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](http://www.Charlottesville.gov/budget) for further details
## Budget Process Update

### Scheduled Worksessions

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 10</td>
<td>Budget Worksession (Budget Development)</td>
</tr>
<tr>
<td>Jan 26</td>
<td>Budget Worksession (Budget Development)</td>
</tr>
<tr>
<td>Jan 28</td>
<td>City Council and School Board Joint Worksession</td>
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<tr>
<td>Mar 4</td>
<td>Budget Worksession #1 (Revenue &amp; Expenditures)</td>
</tr>
<tr>
<td>Mar 11</td>
<td>Budget Worksession #2 (Outside Agencies)</td>
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<tr>
<td>Mar 17</td>
<td>Community Budget Forum</td>
</tr>
<tr>
<td>Mar 25</td>
<td>Budget Worksession #3 (CIP)</td>
</tr>
<tr>
<td>Apr 8</td>
<td>Budget Worksession #4 (Wrap-up)</td>
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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 Spending Plan - FY 21 to FY25

- Affordable Housing: 24.7%
- Transportation and Access: 40.2%
- Education: 14.8%
- Facilities Capital Projects: 7.7%
- Other Govt Projects: 0.6%
- Parks and Recreation: 2.3%
- Public Safety: 8.3%
- Economic Development: 0.5%
- Technology Infrastructure: 1.0%
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

FY 2022 Debt Projection**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Bond Issue Amount (1)</th>
<th>Annual Debt Service (2)</th>
<th>General Fund Expenditure Budget (3)</th>
<th>Ratio of Debt Service to Total General Fund Expenditures</th>
<th>General Fund Transfer (4)</th>
<th>$ Increase</th>
<th>% Increase</th>
<th>Debt Service Fund Balance (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>11,125,466</td>
<td>9,128,798</td>
<td>156,391,435</td>
<td>5.84%</td>
<td>9,279,578</td>
<td>-</td>
<td>0.00%</td>
<td>11,962,480</td>
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<tr>
<td>2017</td>
<td>11,140,000</td>
<td>10,103,067</td>
<td>162,018,737</td>
<td>6.24%</td>
<td>9,817,330</td>
<td>537,752</td>
<td>5.80%</td>
<td>11,880,013</td>
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<tr>
<td>2018</td>
<td>4,610,000</td>
<td>10,615,335</td>
<td>171,657,127</td>
<td>6.18%</td>
<td>10,371,750</td>
<td>554,420</td>
<td>5.65%</td>
<td>11,905,368</td>
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<tr>
<td>2019</td>
<td>9,520,000</td>
<td>10,375,167</td>
<td>179,725,535</td>
<td>5.77%</td>
<td>11,003,348</td>
<td>631,598</td>
<td>6.09%</td>
<td>12,830,074</td>
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<tr>
<td>2020</td>
<td>-</td>
<td>10,771,937</td>
<td>188,863,920</td>
<td>5.70%</td>
<td>11,049,584</td>
<td>46,236</td>
<td>0.42%</td>
<td>13,255,398</td>
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<tr>
<td>2021</td>
<td>13,455,000</td>
<td>10,465,180</td>
<td>191,195,873</td>
<td>5.47%</td>
<td>10,608,827</td>
<td>(440,757)</td>
<td>-3.99%</td>
<td>13,535,692</td>
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<tr>
<td>2022</td>
<td>32,000,000</td>
<td>10,983,075</td>
<td>194,063,811</td>
<td>5.66%</td>
<td>11,462,406</td>
<td>853,579</td>
<td>8.05%</td>
<td>14,140,250</td>
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<tr>
<td>2023</td>
<td>32,000,000</td>
<td>13,417,218</td>
<td>196,974,768</td>
<td>6.81%</td>
<td>12,312,439</td>
<td>850,032</td>
<td>7.42%</td>
<td>13,147,748</td>
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<tr>
<td>2024</td>
<td>32,000,000</td>
<td>15,516,769</td>
<td>199,929,390</td>
<td>7.76%</td>
<td>13,163,472</td>
<td>851,033</td>
<td>6.91%</td>
<td>10,893,817</td>
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<tr>
<td>2025</td>
<td>32,000,000</td>
<td>17,649,933</td>
<td>202,928,331</td>
<td>8.70%</td>
<td>14,015,526</td>
<td>852,054</td>
<td>6.47%</td>
<td>7,345,787</td>
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<tr>
<td>2026</td>
<td>32,000,000</td>
<td>19,293,290</td>
<td>205,972,256</td>
<td>9.37%</td>
<td>14,868,621</td>
<td>853,095</td>
<td>6.09%</td>
<td>2,994,543</td>
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<tr>
<td>2027</td>
<td>32,000,000</td>
<td>21,514,167</td>
<td>209,061,839</td>
<td>10.29%</td>
<td>18,461,177</td>
<td>3,593,157</td>
<td>24.17%</td>
<td>895</td>
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</table>

(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.

Affordability
The alignment of public policy and financial resources.

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>New Debt at 10% Debt Ratio</td>
<td>$192,000,000</td>
</tr>
<tr>
<td>Bonds Previously Authorized Not Issued (ABNI)</td>
<td>($80,000,000)</td>
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<tr>
<td></td>
<td>$112,000,000</td>
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<tr>
<td>FY 21-25 CIP Bonds Authorized</td>
<td>($60,000,000)</td>
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<tr>
<td>Remaining Bond Capacity</td>
<td>$52,000,000</td>
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**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. **For the FY 22 CIP Process**
   - What’s the Commitment to the School Reconfiguration Project?
   - What’s the Commitment to the West Main Project?

2. **Set Priorities**
   - 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. **Commit to the Funding Requirements**
   - 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

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**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