



City of Fredericksburg City Council Meeting

April 2, 2019

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I. Overview of City's Debt



Debt Considerations

◆ Affordability

- What is going to be the impact of new debt service on the City's budget?
- Will the debt service be paid by the general fund or another source of revenues (“self-supporting”)?

◆ Capacity

- How will the debt fit within the City's existing financial policies?
 - The City maintains the following financial debt policy: net debt as a percentage of total real estate value should not exceed 4.8%
 - The City's FY2018 calculation was 2.2%
- Debt policies and guidelines are important for the City to maintain its excellent financial standing?

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-



Types of City Indebtedness

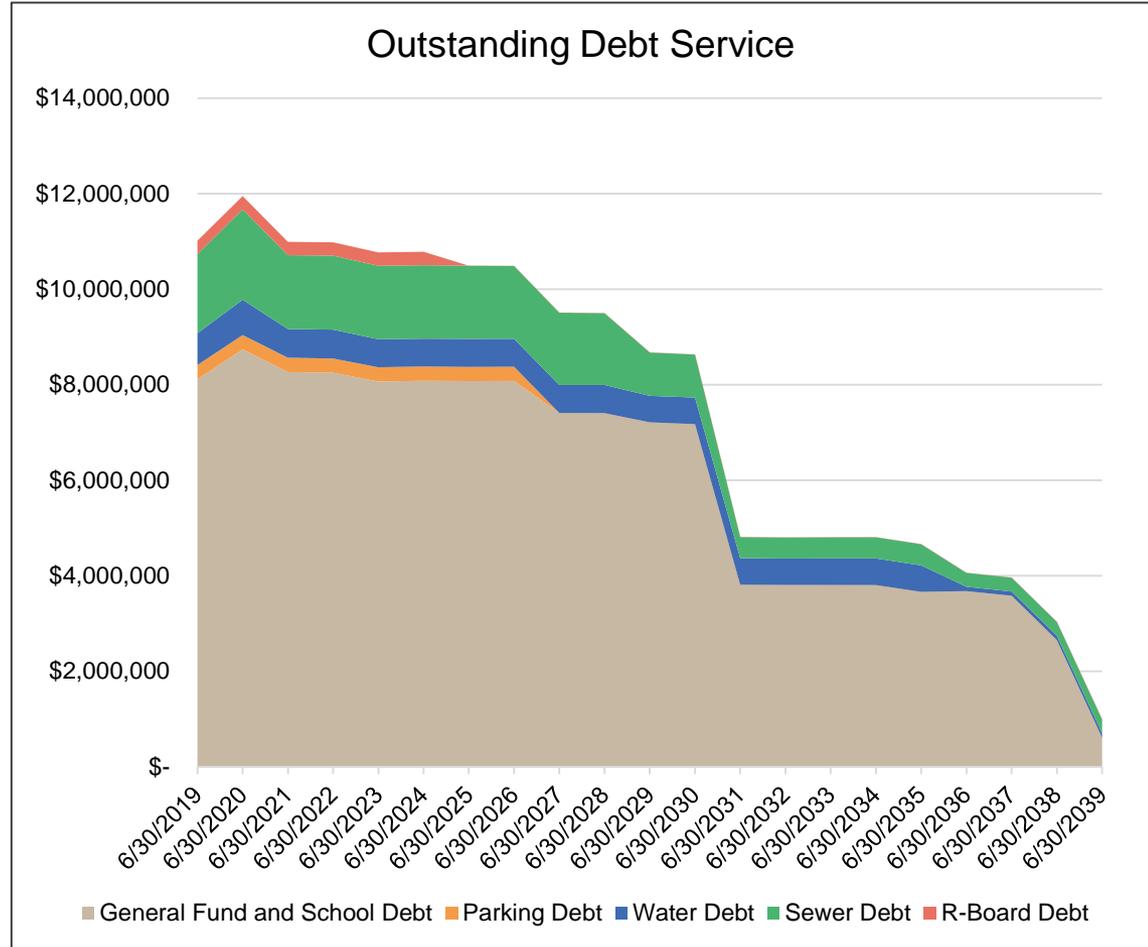
- ◆ **General Obligation Bonds** – supported by General Fund and City’s full faith and taxing power
 - Issued to cover schools and general governmental projects
 - The City has also issued GO Bonds to finance parking, water and sewer capital needs which have supporting revenue streams

