



November 13, 2019

FY 2021 BUDGET DEVELOPMENT WORK SESSION

Agenda

1. FY 2021 Budget Process Update
2. Review of Long Term Financial Policies
3. FY 21 – 25 Capital Improvement Program Overview
4. Affordability
5. Other Considerations
6. Discussion



Budget Process Update

Key Dates

- **November 26** – Presentation of CIP to Planning Commission – Worksession
- **December 10** – Planning Commission CIP Public Hearing
- **March 2** - Proposed City and School Operating and Capital Budget Formally Presented to Council
- **March 16** - First Budget and Tax Rate Public Hearings
- **April 6** - Second Budget Public Hearing/Budget Approval First Reading/Tax Levy Approval First Reading
- **April 14** - Budget and Tax Levy Approval Second Reading

[Link to detailed calendar](#)



Budget Process Update

Scheduled Work Sessions

Dec 11	Budget Work Session (Budget Development)
Jan	Council Retreat (Date TBD)
Feb 6	Budget Worksession (Budget Development)
Mar 5	Budget Worksession #1 (Revenue & Expenditures)
Mar 12	Budget Worksession #2 (CIP)
Mar 25	Community Budget Forum
Mar 26	Budget Worksession #3 (Outside Agencies)
Apr 9	Budget Worksession #4 (Budget Wrap Up)

[Link to detailed calendar](#)



Long Term Financial Policies

1. Maintain a minimum General Fund balance of at least 14% of General Fund budget.
2. Maintain a minimum Downturn Reserve Fund balance of no less than 3% of General Fund budget.
3. Maintain sufficient working capital in the utilities funds (Water, Wastewater and Gas).
4. Stabilize all non-general funds by ensuring they have a positive fund balance.
5. Debt service as a percentage of the general fund total expenditure budget has a ceiling of 10%, with a target of 9%.
6. Transfer 1-cent of the meals tax revenue to the Debt Service Fund to be used for debt service.



FY 2021 Budget Development Worksession

FY 21 – 25 Capital Improvement Plan (CIP) Overview



FY 21–25 Draft Proposed CIP

Summary

- \$35.8M in FY 2021
- \$127.9M over 5 year period



Schools Projects

\$18.32M in Schools Project Funding over 5 year period including:

- \$6.25M - CCS Priority Improvements
- \$6.0M - Schools Lump Sum
- \$3.75M - Schools HVAC Replacement
- \$1.32M - CHS Roof Replacement
- \$1.0M – Small Capital Improvements Program



City Facilities

\$11.4M in City Facility Funding over 5 year period including:

- \$5.72M - City Facilities Lump Sum
- \$1.25M - City Facility HVAC Replacement
- \$375,000 - City and School Solar Program
- \$150,000 - Energy Performance Audit
- \$1.5M Smith Aquatic Center Air Quality
- \$2.6M Downtown Mall TARA



Public Safety

\$10.46M in Public Safety Funding over 5 year period including:

- \$6.36M - General District Court Facility
- \$2.52M - Replacement Fire Apparatus
- \$1.56M – Mobile Data Terminals and Portable Radios



Transportation and Access

\$50.32M in Transportation and Access Funding over 5 year period including:

- \$8.0M - West Main Streetscape Improvements
- \$10.0M - future Parking Structure
- \$7.0M - Street Milling and Paving
- \$7.5M – Belmont Bridge (local share)
- \$4.0M - New Sidewalks, Sidewalk Repair and ADA Upgrades
- \$3.29M Traffic signal Infrastructure Replacement



Parks and Recreation

\$3.23M in Parks and Recreation Capital Funding over 5 year period including:

- \$625,000 - Parkland and Trails Acquisition and Development
- \$625,000 - Downtown Mall Infrastructure Repairs
- \$560,000 - Parks and School Playground Renovations
- \$375,000 - Tree Plantings
- \$800,000 – Parks and Recreation Lump Sum



Other Capital Projects

\$3.0M in Other Capital Project Funding over 5 year period including:

- \$1.25M - Citywide Information Technology Strategic Infrastructure
- \$625,000 - Home Energy Conservation Grant Program
- \$750,000 - Economic Development Strategic Initiatives
- \$200,000 Citywide Fee Study



Affordable Housing

\$31.19M in Affordable Housing Funding over 5 year period:

- \$12.0M - Public Housing Redevelopment
- \$4.50M - Friendship Court Infrastructure Improvements
- \$394,841 - Friendship Court Redevelopment Phase I
- \$6.5M – Friendship Court Redevelopment Phase II and III
- \$4.5M – Supplemental Rental Assistance
- \$2.5M – Housing Rehabilitation
- \$800,000 – Charlottesville Affordable Housing Fund



