November 12, 2020

FY 2022 CIP BUDGET DEVELOPMENT WORKSESSION

Agenda

1. Key Budget Dates
2. Long-term Financial Policies
3. CIP Spending Overview
   - Parking Garage Mixed Use Alternatives
   - Dogwood Memorial
   - 5th Street Traffic Improvements
4. CIP Funding Overview
5. Capacity vs Affordability
6. Other Considerations
7. Council Discussion and Decisions

Budget Process Update
Key Dates

- **December 8** – Planning Commission CIP Public Hearing
- **March 1** - Proposed City and School Operating and Capital Budget Formally Presented to Council
- **March 15** - First Budget and Tax Rate Public Hearings
- **April 5** - Second Budget Public Hearing/Budget Approval First Reading/Tax Levy Approval First Reading
- **April 13** - Budget and Tax Levy Approval Second Reading

Please visit www.Charlottesville.gov/budget for further details

Budget Process Update
Scheduled Worksessions

Dec 10	Budget Worksession (Budget Development)
Jan 26	Budget Worksession (Budget Development)
Jan 28	City Council and School Board Joint Worksession
Mar 4	Budget Worksession #1 (Revenue & Expenditures)
Mar 11	Budget Worksession #2 (Outside Agencies)
Mar 17	Community Budget Forum
Mar 25	Budget Worksession #3 (CIP)
Apr 8	Budget Worksession #4 (Wrap-up)

Please visit www.Charlottesville.gov/budget for further details.

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 utility 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 2022 CIP Budget Development

