

FY 2021 Budget Development
Operating Budget



January 23, 2020

CITY COUNCIL BUDGET RETREAT

Agenda

- 1. Budget Process**
- 2. Strategic Plan Update**
- 3. Budget Guidelines**
- 4. Long-term Financial Policies and Debt**
- 5. Revenue Discussion**
- 6. Expenditure Discussion**
 - a. Community Agency Funding Discussion**

Budget Process



Budget Process

City Budget Process Overview

- Year Round Process
- Budgets continuously monitored/tracked
- Series of work sessions with City Council beginning in the Fall through budget adoption in the Spring
- Capital Improvement Program development process begins in July



Budget Process

City Budget Process Overview

- Department operational requests submitted November
- Departmental budget review meetings December through January
- Proposed Budget development and budget balancing continues through mid-February
- Proposed Budget presented to City Council in March with Public Hearings in March and April



Important Dates

- **Feb 11- Budget is Balanced!**
 - Real Estate Tax Rate (and rollback rate) advertisement will be sent to paper for publication per State requirement that must occur 30 days before the real estate tax rate public hearing (publish on Feb 15)
 - FY 2021 Proposed Budget must also be completed (ad includes % change to the budget from current year)
 - Other changes to local taxes require a 7 day advertisement and separate public hearing
- **March 2** - Proposed City Operating and Capital Budget and Adopted School Budget Formally Presented to Council
- **March 16** - First Budget and Tax Rate Public Hearings
- **April 6** - Second Budget Public Hearing/Budget and Tax Levy First Reading
- **April 14** - Budget and Tax Levy Second Reading and Final Approval



Budget Worksessions

- Jan 28** Joint City Council/School Board Meeting
- Feb 6** Budget Worksession (Budget Development)
- Mar 5** Budget Worksession #1
- Mar 12** Budget Worksession #2
- Mar 25** Community Budget Forum
- Mar 26** Budget Worksession #3
- Apr 9** Budget Worksession #4

[Link to detailed calendar](#)



Strategic Plan Update



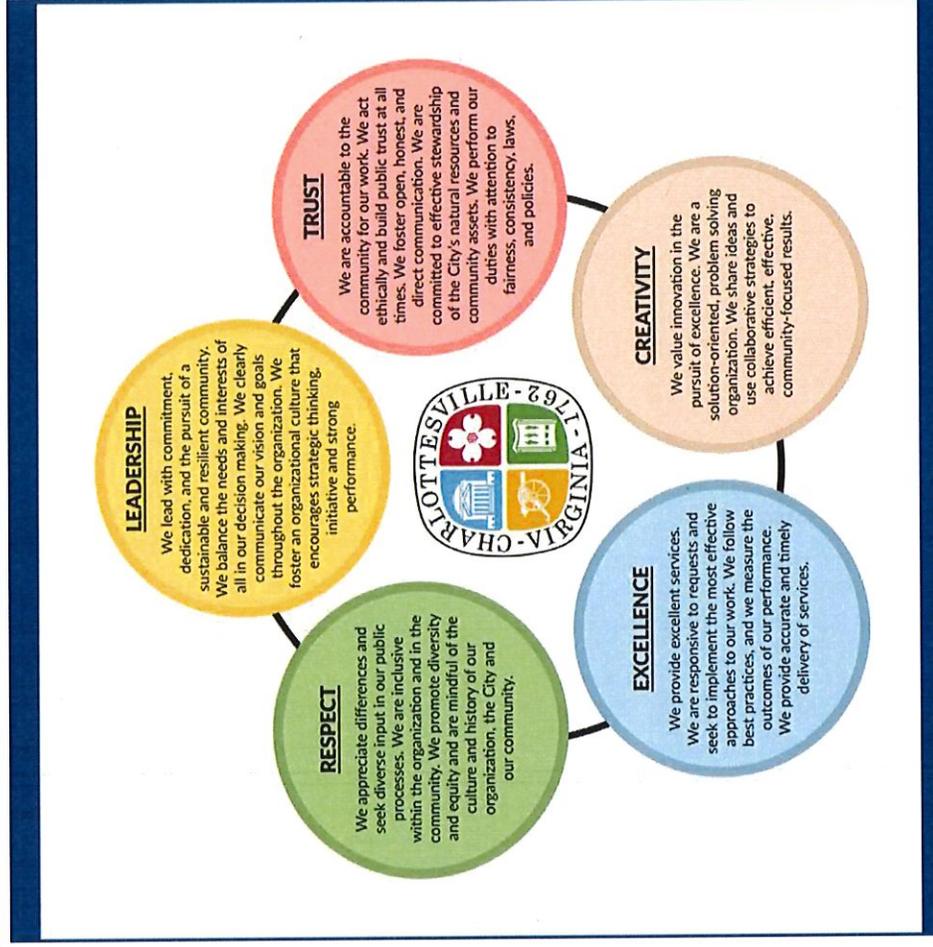
Strategic Plan

Vision

To be on community filled with opportunity

Mission

We provide services that promote equity and an excellent quality of life in our community



Strategic Plan

FY 20 Budget Priorities

- Economic Development
- Workforce Development
- Safety and Security
- Affordable Housing
- Race and Equity

	<p>GOAL 1: An Inclusive Community of Self-sufficient Residents</p> <ul style="list-style-type: none"> 1.1 Prepare students for academic and vocational success 1.2 Prepare residents for the workforce 1.3 Increase affordable housing options 1.4 Enhance financial health of residents 1.5 Intentionally address issues of race and equity
	<p>GOAL 2: A Healthy and Safe City</p> <ul style="list-style-type: none"> 2.1 Reduce adverse impact from sudden injury and illness and the effects of chronic disease 2.2 Meet the safety needs of victims and reduce the risk of re-occurrence/re-victimization 2.3 Improve community health and safety outcomes by connecting residents with effective resources 2.4 Reduce the occurrence of crime, traffic violations and accidents in the community
	<p>GOAL 3: A Beautiful and Sustainable Natural and Built Environment</p> <ul style="list-style-type: none"> 3.1 Engage in robust and context sensitive urban planning and implementation 3.2 Provide reliable and high quality infrastructure 3.3 Provide a variety of transportation and mobility options 3.4 Be responsible stewards of natural resources 3.5 Protect historic and cultural resources
	<p>GOAL 4: A Strong, Creative and Diversified Economy</p> <ul style="list-style-type: none"> 4.1 Develop a quality workforce 4.2 Attract and cultivate a variety of businesses 4.3 Grow and retain viable businesses 4.4 Promote tourism through effective marketing
	<p>GOAL 5: A Well-managed and Responsive Organization</p> <ul style="list-style-type: none"> 5.1 Integrate effective business practices and strong fiscal policies 5.2 Recruit and cultivate a high quality and diverse workforce 5.3 Provide responsive customer service 5.4 Foster effective community engagement



FY 2021 Budget Guidelines



Budget Guidelines

1. Annually review major local tax rates.
2. Develop operational budgets within projected available revenues.
3. Focus on Council's Strategic Plan Goals:

Strategic Plan Goals

1. An Inclusive Community of Self-Sufficient Residents
2. A Healthy and Safe City
3. A Beautiful & Sustainable Natural & Built Environment
4. A Strong, Creative and Diversified Economy
5. A Well-managed and Responsive Organization



Budget Guidelines

4. Continue to incorporate the use of performance measures to assist in making decisions that support budget priorities related to City's Strategic Plan.
5. Continue the strong commitment to education by allocating up to 40% of new City real estate and property tax revenue to schools.
6. Invest strategically in employees by providing adequate pay, benefits, training, technology resources, support, and appreciation.
7. Annually review the living wage ordinance "so that every City contract for the provision of non-professional services will require that the contractor pay each employee assigned to perform services a living wage equal to no less than the lowest starting salary for City employees."
8. Fund no new programs or major expansion of existing programs without fully offsetting revenues or reductions in expenditures.