Future Funding Requests

- Schools Reconfiguration
- New Hill
- West Main
- Affordable Housing
- McIntire Park
- Tonsler Park



FY 2021 Budget Development Worksession

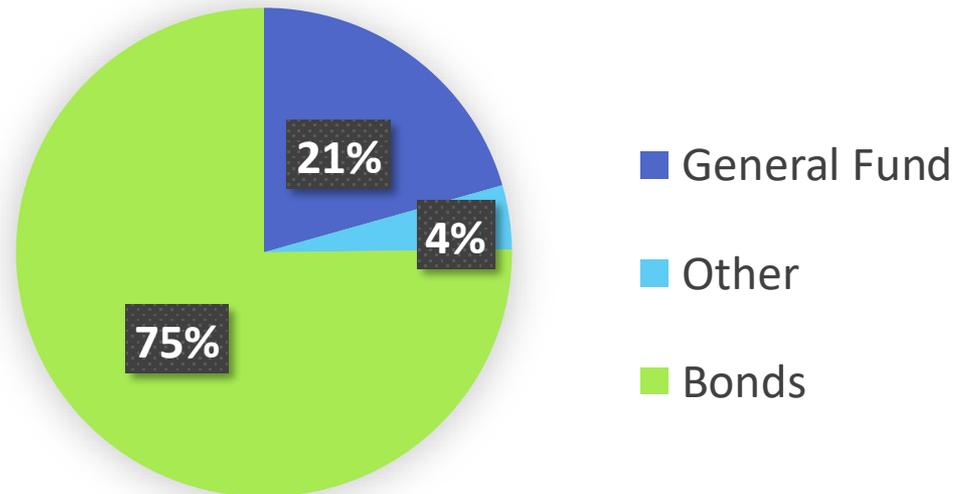
Affordability



CIP Funding

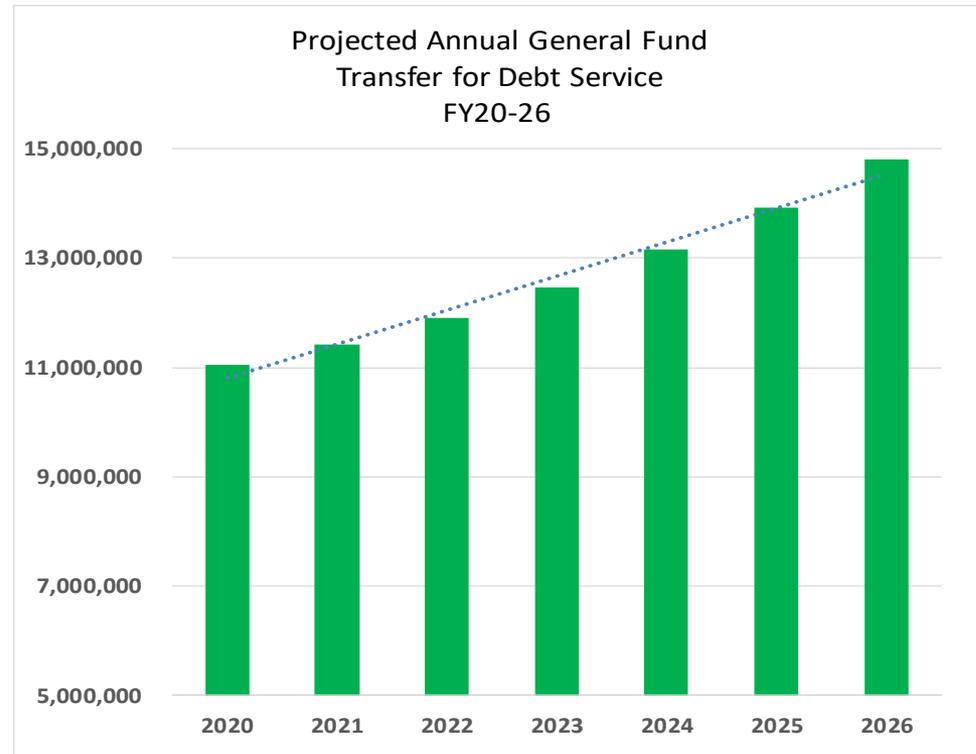
The CIP is funded primarily by Cash and Bonds.
Currently, bonds are authorized to fund 75% of the CIP in FY 21.