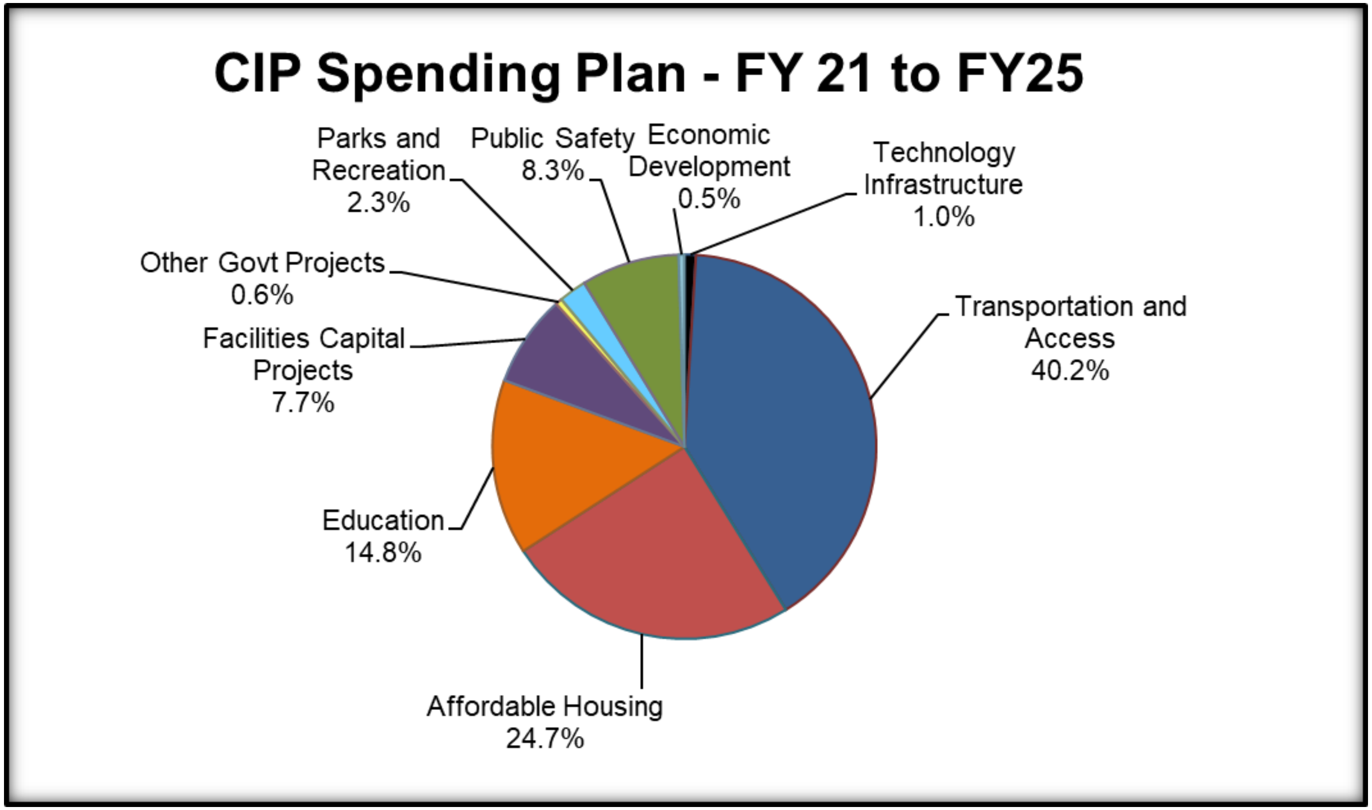
Capital Improvement Plan (CIP) Overview

FY 21–25 Adopted CIP

Summary of Current CIP Plan

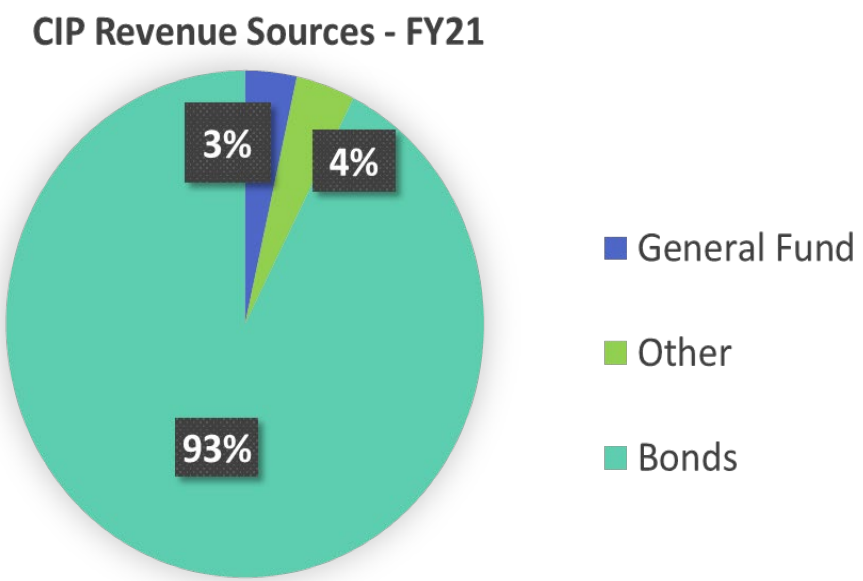
- $25.8M in FY 2021
- $124.1M over 5 year period
- Unfunded requests of over $109M
- $84M Bonds Authorized
- FY 21 CIP Cash Funding Re-Programmed to General Fund as a Reserve