Budget Guidelines

9. Balance reinvestment in the City's existing infrastructure and facilities and creation of new opportunities for investing in the future of the City.
10. Transfer at least 3% of general fund expenditures to the Capital Improvement Fund (CIP).
11. Budget a reserve for Council Strategic Initiatives.
12. Budget a Fund Balance Target Adjustment pool of funds to help ensure that the City continues to meet the important financial policy of maintaining an unappropriated fund balance in the General Fund .
(See Long Term Financial Policies)



Long-Term Financial Policies And Debt



Long Term Financial Policies

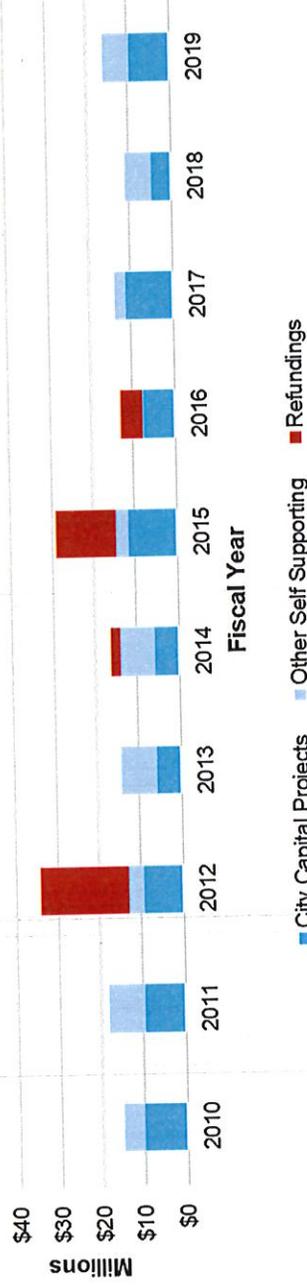
1. Maintain a minimum General Fund balance of at least 14% of General Fund budget.
2. Maintain a minimum Downturn Reserve Fund balance of no less than 3% of General Fund budget.
3. Maintain sufficient working capital in the utilities funds (Water, Wastewater and Gas).
4. Stabilize all non-general funds 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.



City's Outstanding Debt

- The City has \$136.9 million of general obligation debt outstanding as of June 30, 2019
 - The City historically issues bonds annually to fund its cash flow needs for capital projects for the following 12 to 24 months. The graph below includes bonds issued for both general fund supported (City) as well as self-supporting (Water, Wastewater, Storm Water) projects.

Charlotteville Bond Issues
(2010 – 2019)



- Over the last 10 years, the City issued \$8.4 million on average in general fund supported new money borrowings each year
- When interest rate environments are low, the City has also refunded existing, outstanding debt for future cash flow savings.
 - Since 2012, the City has saved \$3.4 million in interest expense through refinancings
- However, although the City and its Financial Advisor regularly monitor the City's debt portfolio, the City's ability to refinance on a tax-exempt basis was hampered with the Tax Reform Bill that was passed in 2017.



The City's Bond Ratings

- Credit ratings are an independent view on a municipality's creditworthiness and ability to repay its debt
- 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 rating 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.



Aaa/AAA Municipalities

- The City is one of only 124 cities nationwide that maintains a “Aaa/AAA” General Obligation rating from Moody’s and S&P
- Only 9 Virginia cities or towns maintain the distinction of being Aaa/AAA rated

Municipality	Moody's	S&P
Alexandria, VA	Aaa	AAA
Charlottesville, VA	Aaa	AAA
Fairfax, VA	Aaa	AAA
Falls Church, VA	Aaa	AAA
Herndon, VA	Aaa	AAA
Leesburg, VA	Aaa	AAA
Suffolk, VA	Aaa	AAA
Vienna, VA	Aaa	AAA
Virginia Beach, VA	Aaa	AAA



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%



Forecasted Impact of Proposed CIP

- The following table illustrates the impact on the City's Debt Policy of proposed future debt issuances to fund previously authorized but unissued debt and future capital projects. The timing and amount of the debt issuances is based upon the most recent estimated project draw schedules.

FY2021 Debt Projection				
Fiscal Year	G.O. Bond Issue Amount (1)	Annual Debt Service (2)	General Fund Expenditure Budget (3)	Ratio of Debt Service to Total General Fund Expenditures
2016	11,125,466	9,128,798	156,391,435	5.84%
2017	11,140,000	10,103,067	162,018,737	6.24%
2018	4,610,000	10,615,335	171,657,127	6.18%
2019	9,520,000	10,164,512	179,725,535	5.66%
2020	21,500,000	10,721,805	188,863,920	5.68%
2021	21,500,000	12,170,685	191,696,879	6.35%
2022	21,500,000	13,630,170	194,572,332	7.01%
2023	21,500,000	15,361,714	197,490,917	7.78%
2024	21,500,000	16,612,622	200,453,281	8.29%
2025	21,500,000	17,779,887	203,460,080	8.74%
2026	21,500,000	18,456,570	206,511,981	8.94%