- ◆ **Revenue Bonds** – supported by dedicated revenue stream sufficient to cover operations and debt service
 - Issuer agrees to set rates and charges at a level sufficient to provide additional coverage (e.g. 1.25x)
 - R-Board debt issued with revenue pledge to VRA
 - Self-supporting debt does not count against City’s debt ratios



Overview of Existing Debt

General Obligation General Fund Supported Debt Outstanding	
General Fund and School Debt	\$90,350,597
General Obligation Gas Tax Supported Debt Outstanding	
Parking Debt	\$2,180,355
General Obligation Enterprise Supported Debt Outstanding	
Sewer Debt	\$16,276,523
Water Debt	\$8,307,525
Total G.O. Debt	\$117,115,000
Revenue Bond Debt Outstanding	
R-Board Debt	\$1,455,000





II. Proposed FY 2020 CIP



Proposed CIP Needs and Timing (Excluding Enterprise Needs)

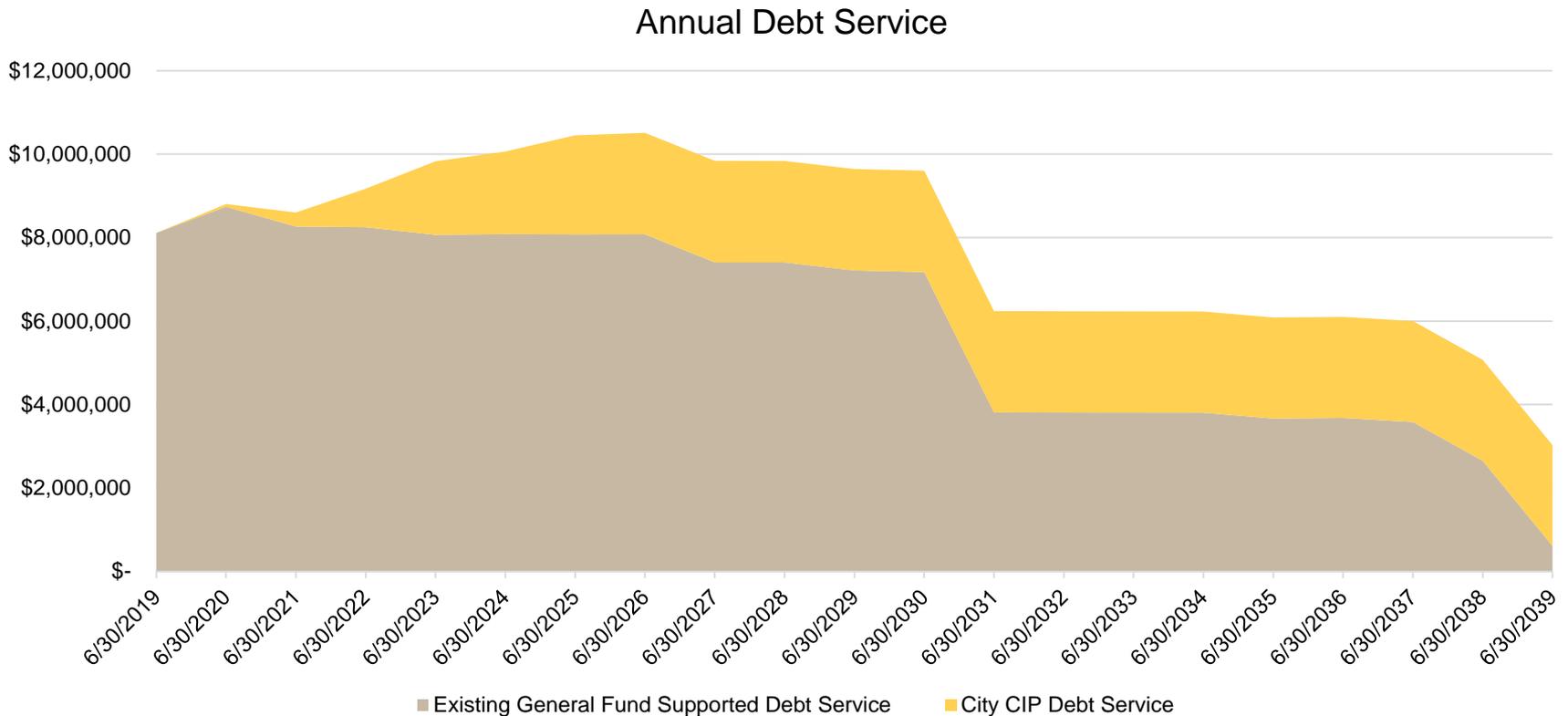
Under the proposed FY2020 CIP, the City's projects issuing \$68.6 million of GO debt. However, this estimate includes Gateway Boulevard in FY 2021 which is contingent on a variety of factors. Without Gateway Boulevard, the amount of GO debt estimated is \$33.4 million.