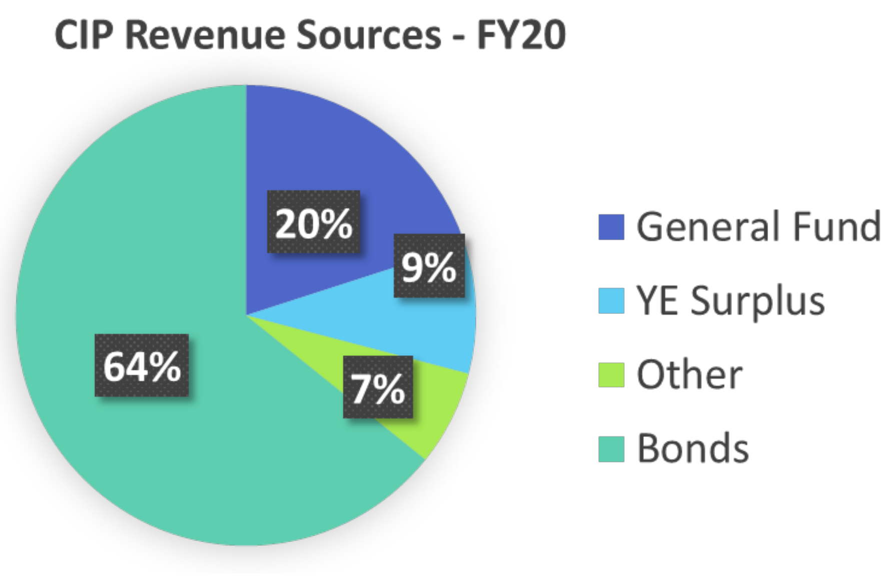
Where's the Spending?



CIP Funding

The CIP is largely funded by cash and bonds. In response to COVID, projects were deferred in FY 21 and cash funding was significantly reduced.