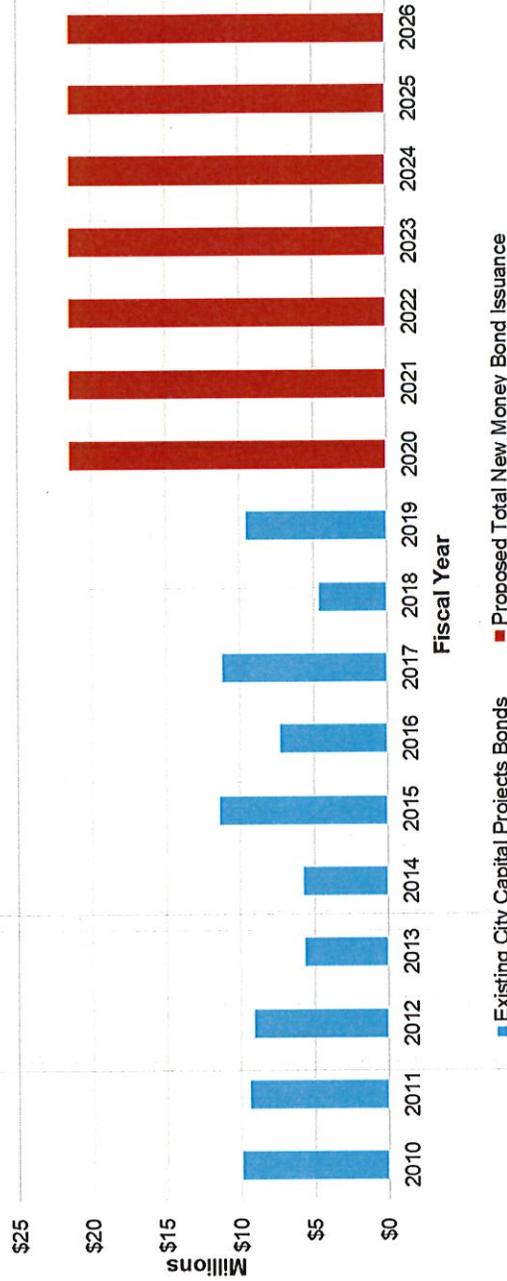
- (1) Assumes FY2018 bond issuance funds current City Council previously authorized but unissued amount while bond issuance amounts shown in current CIP are delayed by one year.
- (2) Assumes an interest rate of 3.50%-4.0%.
- (3) Assumes General Fund Expenditure Budget increases of 1.5% annually.



Historic and Future Borrowing Plans

- From FY10 to FY19, the City borrowed a total of \$83.8 million for City capital projects
 - Issuing \$21.5 million each year from FY20 to FY26 would result in a total of \$150.5 million in debt for City capital projects
- The average annual borrowing amount for City projects from FY10 to FY19 was \$8.3 million in contrast to the average annual borrowing amount of \$21.5 million that is anticipated from FY20 to FY26

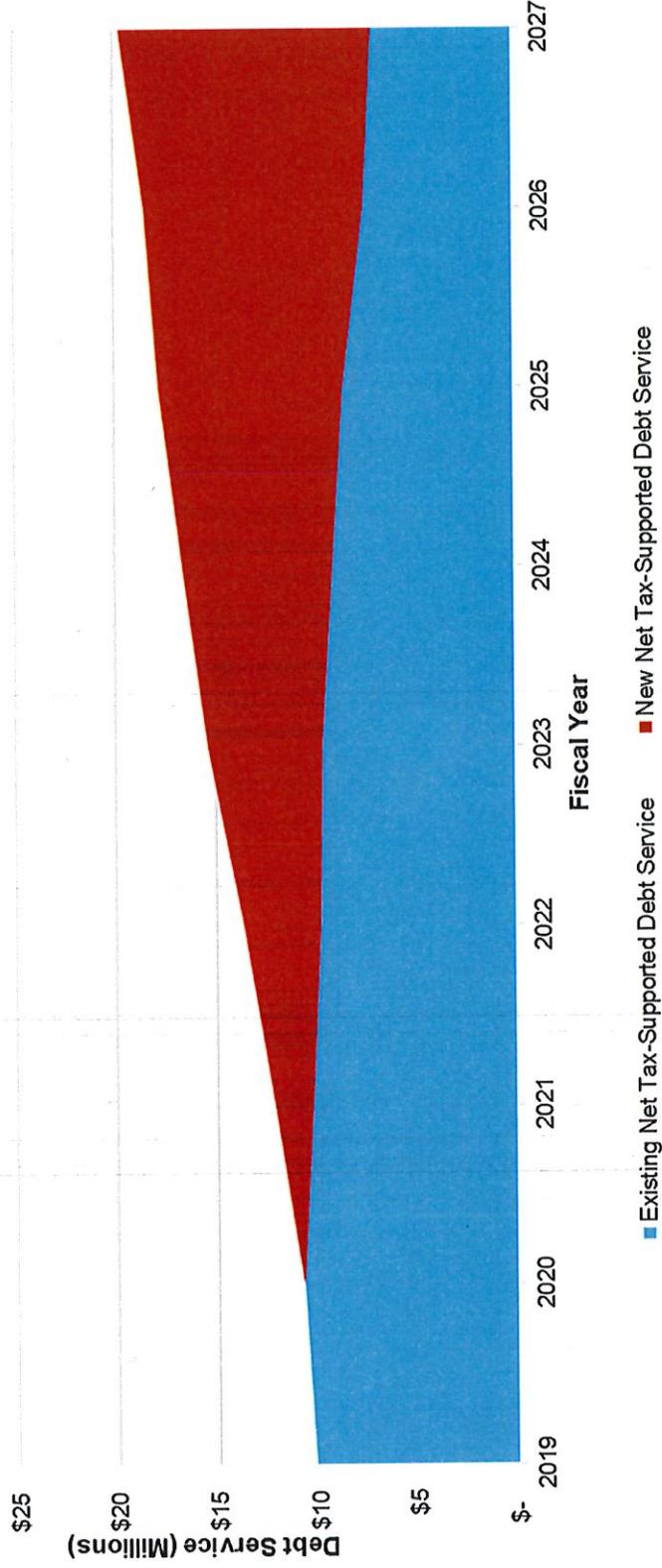
Charlotteville Bond Issues
(2010 - 2026)



Estimated Debt Service

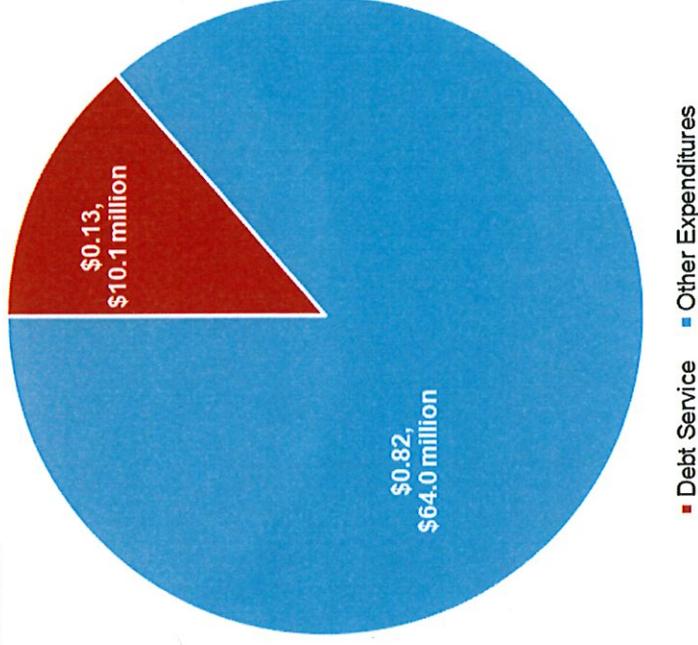
- If the City borrows \$21.5 million from FY20 to FY26 as projected, annual debt service is projected to rise to \$19.7 million
- In contrast, FY 2019 annual debt service was \$10.1 million