FY 2020 Recommended City CIP							
Sources	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
General Obligation Debt	\$ 3,175,000	\$ 40,475,000	\$ 15,310,000	\$ 1,500,000	\$ 7,050,000	\$ 1,100,000	\$ 68,610,000
Revenue Debt	2,500,000	-	-	-	-	-	2,500,000
General Fund Transfer	2,998,500	4,301,400	4,292,200	4,384,700	3,900,700	5,313,500	25,191,000
FB Assigned for Schools	661,000	-	-	-	-	-	661,000
Stormwater Transfer	300,000	-	-	-	-	-	300,000
Capital Projects Fund	993,000	705,000	519,000	-	-	-	2,217,000
Proffer Schools	339,000	-	-	-	-	-	339,000
Donations	-	8,300,000	-	-	-	90,000	8,390,000
Other Sources	890,800	310,800	310,800	310,800	310,800	149,000	2,283,000
Stormwater DEQ	-	5,250,000	-	-	-	-	5,250,000
VDOT Funds/Federal	2,902,000	2,522,550	2,280,000	280,000	2,280,000	-	10,264,550
State PSAP	1,185,000	-	-	-	-	-	1,185,000
Total	\$ 15,944,300	\$ 61,864,750	\$ 22,712,000	\$ 6,475,500	\$ 13,541,500	\$ 6,652,500	\$ 127,190,550
Uses	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Schools	\$ 2,193,000	\$ 6,429,000	\$ 753,000	\$ 850,000	\$ 6,081,000	\$ 872,000	\$ 17,178,000
Public Works	9,656,300	50,459,550	4,603,000	2,888,000	4,314,000	1,570,500	73,491,350
Public Facilities	2,885,000	1,661,200	3,197,000	1,417,500	1,236,500	3,110,000	13,507,200
Public Safety	1,210,000	3,315,000	13,640,000	1,320,000	1,910,000	1,100,000	22,495,000
Courts	-	-	519,000	-	-	-	519,000
Total	\$ 15,944,300	\$ 61,864,750	\$ 22,712,000	\$ 6,475,500	\$ 13,541,500	\$ 6,652,500	\$ 127,190,550



Debt Service Impact of Proposed CIP

Under the City's proposed FY2020 CIP excluding Gateway Boulevard and Enterprise Fund needs, the City's annual debt service will increase by a maximum of \$2.4 million. The maximum annual debt service on General Fund supported debt is \$10.5 million in FY2026.



Note: Existing debt service does not include R-Board or G.O. Enterprise Debt (deemed self-supporting). Also does not include the \$35.2 million Gateway Boulevard Extension that is contingent on the Veteran's Affairs Clinic. Debt service assumes 20 year level debt service amortization.



III. Proposed FY 2020 Enterprise CIP



Proposed Enterprise CIP Needs and Timing

Under the proposed FY2020 CIP for Enterprise needs, the City's projects issuing \$13.2 million of debt for water projects and \$62.8 million for sewer projects. City staff and PFM will evaluate the appropriate financing vehicle (GO or Revenue Bonds).

