2,270,000 | 248,706 | 2,975,685 |
| 2015 | 330,000 | 71,512 | 43,113 | 9,815 | 2,390,000 | 128,010 | 2,972,450 |
| 2016 | 155,000 | 65,468 | 44,679 | 8,250 | 2,510,000 | – | 2,783,397 |
| 2017 | 160,000 | 59,068 | 46,301 | 6,626 | – | – | 271,995 |
| 2018 | 165,000 | 52,302 | 47,984 | 4,946 | – | – | 270,232 |
| 2019 | 175,000 | 44,866 | 49,727 | 3,202 | – | – | 272,795 |
| 2020 | 180,000 | 37,126 | 51,534 | 1,397 | – | – | 270,056 |
| 2021 | 190,000 | 28,766 | – | – | – | – | 218,766 |
| 2022 | 200,000 | 19,764 | – | – | – | – | 219,764 |
| 2023 | 210,000 | 10,106 | – | – | – | – | 220,106 |
| 2024 | 215,000 | – | – | – | – | – | 215,000 |
| TOTAL | \$ 5,115,000 | \$ 1,216,822 | \$ 545,657 | \$ 142,415 | \$ 18,950,000 | \$ 3,933,838 | \$ 29,903,732 |

The above table does not include compensated absences or capital leases.

**COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2007**

| | |
|--|---------------------|
| Net (Taxable) Assessed Value on Books | <u>\$ 2,898,147</u> |
| Debt Limit - 25 Percent of Total Assessed Value | 724,537 |
| | |
| DEBT | |
| (For which the City's full faith and credit has been pledged) | |
| Gross Bonded Debt | <u>2,795</u> |
| LEGAL DEBT MARGIN | <u>\$ 721,742</u> |
| Source: City of Dover Financial Reports, City of Dover Charter, Section 50(b), and Tax Assessor's Office | |

COMPUTATION OF DIRECT AND OVERLAPPING DEBT JUNE 30, 2007

Capital School District

| JURISDICTION | NET DEBT OUTSTANDING | PERCENTAGE APPLICABLE TO CITY OF DOVER | AMOUNT APPLICABLE TO CITY OF DOVER |
|--|-------------------------|--|--|
| City of Dover | \$ 2,703,457 | 100% | \$ 2,703,457 |
| Kent County ⁽¹⁾ | 5,930,468 | 35% | 2,075,664 |
| Capital School District ⁽²⁾ | 17,571,220 | - | - |
| TOTAL | \$ 26,205,145 | | \$ 4,779,121 |

Sources: City of Dover Financial Records; Kent County Levy Court, Accounting Department; Capital School District, Administration Department

Caesar Rodney School District

| JURISDICTION | NET DEBT OUTSTANDING | PERCENTAGE APPLICABLE TO CITY OF DOVER | AMOUNT APPLICABLE TO CITY OF DOVER |
|--|-------------------------|--|--|
| City of Dover | \$ 2,703,457 | 100% | \$ 2,703,457 |
| Kent County ⁽¹⁾ | 5,930,468 | 35% | 2,075,664 |
| Caesar Rodney School District ⁽²⁾ | 9,934,693 | - | - |
| TOTAL | \$ 18,568,615 | | \$ 4,779,121 |

Sources: City of Dover Financial Records; Kent County Levy Court, Accounting Department; Caesar Rodney School District, Administration Department

NOTES

1. KENT COUNTY: Total debt for Kent County is \$22,894,771 as of June 30, 2007. Although Kent County's bonds are general obligation bonds, \$16,964,303 is payable from the Kent County Sewer Fund(s) or other committed sources.
2. CAESAR RODNEY SCHOOL DISTRICT: As of June 30, 2007, the net outstanding debt was \$9,934,690. The percentage and amount applicable to the City is not available.