Total Projected Debt Service



Funding Options for Increased Debt Service

- In order to pay for the future increase in debt service, the City has essentially three options:
 1. Use of Existing Funds
 - Current Debt Service Fund balance of \$13 million
 2. Increase Revenues
 3. Decrease Other Expenditures
- Using \$0.95 Real Estate Tax Rate as a new Revenue Source example:
 - Real Estate Taxes generate approximately \$74.1 million
 - FY 2019 Debt Service was \$10.1m (equivalent to 13 cents)
 - Balance of \$64m used annually for other City expenditures (82 cents)



Potential Tax Rate Increase

- The table below assumes that the City uses a combination of existing funds on hand plus increases of the real estate tax rate as a new source of revenue

Affordability									
Fiscal Year	Bond Issue Amount (1)	Annual Debt Service (2)	Debt Service Fund Balance(3)	Subsidy from Debt Service Fund Balance	General Fund Transfer(4)	\$ Increase in General Fund Transfer	Required R/E Tax Rate Increase (In Cents) (5)	Effective Tax Rate (In Cents)	
2016	11,125,466	9,128,798	11,962,480		9,279,578	-			
2017	11,140,000	10,103,067	11,880,013		9,817,330	537,752			
2018	4,610,000	10,615,335	11,905,368		10,371,750	554,420			
2019	9,520,000	10,164,512	12,673,565		10,924,263	552,513			
2020	21,500,000	10,721,805	13,099,025		11,049,588	125,325		95.00	
2021	21,500,000	12,170,685	12,739,463	359,562	11,724,476	674,888	0.82	95.82	
2022	21,500,000	13,630,170	11,684,133	1,055,330	12,499,613	775,137	0.94	96.76	
2023	21,500,000	15,361,714	9,759,696	1,924,436	13,375,001	875,388	1.06	97.82	
2024	21,500,000	16,612,622	7,547,084	2,212,613	14,350,643	975,642	1.18	99.01	
2025	21,500,000	17,779,887	5,230,115	2,316,968	15,426,542	1,075,899	1.31	100.31	
2026	21,500,000	18,456,570	3,399,972	1,830,143	16,603,000	1,176,458	1.43	101.74	

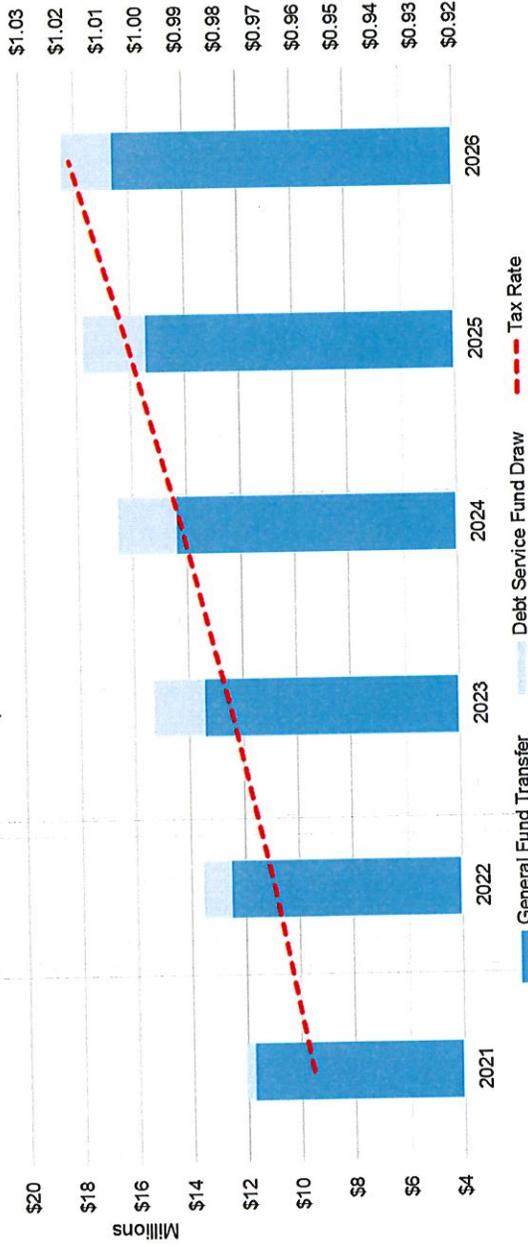
(1) Represents the amount of bonds previously issued or amounts we expect to issue in future years
 (2) Represents the actual and expected annual debt service payments based on projected issuance schedule
 (3) Funds accumulated for the payment of debt service and used to help mitigate impact on the General Fund budget
 (4) General Fund Transfer for the payment of annual debt service
 (5) Illustrates impact on real estate tax rate if City want to keep portion of tax rate the same that goes to operations.



Potential Tax Rate Impact (cont.)

- As total annual debt service rises, sources need to increase
- The City will draw their debt service fund down to \$3.3 million by FY26
- To make up the gap between debt service owed and the subsidy from debt service fund draw down, the City must increase general fund transfers with additional revenue from a tax rate increase