CIP Revenue Sources - FY 21



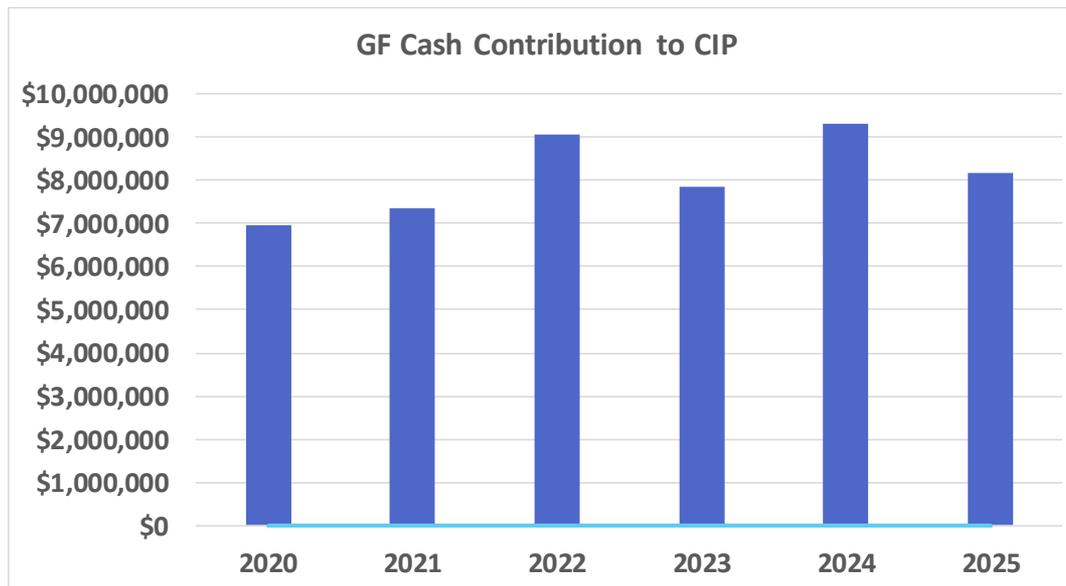
Debt Funding

- \$83M in bond funding planned for projects in FY 21 to FY25
- Increases General Fund expenditures by a minimum of \$3.8M in over the next five years to support additional debt service.



Cash Funding

\$41.78M in General Fund Contributions projected over next five years. FY 2022 and FY2024 are projected with significant increases to cover the Friendship Court Phase II and Phase III funding.



General Fund Contributions

In the past, prior year-end surpluses have been used to fund projects and reduce the amount of new money contributed by General Fund. The FY18 surplus was allocated to affordable housing projects in the FY20 CIP Budget.

CIP PayGo History

<u>Fiscal Year</u>	<u>General Fund Budget</u>	<u>Budgeted Transfer - 3%</u>	<u>Year-End Surplus Transfer</u>	<u>% of Total Cash Transfer</u>
2010	139,429,736	4,575,000	1,711,786	5%
2011	142,350,007	4,248,500	2,056,226	4%
2012	143,306,538	4,919,505	1,708,072	5%
2013	146,269,910	4,400,000	3,070,703	5%
2014	148,167,862	4,467,500	1,648,723	4%
2015	150,742,327	4,599,086	972,595	4%
2016	156,381,435	4,750,000	2,282,540	4%
2017	162,018,737	4,875,164	3,918,223	5%
2018	171,657,127	5,165,164	5,223,726	6%
2019	179,725,535	5,374,766	3,201,082	5%
2020	188,863,920	7,093,323	-	4%

5% Average

FY 19 Year-End Surplus will be available and reported in January 2020



Additional Funding Needs

New sources of funds will be needed to pay for the projects.

Important to Prioritize Decisions related to Funding Capital Projects

Additional Funds Needed Annually

	<u>FY 2021</u>	<u>FY 2022</u>
Cash for General Fund Contribution	\$399,518	\$1,682,362
Cash for Debt Service	\$374,888	\$475,137
Total Additional Dollars Needed	\$774,406	\$2,157,499

The General Fund Contribution increase in FY 22 is primarily due to the need for cash to fund additional affordable housing initiatives.



