Financial Discussion

prepared for

City of Charlottesville, Virginia

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Financial Conditions

U.S. Economy

- Federal Reserve has been actively raising short-term interest rates to fight inflation
- Economy still performing well although signs indicate gradual slowing
- A few recent bank failures have raised investor concerns

City of Charlottesville

- City’s tax sensitive revenues are performing well
- Solid FY 2023 Financial Results are projected
- FY 2024 Budget process in full swing

Upcoming Bond Issuance

- City targeting early June for its annual bond issuance
- Staff will be hosting the rating agencies for a visit in May

Rating Agency Views of Local Government Sector

- The rating agencies maintain a stable outlook for the local government sector
- Recently, the rating agencies have been focused on how current economic conditions are driving credit pressures
  - While residential assessed values are increasing, commercial assessed values are seeing declines due to reduced usage of office space, which could have a longer-term impact on assessed value and revenues
  - Consumer activity is expected to slow as inflation reduces consumers' real income
  - Tight labor market will continue to apply upward pressure on compensation demands
  - Exposure to pension investment volatility is near historical highs
  - Costs of capital improvements have risen due to inflation posing the dilemma of either scaling back capital programs or increasing funding by increasing taxes & fees or issuing more debt
- Rating Agencies will inquire about potential financial impact of Collective Bargaining on Virginia issuers

Sources: Various rating agency sector reports from 2022 and 2023 and questions asked by rating analysts during rating discussions with various Commonwealth localities

Charlottesville’s Credit Ratings

Moody’s Investors Service

S&P Global Ratings

Credit strengths:
- Large and growing tax base, benefitting from UVA presence
- Strong and stable financial position supported by formal policies
- Manageable overall fixed cost burden

Credit weaknesses:
- Above-average reliance on economically sensitive revenues
- Resident income is healthy yet below average relative to peers

“Charlottesville's management team made budgetary adjustments to ensure balance through the pandemic and recession. We expect it will continue to make necessary adjustments to maintain balance as it undertakes significant school capital projects…”

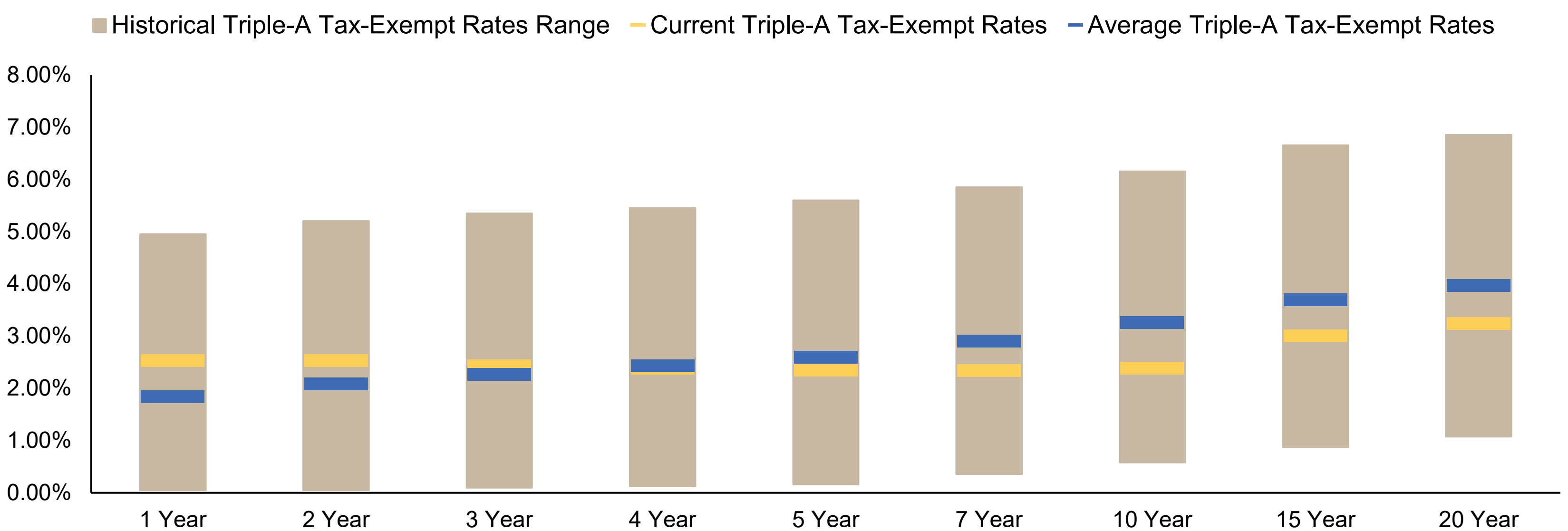
Rating reflects Charlottesville’s:
- Well-embedded, forward looking financial policies
- Stable revenues & expenditures and high reserves and cash balances
- Low fixed costs….”

Factors that could lead to a downgrade:
- Persistent budgetary imbalances causing draw on reserves with no plan to replenish
- Significant declines in financial position
- Material tax base contraction or weakening or resident income and wealth
- Substantial increases in total leverage

Source: Moody’s rating report dated May 26, 2022 and S&P rating report dated May 26, 2022

Tax-Exempt Borrowing Rates

- Current tax-exempt interest rates are at or above 30-year average levels on the short end the curve and slightly below 30-year average levels at the long-end of the curve



Statistic	1 Year	2 Year	3 Year	4 Year	5 Year	7 Year	10 Year	15 Year	20 Year
3/17/2023	2.53%	2.53%	2.43%	2.38%	2.35%	2.34%	2.38%	3.00%	3.24%
Average	1.84%	2.09%	2.27%	2.43%	2.59%	2.91%	3.26%	3.70%	3.97%
Minimum	0.05%	0.05%	0.10%	0.13%	0.16%	0.36%	0.58%	0.88%	1.08%
Maximum	4.95%	5.20%	5.35%	5.45%	5.60%	5.85%	6.15%	6.65%	6.85%
Percent of Market Days Lower	62.81%	60.02%	54.83%	51.38%	46.86%	41.38%	30.21%	34.18%	32.91%

Market conditions as of March 17, 2023

Summary

- City leadership should continue exercising financial discipline
- Majority of economists forecast an economic slowdown is coming
- City still has a significant Capital Improvements Program ahead
- Hopefully slower economy will result in lower interest rates for the majority of the school financing and favorable future construction bids
- Although internal forecasts are showing that the City does have capacity to fund the proposed CIP and stay within its debt ratios, the City will need to maintain its focus on affordability (i.e. fitting the debt service expense within the City's overall budget)