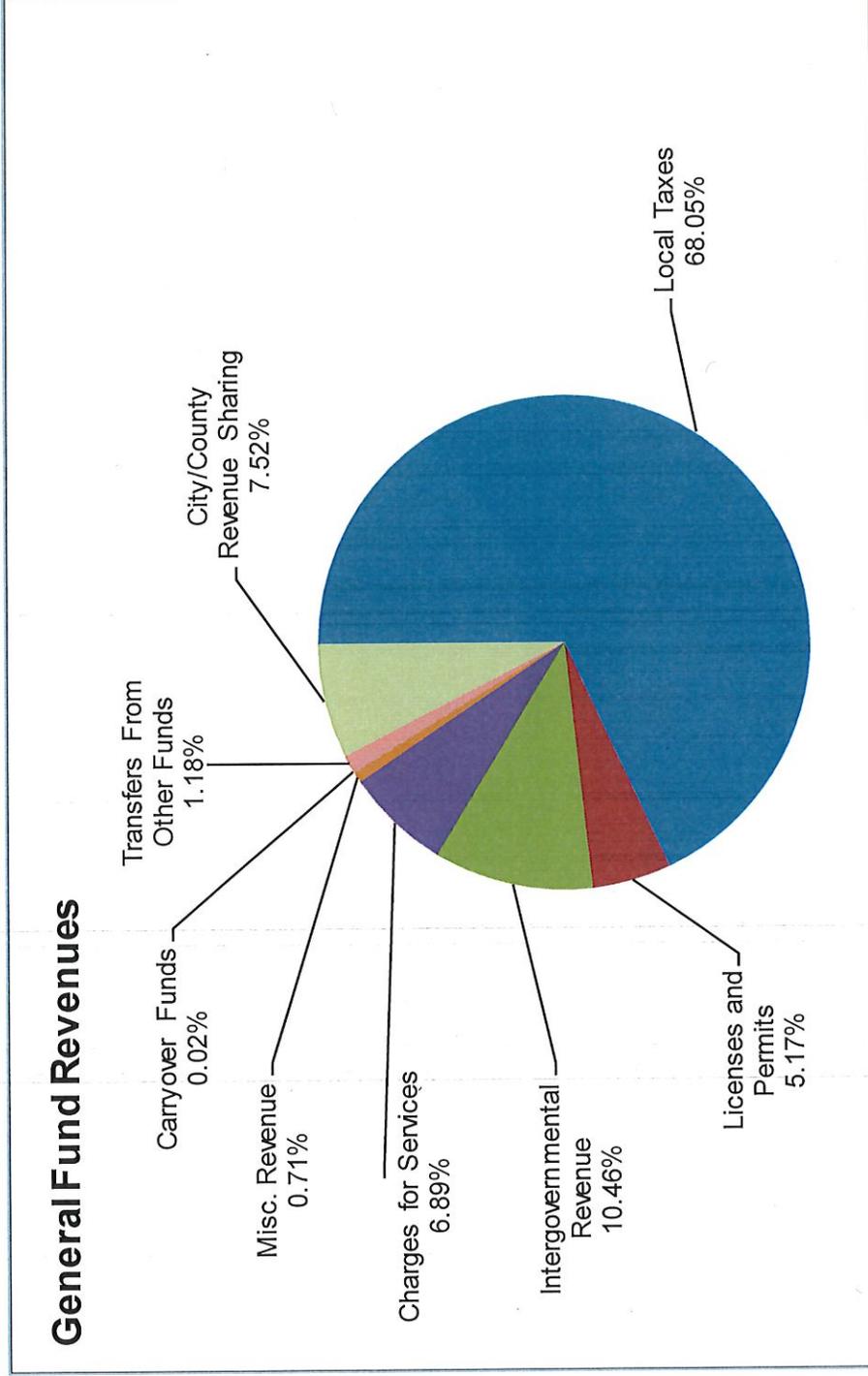
Project Sources to Pay Debt Service
(2021 – 2026)