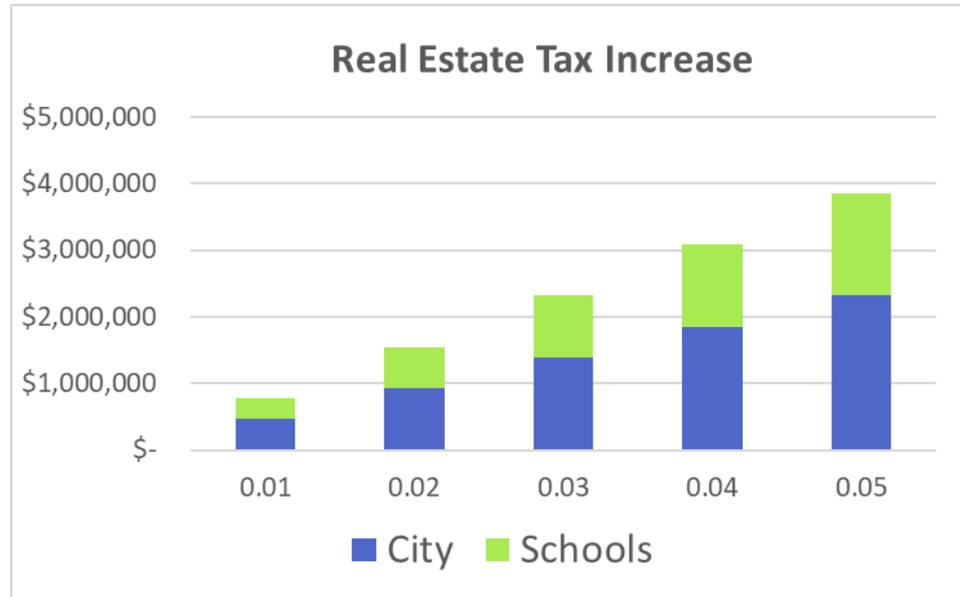
Increasing Tax Revenues

What Does \$0.01 Generate Based on FY20 Estimated Revenue			
<u>Tax Rate</u>	<u>Revenue Type</u>	<u>Amount</u>	<u>Revenue/ \$0.01 Increase</u>
\$ 0.95 / 100	Real Estate Tax	\$0.01	\$771,975
\$0.06	Meals Tax	\$0.01	\$2,488,800
\$ 4.20 / 100	Property Tax	\$0.01	\$22,143
\$0.08	Lodging Tax	\$0.01	\$816,969
\$0.55	Cigarette Tax	\$0.01	\$10,455

Per current policy 40% of any new property tax revenue – both Real Estate and Personal Property – is dedicated to the City's transfer to the City Schools



What is \$0.01 Really Worth?



Financial policies and reserves levels must also be considered when considering increases to revenue and could have impact on the amount of dollars available to spend.



FY 2021 Budget Development Worksession

Other Considerations



Other FY 2021 Considerations

- City Operating Budget Needs
 - Compensation
 - Departmental Requests
- Schools Operating Budget Needs
- Schools Reconfiguration/Capacity Changes
- Others???



Discussion



Appendix



CIP Guidelines

- Five year plan with projects costing \$50,000 or more with life of 5 years or more
- Funded by a combination of Cash and Bonds
- Cash funding must be at least 3.0% of general fund expenditures per the financial policy
 - FY 2020 Contribution = \$7.1M
 - 3.69% of General Fund which is slightly more than required by the 3% policy



Debt Service Fund

- Provides funds necessary to retire the City's general government bonds used to pay for public improvements
- Long Term Financial Policy
 - Debt service as a percentage of the GF total expenditure budget has a ceiling of 10%, with a target of 9%
- FY 2020 Transfer to Debt Service Fund = \$11.0M



The City's Bond Ratings

- Charlottesville has maintained the highest possible general obligation credit ratings:
 - Aaa from Moody's Investors Service since 1973
 - AAA by Standard & Poor's since 1964
- A high credit ratings allows the City to borrow funds at the lowest possible borrowing cost and ensures more money is going toward capital projects than interest payments.
 - Given a debt portfolio in excess of \$100 million, the City's AAA bond ratings have allowed the City to reduce its debt service by \$3-4 million versus if it had been rated AA
- A high credit rating is also helpful in attracting economic development prospects.
- The City talks with the rating agencies on an annual basis.



Rating Agency Factors

- Rating agencies focus on four key factors:
 - **Economy** – demographics, employment base, property values and taxpayer composition
 - **Management** – policies and procedures, strategic planning and ability to achieve budgetary targets
 - **Financial** – budget practices, investments and fund balances
 - **Debt** – outstanding debt, future needs and pension/other post employment benefit obligations

Key Financial Policies

Maintain a minimum General Fund Balance of 14% of General Fund Budget

Maintain a minimum Downturn Reserve Fund of no less than 3% of General Fund Budget

Maintain a debt service to operating expenditures ratio below a ceiling of 10% with a goal of under 9%



The Importance of Bond Ratings

- Provide independent views of an entity's creditworthiness and the credit quality of their debt issues
- Facilitates the debt issuance process
 - Gives investors a way of evaluating risk and determining an appropriate level of return for a variety of credits
- Ratings are NOT a commentary on the quality of life in that locality; they are solely a way to judge a locality's ability to repay their debt