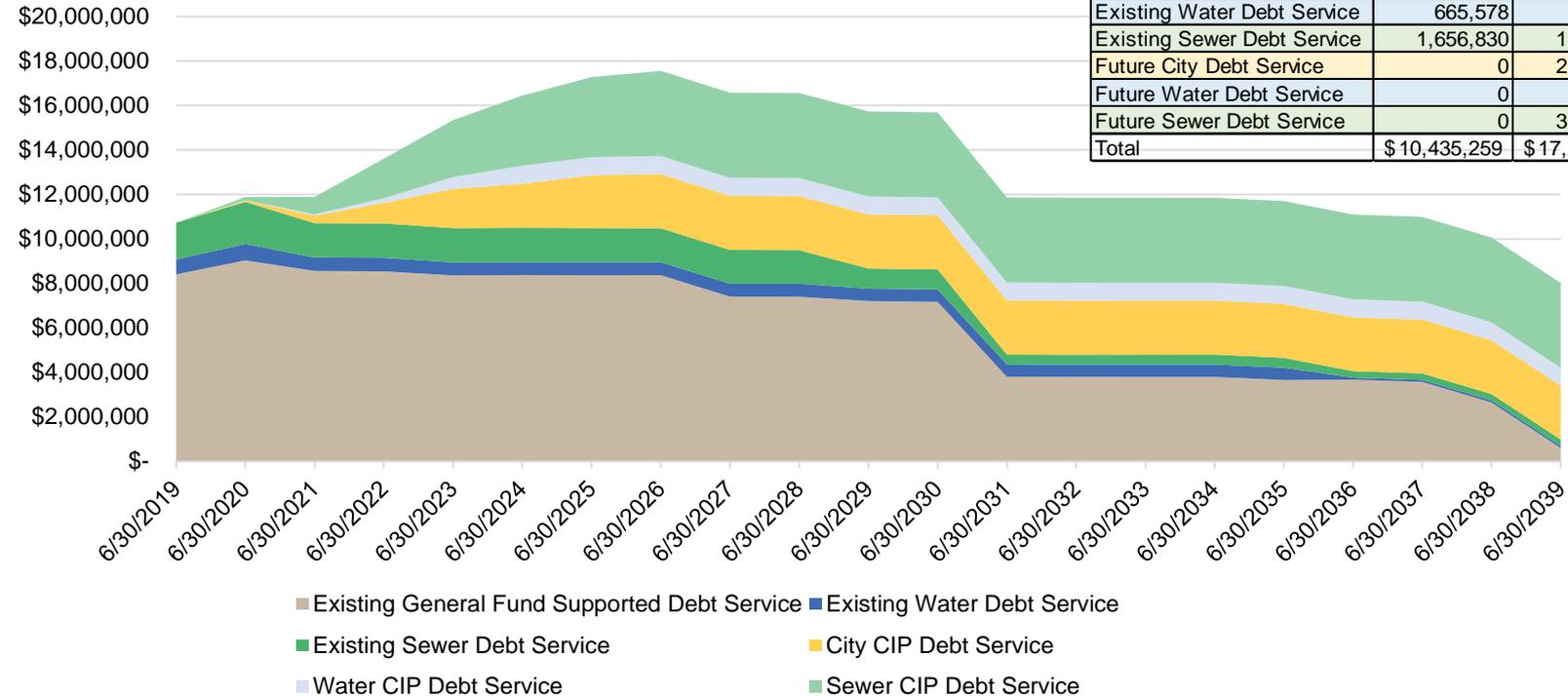
FY 2020 Recommended Enterprise CIP							
Sources	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Water Fund Revenues	\$ 650,000	\$ 1,500,000	\$ 1,550,000	\$ 1,050,000	\$ 1,150,000	\$ 800,000	\$ 6,700,000
Water Debt Issuance	491,300	1,402,800	4,143,400	7,254,300	-	-	13,291,800
Sewer Fund Revenues	2,160,000	1,410,000	1,365,000	940,000	1,615,000	1,000,000	8,490,000
Sewer Debt Issuance	6,546,200	17,378,000	14,292,000	10,512,000	8,240,000	5,880,800	62,849,000
Reimbursement from Spotsylvania	-	-	-	860,000	2,060,000	1,470,200	4,390,200
Total	\$ 9,847,500	\$ 21,690,800	\$ 21,350,400	\$ 20,616,300	\$ 13,065,000	\$ 9,151,000	\$ 95,721,000
Uses	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
Water	\$ 1,141,300	\$ 2,902,800	\$ 5,693,400	\$ 8,304,300	\$ 1,150,000	\$ 800,000	\$ 19,991,800
Sewer	8,706,200	18,788,000	15,657,000	12,312,000	11,915,000	8,351,000	75,729,200
Total	\$ 9,847,500	\$ 21,690,800	\$ 21,350,400	\$ 20,616,300	\$ 13,065,000	\$ 9,151,000	\$ 95,721,000