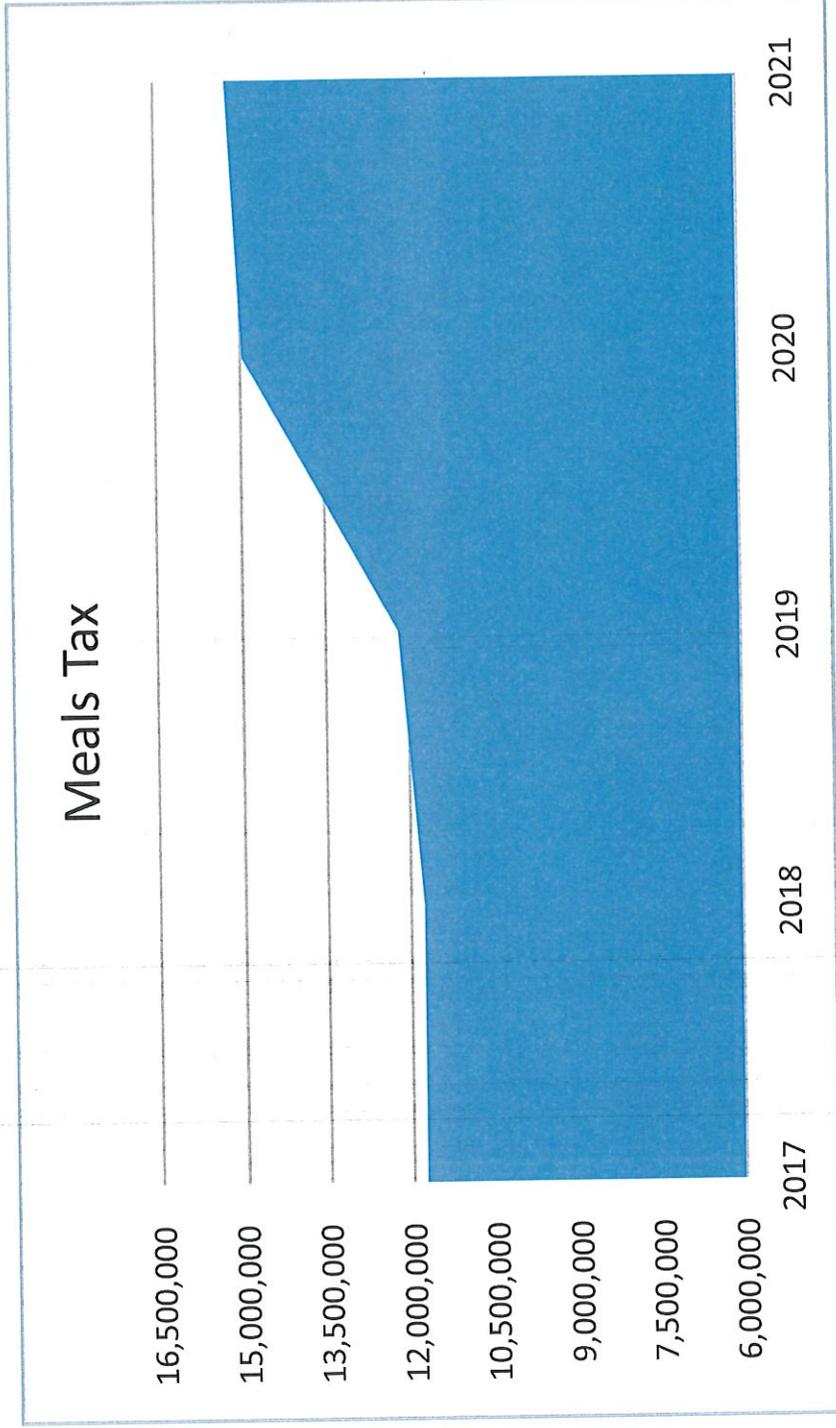
Revenue Discussion



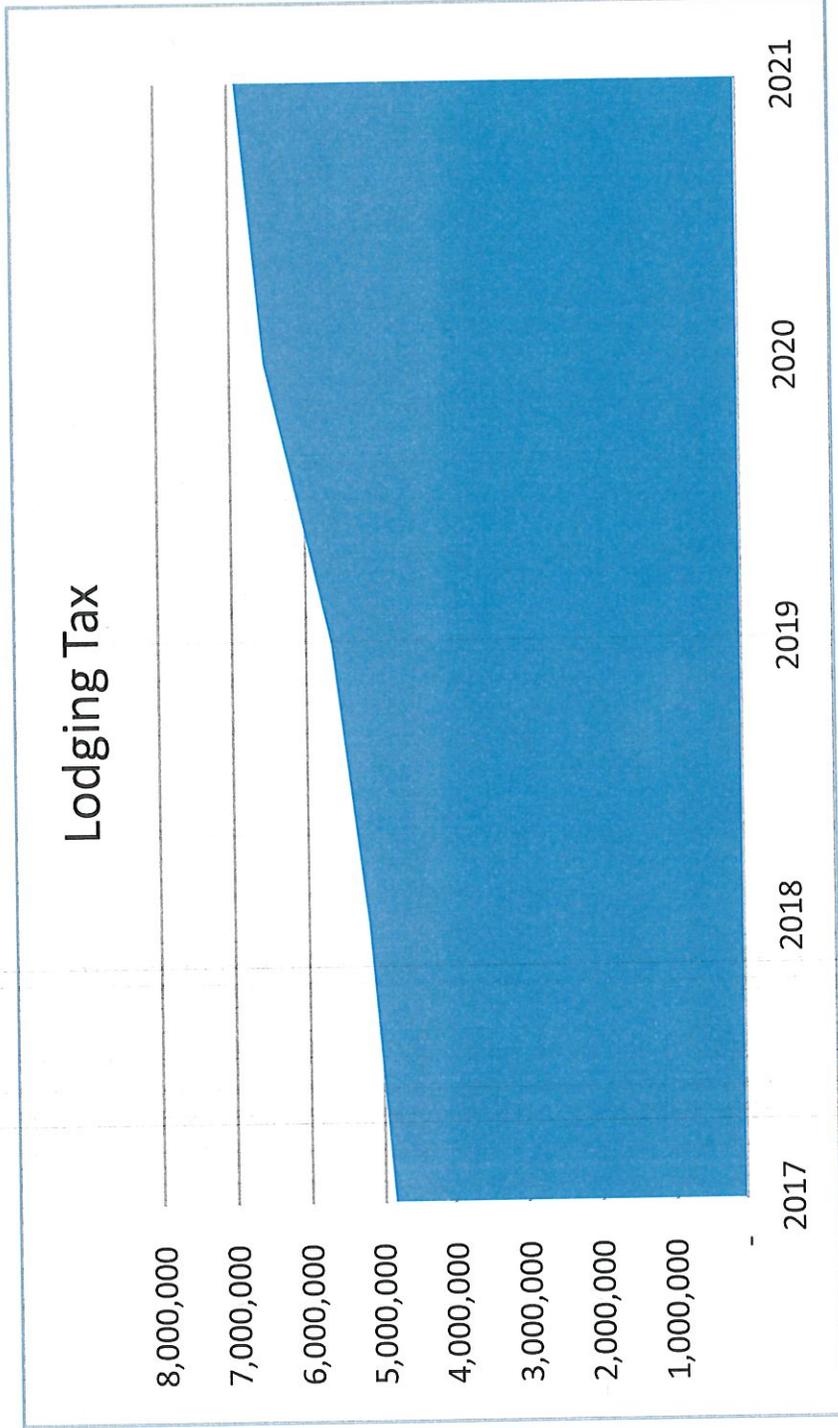
Major FY 20 Revenue Drivers



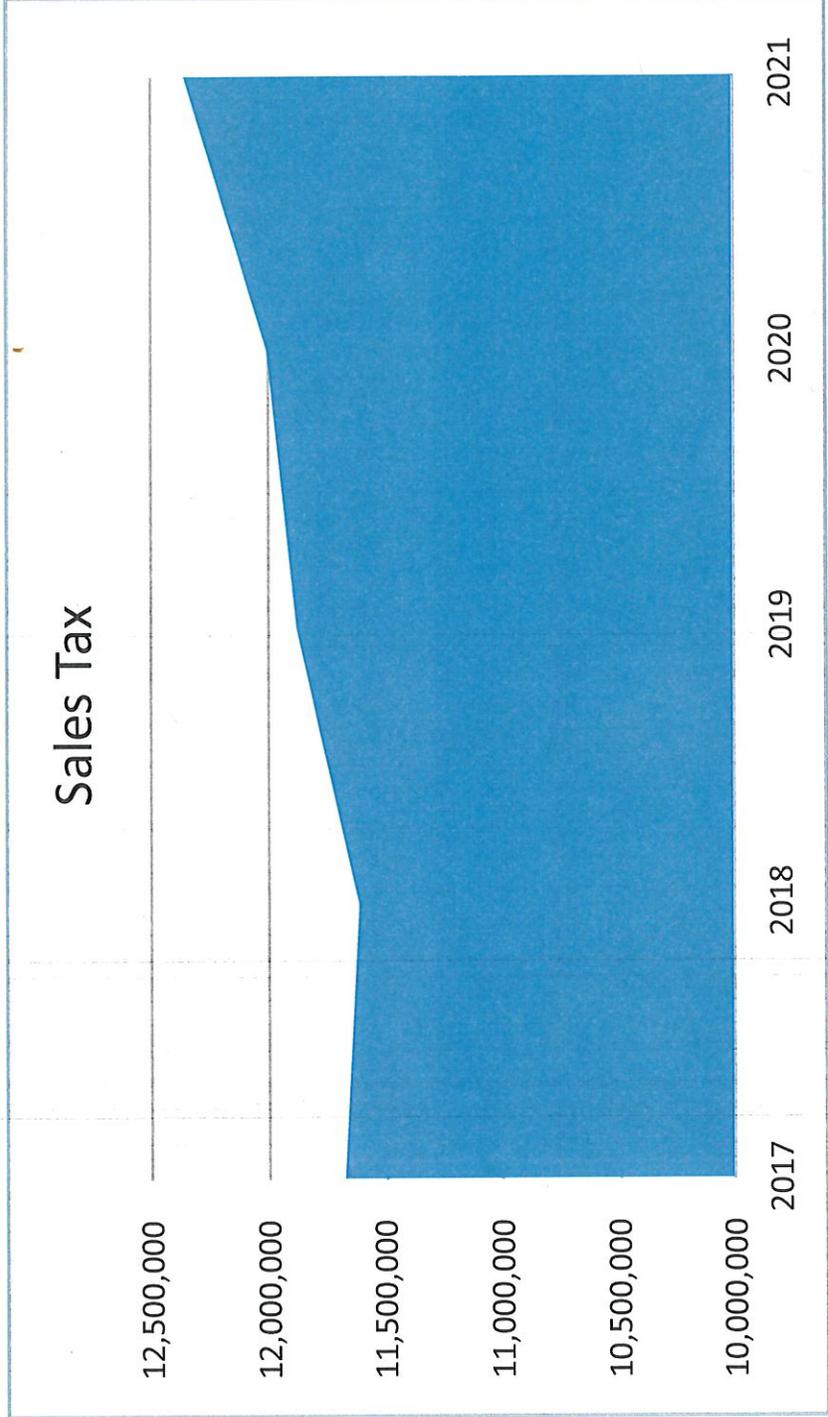
Major Revenues – Meals Tax



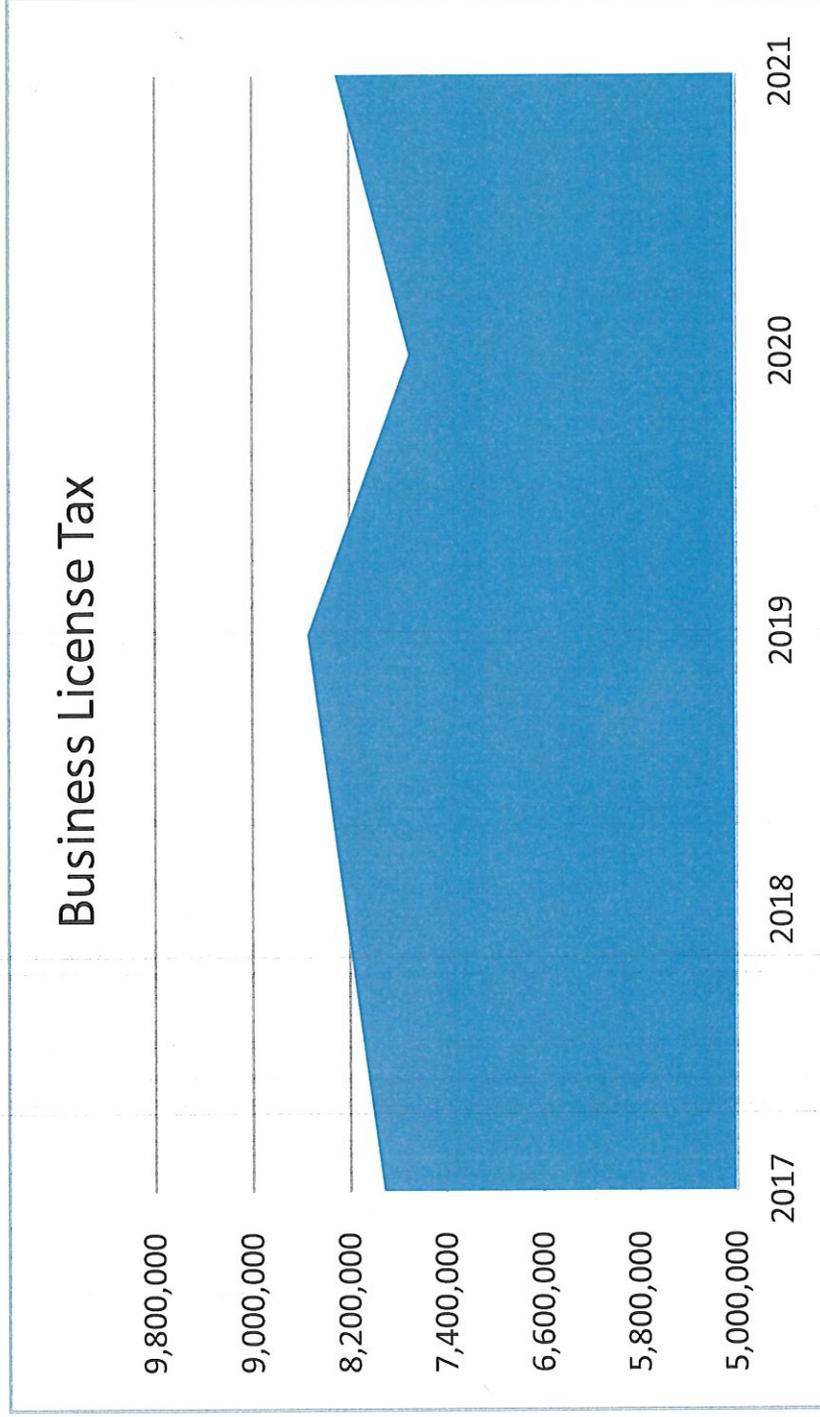
Major Revenues – Lodging Tax



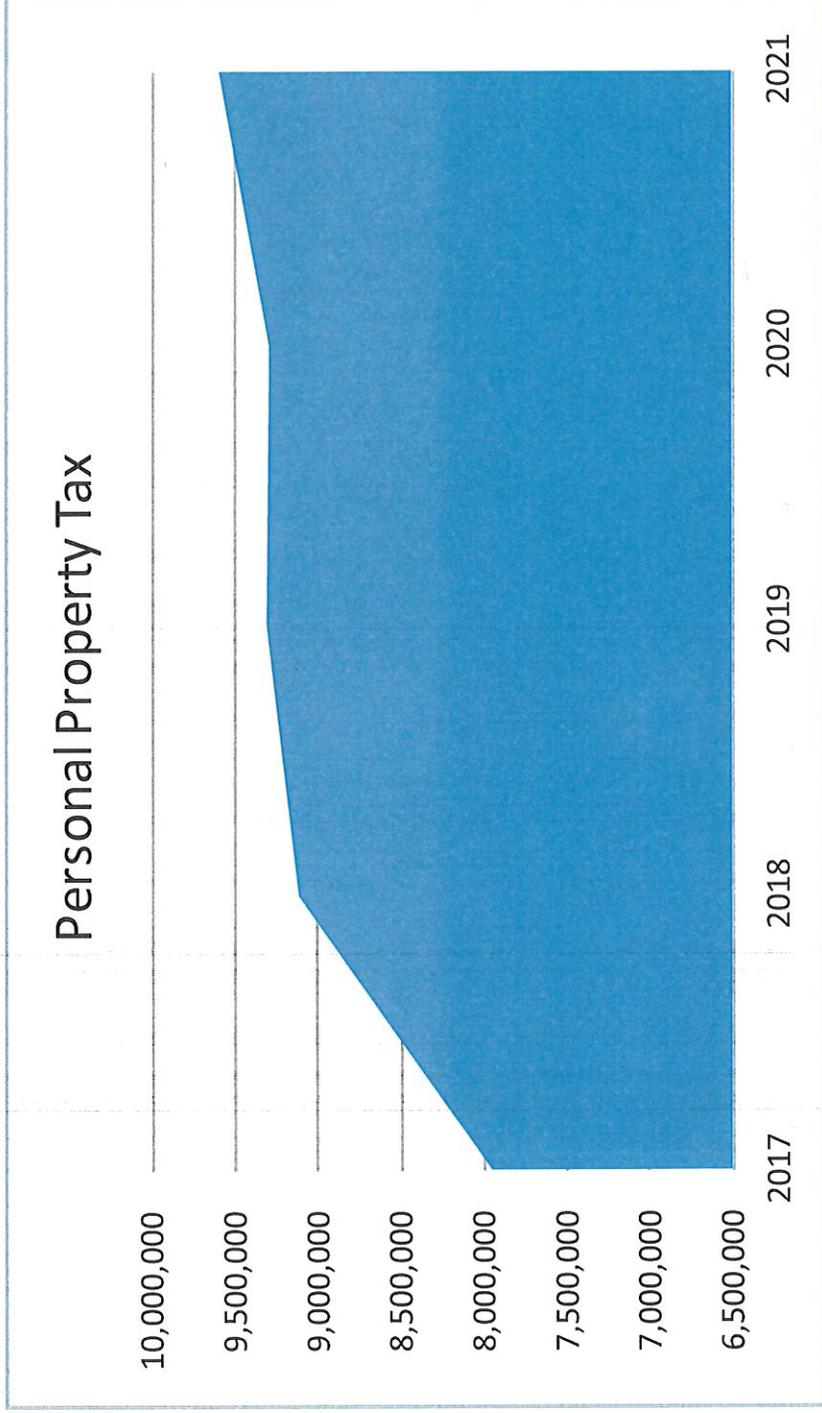
Major Revenues – Sales Tax



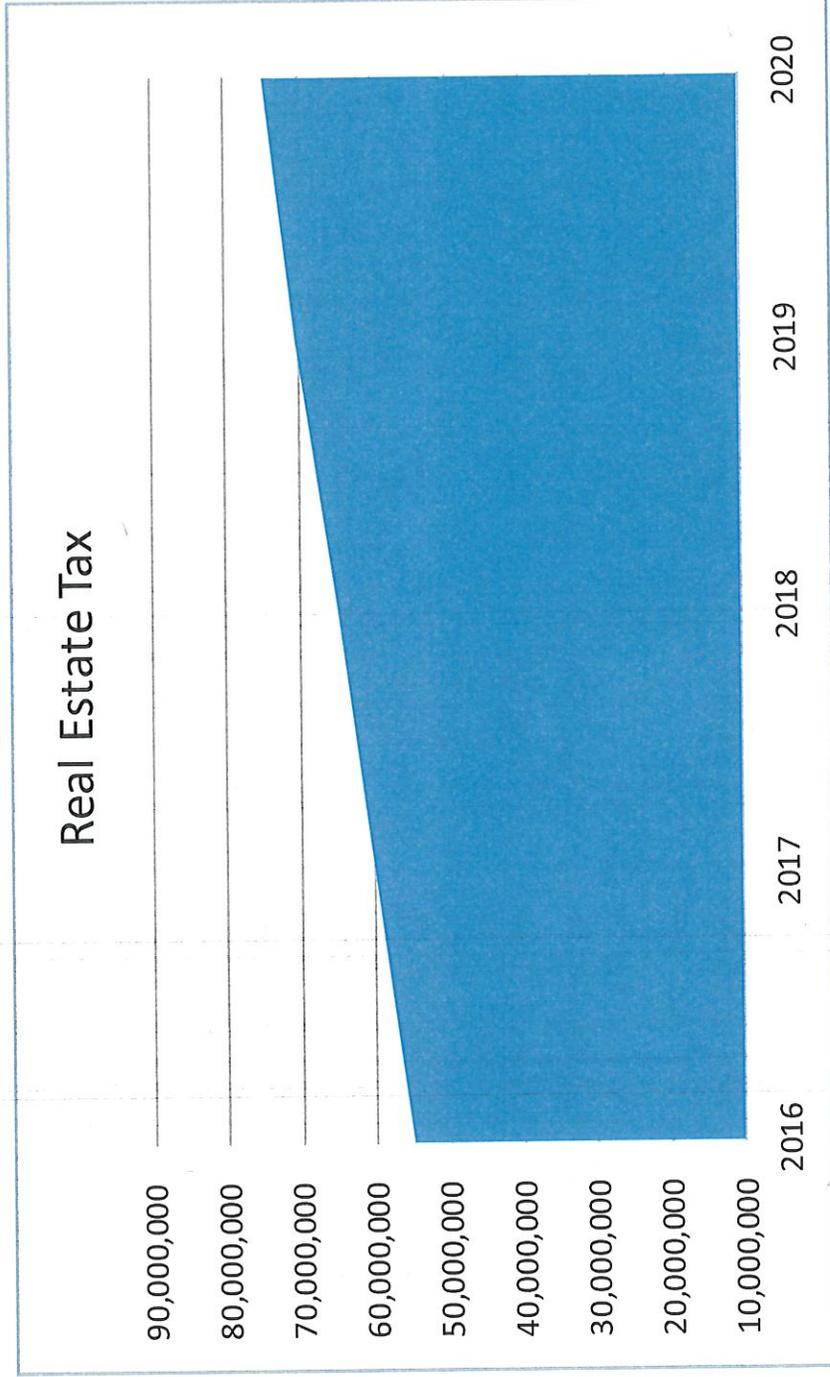
Major Revenues – BPOL



Major Revenues – Personal Property Tax



Major Revenues – Real Estate



FY 2021 Revenue Strategies

- Ensure imposed fees are appropriate and cover to the extent possible service being provided
- Use of one time revenue and fund balances ONLY for one time expenses
- Look at areas where user fees can be better aligned

What Does \$0.01 Generate Based on Current 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	\$2,538,576
\$ 4.20 / 100	Property Tax	\$0.01	\$22,857
\$0.08	Lodging Tax	\$0.01	\$862,500
\$0.55	Cigarette Tax	\$0.01	\$10,455

Expenditure Discussion



FY 2021 Expenditure Strategies

- Continue to look for and implement areas of efficiencies that result in cost savings