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BOND
DEBT TO TOTAL GENERAL EXPENDITURES**
LAST TEN FISCAL YEARS

| FISCAL YEAR | PRINCIPAL | INTEREST | TOTAL DEBT SERVICE (1) | TOTAL GENERAL EXPENDITURES (2) | RATIO OF DEBT SERVICE TO TOTAL GENERAL EXPENDITURES |
|---|------------------|-----------------|-------------------------------|---------------------------------------|--|
| 1998 | \$ 375,000 | \$ 322,100 | \$ 697,100 | \$ 15,212,677 | 4.58% |
| 1999 | 390,000 | 304,514 | 694,514 | 15,334,104 | 4.53% |
| 2000 | 405,000 | 282,904 | 687,904 | 16,196,852 | 4.25% |
| 2001 | 425,000 | 301,625 | 726,625 | 18,486,047 | 3.93% |
| 2002 | 445,000 | 244,813 | 689,813 | 18,002,861 | 3.83% |
| 2003 | 465,000 | 223,543 | 688,543 | 20,214,952 | 3.41% |
| 2004 | 485,000 | 200,740 | 685,740 | 26,195,060 | 2.62% |
| 2005 | 330,000 | 110,371 | 440,371 | 27,912,865 | 1.58% |
| 2006 | 335,000 | 103,718 | 438,718 | 30,169,206 | 1.45% |
| 2007 | 345,000 | 96,232 | 441,232 | 34,651,840 | 1.27% |
| Source: City of Dover Financial Records | | | | | |

NOTES

1. The debt service figures include the General Obligation Bonds payable from the General Fund only.
2. The General Expenditures include all operating items, capital items, and debt service.

REVENUE BOND COVERAGE ELECTRIC REVENUE BONDS LAST TEN FISCAL YEARS

| YEAR | GROSS REVENUE | OPERATING EXPENSES | AVAILABLE FOR DEBT SERVICE | DEBT SERVICE REQUIREMENTS OF EACH FISCAL YEAR | | | |
|------|---------------|--------------------|----------------------------|---|--------------|--------------|----------|
| | | | | PRINCIPAL | INTEREST | TOTAL | COVERAGE |
| 1998 | \$ 46,834,241 | \$ 34,918,906 | \$ 11,915,335 | \$ 845,000 | \$ 1,815,765 | \$ 2,660,765 | 4.48% |
| 1999 | 49,354,963 | 37,160,994 | 12,193,969 | 900,000 | 1,755,363 | 2,655,363 | 4.59% |
| 2000 | 52,264,065 | 40,153,523 | 12,110,542 | 960,000 | 1,690,922 | 2,650,922 | 4.57% |
| 2001 | 51,765,524 | 41,007,889 | 10,757,635 | 1,025,000 | 1,620,938 | 2,645,938 | 4.07% |
| 2002 | 54,903,340 | 44,315,614 | 10,587,726 | 1,095,000 | 1,549,344 | 2,644,344 | 4.00% |
| 2003 | 59,737,571 | 46,611,778 | 13,125,793 | 1,170,000 | 1,480,203 | 2,650,203 | 4.95% |
| 2004 | 59,611,552 | 47,393,103 | 12,218,449 | 1,255,000 | 1,380,002 | 2,635,002 | 5.01% |
| 2005 | 63,467,514 | 51,505,300 | 11,962,214 | 1,335,000 | 1,115,728 | 2,450,728 | 4.88% |
| 2006 | 68,377,8922 | 53,839,945 | 14,537,947 | 1,855,000 | 910,256 | 2,765,256 | 5.26% |
| 2007 | 87,606,858 | 83,006,505 | 4,600,353 | 1,730,000 | 859,048 | 2,589,048 | 1.78% |

Source: City of Dover Financial Records

NOTES

1. Coverage required by the bond resolution is 1.25%.

2. Calculation of gross revenue for Fiscal Year 2007 is as follows:

| | |
|-----------------------------------|----------------|
| <u>Gross Revenue</u> | |
| Operating revenues | \$ 87,014,071 |
| Interest earned - operating funds | <u>592,787</u> |
| Total Gross Revenue | \$ 87,606,858 |

3. Direct operating expenses do not include depreciation expense.

4. Figures presented in this table compare the net revenue available for debt service to the debt service requirements of the same fiscal year.