Impact of Enterprise CIP (Affordability)

Historically, the City’s Enterprise debt has been issued through the City’s General Obligation credit. However, the debt has been paid by utility system revenues. Including the enterprise needs, the City’s annual debt service will increase by an additional \$4.6 million to a maximum of \$17.3 million.

Annual Debt Service



Note: Does not include R-Board Debt. Does not include the \$35.2 million Gateway Boulevard Extension that is contingent on the Veteran’s Affairs Clinic. Assumes all Enterprise Fund debt is supported by the City General Fund. Debt service on enterprise debt assumes 30 year level debt service amortization.



Enterprise CIP Impact on Debt Policy (Capacity)

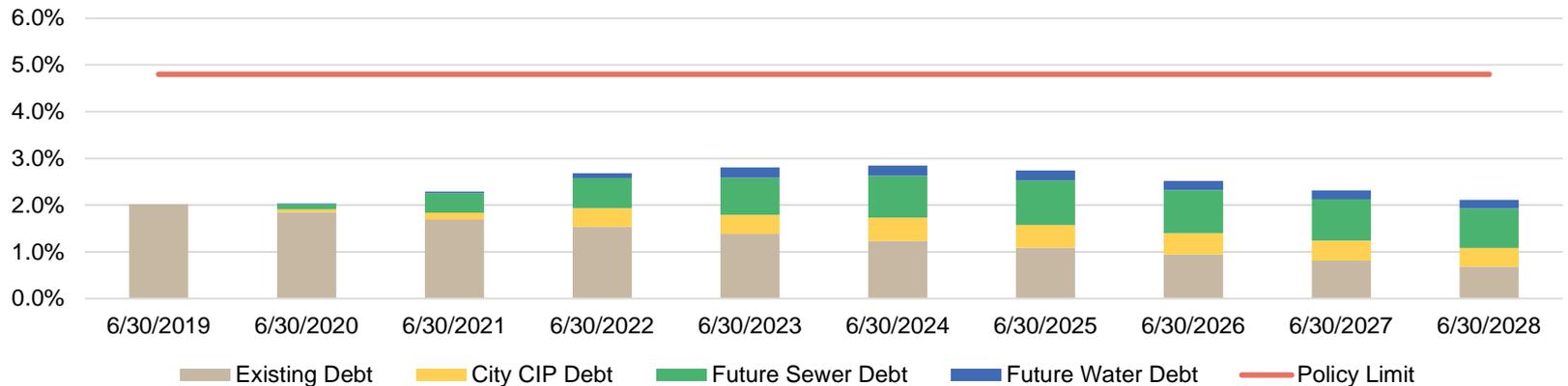
For purposes of this analysis, we have assumed the Enterprise debt would be issued as GO bonds. As a result, the City's Financial Policy of net debt as a percentage of estimated market value would be impacted. City staff and PFM will explore issuing all or portions of this debt under a Revenue Bond approach.

Net debt as a percentage of estimated market value should not exceed 4.8%.