- Look at areas of savings that occur year to year for permanent savings
- Look at services that can be eliminated, reduced and/or altered based on performance data and outcomes



Major FY 21 Expenditure Considerations

1. Employee Compensation and Benefits
2. Schools Operating Budget Request
3. Increased CIP Transfer
4. Increased Debt Service Transfer
5. Other Departmental Requests



Community Agencies

Changes Made to the Process

- 5 broad funding priority areas: Education/Youth, Jobs/Wages, Community/Public Safety, Affordable Housing, Health
- Three ways of requesting city support: over \$25,000 that match priority areas, under \$25,000 that meet City strategic goal, under \$10,000 for capacity-building
- Changed composition of review team to reflect more lived experience with poverty and nonprofit consumers and paid for participation
- Specific training for review team on conflict of interest and power dynamics
- Expanded pool of resources available for technical assistance for nonprofit applicants
- Minor changes to application evaluation tool

Community Agencies

Requests for Funds Will be Presented/Ranked:

- Priority area
- Category of funding request: priority area, strategic plan, capacity-building
- By importance in addressing priority area: essential, important, helpful, no direct connection
- By application score/quality: exemplary, solid, fair, poor
- Percentage of overall budget that request represents
- Amount of request

Community Agencies

Priority Area Requests

- 64 Programs
- \$3.26 million in total requests (funded approx. \$2.1M in FY20)

Capacity Building Requests

- 16 Programs
- \$151,183 in total requests

Matrix Example

All Applicants	Essential	Important	Helpful	No direct connection
Exemplary Quality	20 programs \$1,555,183	8 programs \$289,679	1 program \$37,260	
Solid Quality	7 programs \$573,000	12 programs \$429,950	4 programs \$75,500	
Fair Quality		2 programs \$30,582	1 program \$75,000	
Poor Quality		2 programs \$35,999	7 programs \$161,570	<u>SUM</u> \$3,263,363

To prepare for 2/6 work session...

Questions and Discussion