5. In June 1990, the City issued Electric Revenue Bonds in the amount of \$29,830,000 for partial defeasance of 1985 Electric Revenue Refunding Bonds and for financing the Combustion Turbine Project. The debt service for Fiscal Year 1991 reflects only the actual debt service on 1985 Electric

Revenue Bonds as no amount was paid on the 1990 issue. The debt service for Fiscal Year 1992 includes the debt service on un-refunded 1985 Series and full year debt service on 1990 Series.

6. In January 1993, the City issued Electric Revenue Refunding Bonds in the amount of \$20,985,000 to partially refund the 1990 Series. The interest payment on these bonds is included in the above figures for Fiscal Year 1993.

7. Up to the Fiscal Year 1996, the total debt service includes payments on the Series 1985, 1990, and 1993 bonds. The debt service for Fiscal Years 1996, 1997, and 1998 includes the City's payments on un-refunded series 1990 bonds and Series 1993 bonds.

8. In August 2004, the City issued Electric Revenue Refunding Bonds in the amount of \$22,535,000 to refund the outstanding Electric Revenue Bonds Series 1990 and Electric Revenue Refunding Bonds Series 1993.

WATER/WASTEWATER BOND COVERAGE
REVENUE BONDS
 LAST TEN FISCAL YEARS

| YEAR | GROSS REVENUE | DIRECT OPERATING EXPENSES | NET REVENUE AVAILABLE FOR DEBT SERVICE | MAXIMUM REQUIREMENTS | | |
|------|---------------|---------------------------|--|----------------------------------|-----------------|-------------------|
| | | | | MAXIMUM DEBT SERVICE REQUIREMENT | ACTUAL COVERAGE | COVERAGE REQUIRED |
| 1998 | 7,554,016 | 6,059,855 | 1,494,161 | 1,484,797 | 1.01% | 1.20% |
| 1999 | 7,772,228 | 5,124,037 | 2,648,191 | 1,484,797 | 1.78% | 1.20% |
| 2000 | 8,236,506 | 5,777,844 | 2,458,662 | 1,484,310 | 1.66% | 1.20% |
| 2001 | 8,932,763 | 6,620,732 | 2,312,031 | 1,524,280 | 1.52% | 1.20% |
| 2002 | 9,639,256 | 6,185,232 | 3,454,024 | 1,524,380 | 2.27% | 1.20% |
| 2003 | 10,604,052 | 7,180,175 | 3,423,877 | 1,472,412 | 2.33% | 1.20% |
| 2004 | 10,101,660 | 7,608,196 | 2,493,464 | 1,553,713 | 1.93% | 1.20% |
| 2005 | 10,619,688 | 7,223,283 | 3,396,405 | 1,551,228 | 2.19% | 1.20% |
| 2006 | 12,372,563 | 7,805,396 | 4,467,167 | 1,551,228 | 2.94% | 1.20% |
| 2007 | 12,294,847 | 8,242,898 | 4,051,949 | 797,748 | 5.08% | 1.20% |

Source: City of Dover Financial Records

NOTES

1. In January 1993, the City issued Water and Wastewater Revenue Refunding bonds in the amount of \$7,745,000. These bonds were issued to partially defease Water and Wastewater Revenue bonds 1986 Series A, 1986 Series B, and fully defease all outstanding bonds of Series 1989.
2. In September 1993, the City issued Water and Sewer Revenue Bonds in the amount of \$4,595,000 through 1993 Series A.
3. The maximum debt service requirement presented above includes all outstanding revenue bonds including non-refunded Series 1986B, Series 1993, 1993A, and 2003.
4. Direct operating expenses do not include depreciation expense for coverage purposes as per the bond indenture.
5. The operating expenses for Fiscal Year 1997 include 18 months of Kent County Sewer fees. This was due to a change in the County's billing system. This extraordinary item is for this one year only.
6. In October 2003, the City issued Water and Sewer Revenue Bonds in the amount of \$7,980,000. These bonds were issued to fully defease Water and Wastewater Revenue Bond Series 1986B and to partially defease Water and Wastewater Revenue Bond Series 1993 and Series 1993A to provide approximately \$1,600,000 for future capital projects.

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