Existing = 2.2% in FY2018

Max = 2.8% in FY2024

Debt as a % of Assessed Value



Note: Does not include R-Board Debt. Does not include the \$35.2 million Gateway Boulevard Extension that is contingent on the Veteran's Affairs Clinic.



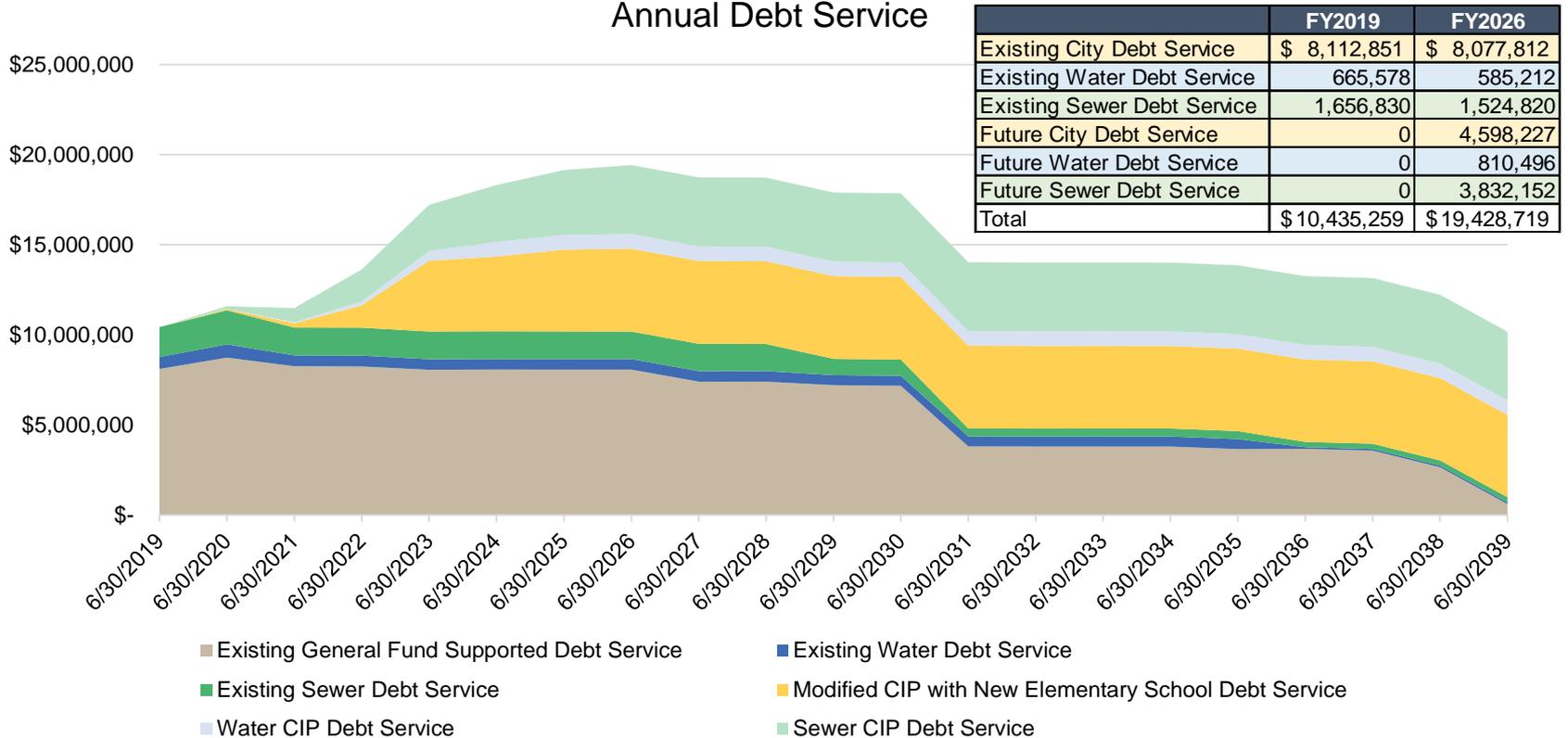
IV. Impacts of Modifications to CIP



Modified City CIP with a New Elementary School

Under this scenario, the City would delay the Lafayette expansion until outside the 6-year planning window and fund a new \$35 million elementary school in FY2022. Total debt service would increase by an additional \$2.2 million.