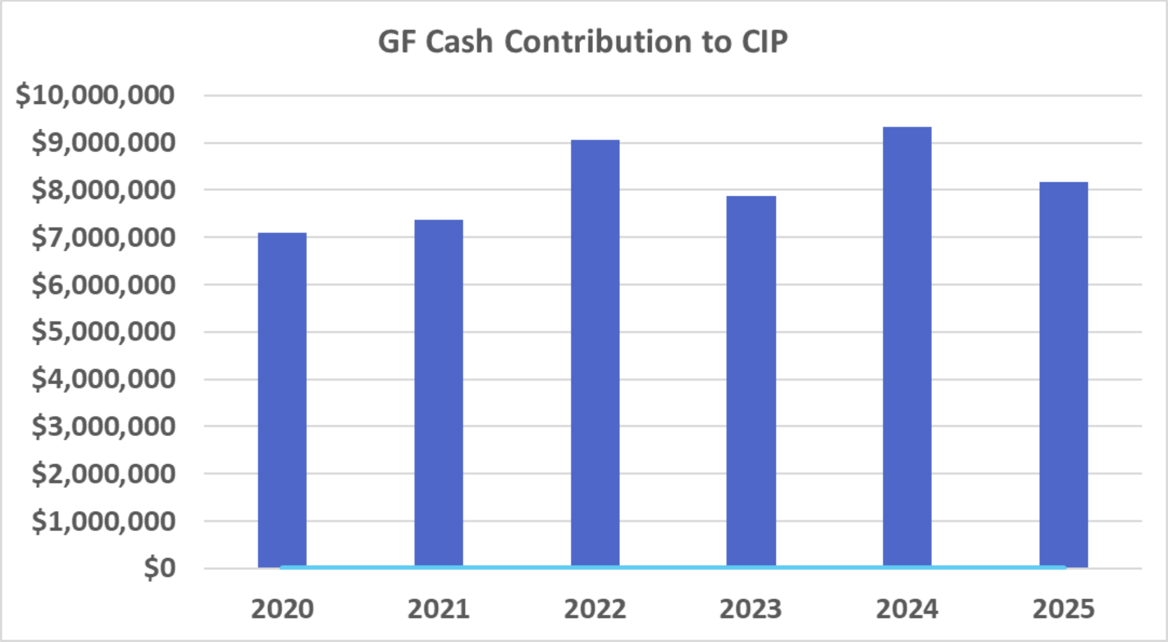




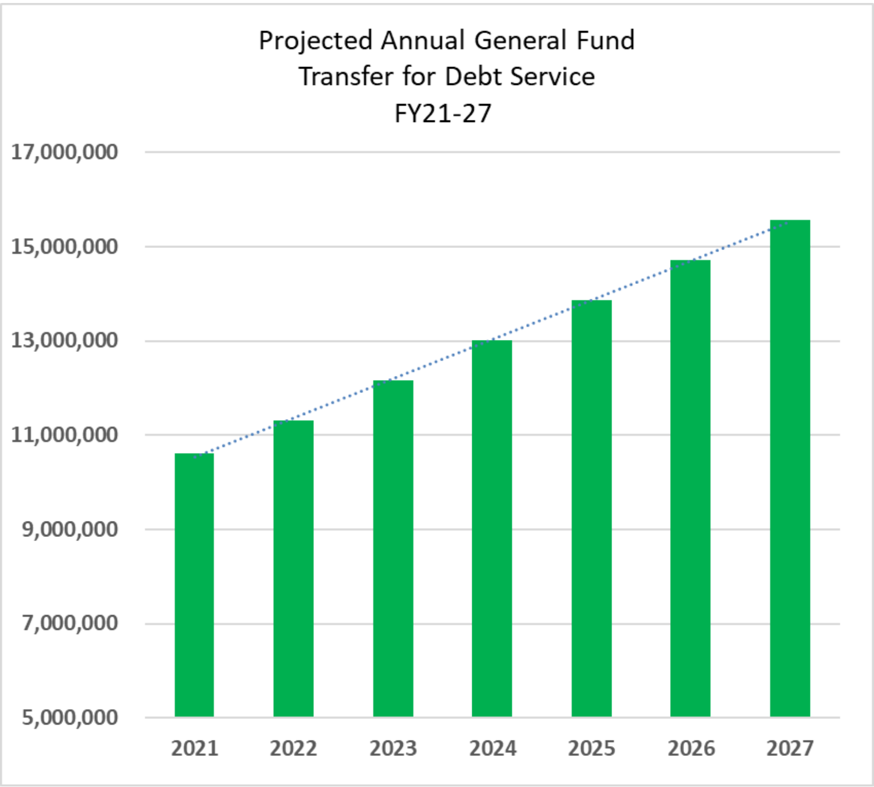
Since 2010, the City's cash or "pay go" funding has averaged about 37% annually

Cash Funding

$8.2M or 4% of the General Fund Total Budget
was the Average Annual CIP Cash Projection prior to COVID.



Outstanding Debt



- The City currently has approximately **$90 million** in governmental debt outstanding.
- **$80 million** in bonds have been authorized but not issued yet for projects approved prior to FY 22.
- FY 21 -25 CIP planned for **$84 million** in bonds

Debt Service Estimates

FY2022 Debt Projection**

Fiscal Year	Bond Issue Amount (1)	Annual Debt Service (2)	General Fund Expenditure Budget (3)	Ratio of Debt Service to Total General Fund Expenditures	General Fund Transfer(4)	$ Increase	% Increase	Debt Service Fund Balance(5)
2016	11,125,466	9,128,798	156,391,435	5.84%	9,279,578	-	0.00%	11,962,480
2017	11,140,000	10,103,067	162,018,737	6.24%	9,817,330	537,752	5.80%	11,880,013
2018	4,610,000	10,615,335	171,657,127	6.18%	10,371,750	554,420	5.65%	11,905,368
2019	9,520,000	10,375,167	179,725,535	5.77%	11,003,348	631,598	6.09%	12,830,074
2020	-	10,771,937	188,863,920	5.70%	11,049,584	46,236	0.42%	13,255,398
2021	13,455,000	10,465,180	191,195,873	5.47%	10,608,827	(440,757)	-3.99%	13,535,692
2022	32,000,000	10,983,075	194,063,811	5.66%	11,462,406	853,579	8.05%	14,140,250
2023	32,000,000	13,417,218	196,974,768	6.81%	12,312,439	850,032	7.42%	13,147,748
2024	32,000,000	15,516,769	199,929,390	7.76%	13,163,472	851,033	6.91%	10,893,817
2025	32,000,000	17,649,933	202,928,331	8.70%	14,015,526	852,054	6.47%	7,345,787
2026	32,000,000	19,293,290	205,972,256	9.37%	14,868,621	853,095	6.09%	2,994,543
2027	32,000,000	21,514,167	209,061,839	10.29%	18,461,777	3,593,157	24.17%	895

(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) Assumes an annual General Fund budget growth rate of 1.5% and 2% meals tax growth in years 2022 - 2026

(4) General Fund Transfer for the payment of annual debt service

(5) Funds accumulated for the payment of debt service and used to help mitigate impact on the General Fund budget

*****Estimates and subject to change***

Capacity vs Affordability

Debt Capacity

The maximum amount of debt that could be issued to stay within the parameters defined by the financial policy

How much debt can we issue before reaching the 10% max?