Annual Debt Service



Note: Existing debt service does not include R-Board or G.O. Enterprise Debt (deemed self-supporting). Also does not include the \$35.2 million Gateway Boulevard Extension that is contingent on the Veteran's Affairs Clinic. Debt service assumes 20 year level debt service amortization.



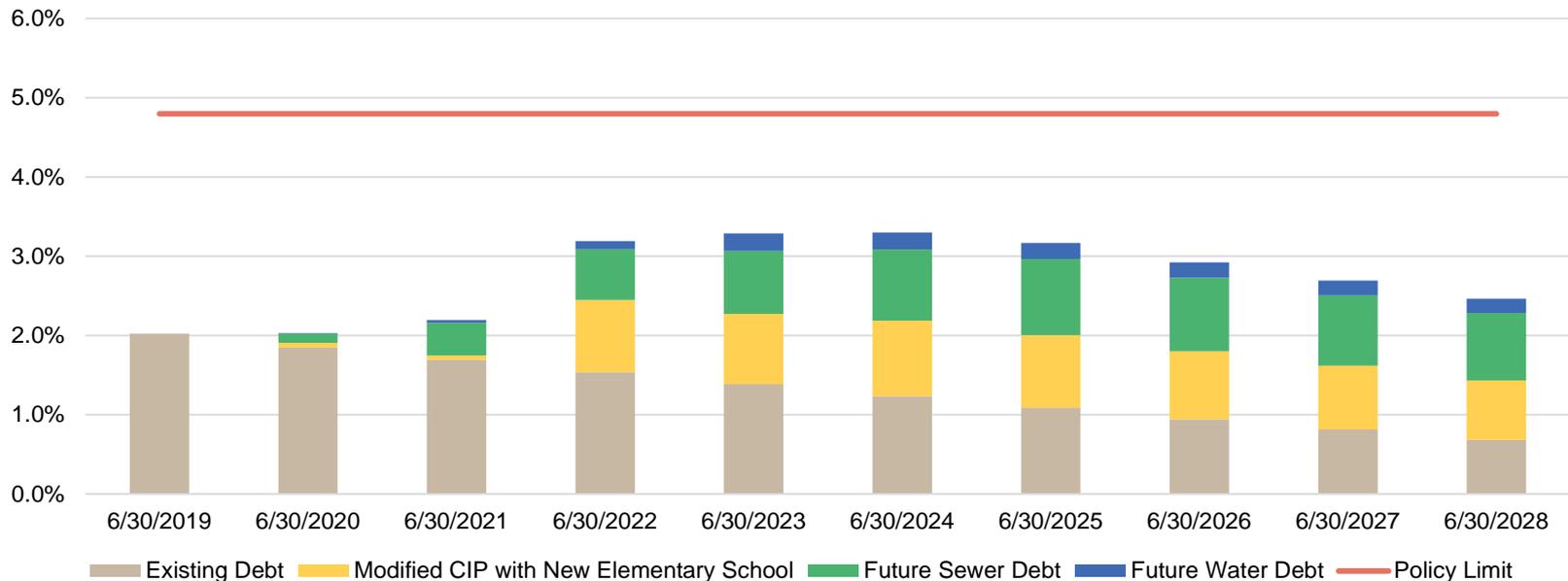
Modified CIP Impact on Debt Policy with New Elementary School

Net debt as a percentage of estimated market value should not exceed 4.8%.

Existing = 2.2% in FY2018

Max = 3.3% in FY2024

Debt as a % of Assessed Value



Note: Does not include R-Board Debt but does include Enterprise debt since issued as General Obligation Bonds. Does not include the \$35.2 million Gateway Boulevard Extension that is contingent on the Veteran's Affairs Clinic.