Affordability

The alignment of public policy and financial resources

How much can we pay with current resources before having to raising taxes?

Debt Capacity Quantified

Current Debt projections indicate:

$160M could be issued before reaching the 9% policy target

$192M could be issued before reaching the 10% policy maximum

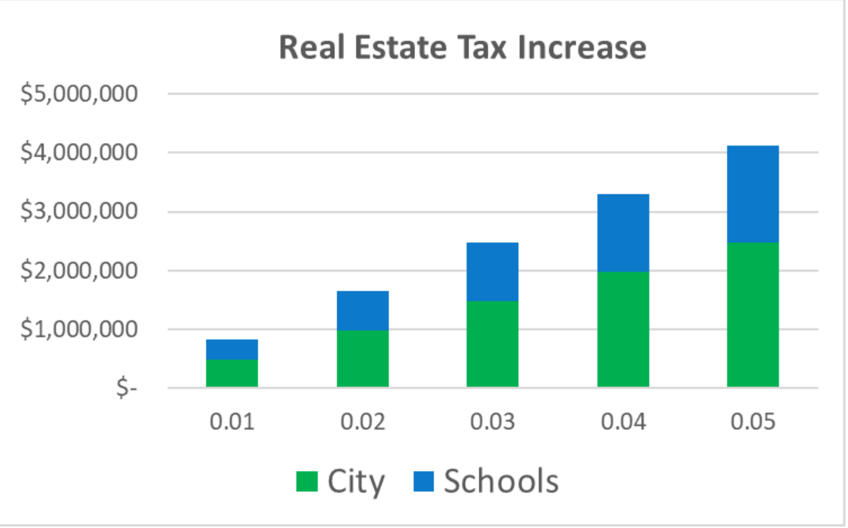
Quick Math

New Debt at 10% Debt Ratio	$ 192,000,000
Bonds Previously Authorized Not Issued (ABNI)	$ (80,000,000)
	$ 112,000,000
FY 21-25 CIP Bonds Authorized	$ (60,000,000)
Remaining Bond Capacity	$ 52,000,000

** *Estimates and subject to change*

Affordability Quantified

- Debt Service is rising faster than the Payoff
- Issuing Debt at the 10% max would more than double debt service requirements
  - $10.5M (current) to estimated $21.5M
- Required Debt Service Increases Equate to $0.01 to $0.03 on the Tax Rate



Additional CIP Funding Considerations

- School Reconfiguration Project – cost TBD
- Parking Garage Mixed Use Alternatives
- Dogwood Memorial
- 5th Street Traffic Improvements
- Comp Plan Housing Spending Recommendation
- $109M in Unfunded Departmental Requests

Other FY 2022 Budget Considerations

- City Operating Budget Needs and Unknowns
  - Due November 13th
  - Departmental Requests
  - Employee Compensation and Benefits
- Schools Operating Budget Needs
- Outside Agency Budgets

What are the Decisions?

1. **<u>For the FY 22 CIP Process</u>**
   - What's the Commitment to the School Reconfiguration Project?
   - What's the Commitment to the West Main Project?

2. **<u>Set Priorities</u>**
   - Council will need to be strategic with CIP funding decisions.
   - How will the remaining capacity be spent?
   - Re-visit past funding decisions – are they still priorities?

3. **<u>Commit to the Funding Requirements</u>**
   - Anticipate Tax Increases

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

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 2021 Transfer to Debt Service Fund = $10.6M

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.
- 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