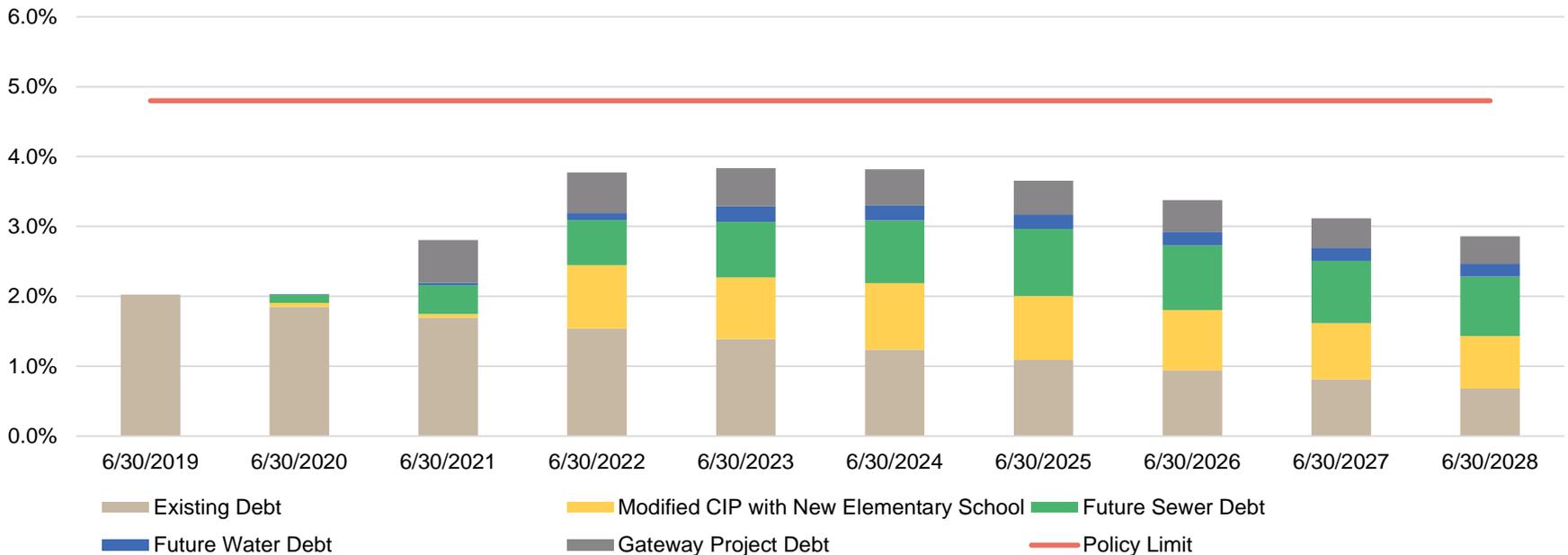
CIP Impact on Financial Guidelines with New School and Gateway

Net debt as a percentage of estimated market value should not exceed 4.8%.

Existing = 2.2% in FY2018

Max = 3.8% in FY2022

Debt as a % of Assessed Value



Note: Does not include R-Board Debt but does include Enterprise debt since issued as General Obligation Bonds. Includes the \$35.2 million Gateway Boulevard Extension.



V. Conclusions



Preliminary Conclusions

- There are two important considerations for the City to evaluate when issuing new debt – Capacity and Affordability
- While the City may be able to stay within its existing debt policy, affordability becomes the primary issue:
 - Under the City's proposed FY2020 CIP, excluding a new Elementary school and Gateway Boulevard, debt service increases by approximately \$2.4 by FY2026
 - However, if the City decides to build a new Elementary School on top of the existing CIP, annual debt service will increase by an additional \$2.2 million
 - This does not include potential operating costs associated with these new projects
- While the City's goal is for the Enterprise debt to be self-supporting (i.e. paid by utility system), the cost impact is still borne by citizens either in the form of higher property taxes or utility rates
 - The CIP Enterprise projects are expected to add an additional \$4.6 million in debt service by FY2026

Example of Additional Sources of Revenue

\$0.01 on Real Estate Tax = \$400,000

1% increase of W&S Rates = \$80,000