Debt Capacity and Affordability Briefing

January 2024

PURPOSE

- Define and understand importance of debt capacity and affordability
- Understand how the city's debt burden is measured
    - Ratios
    - Credit worthiness
- Discuss path to AAA
    - What can trigger a downgrade?
    - What can help achieve an upgrade?
- CIP planning
    - Affordability outlook

The Maximum Debt We Can Take On May Exceed What We Can Afford

Capacity

- Financial "limit" or the maximum amount of debt we can reasonably handle without getting into financial trouble.
- Usually measured against ratios set in policy.
- Guardrails to measure the maximum debt the city can take on.

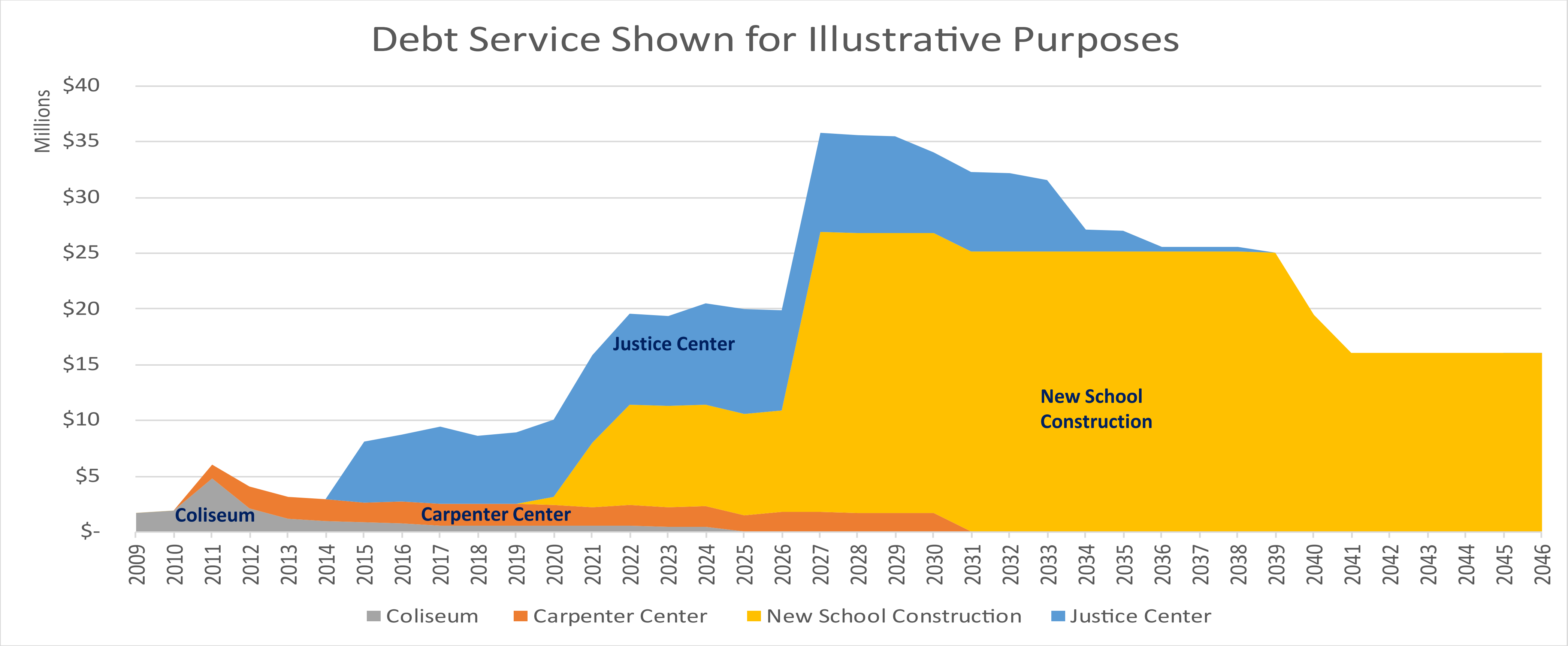
Affordability

- Affordability has more to do with the choices that we make.
- It is the amount of debt we can comfortably manage.
- We must be able to afford the yearly payments without sacrificing basic services or risking financial instability.
- The choices we make and how we spend money will be different from our neighbors.

SPENDING WITHIN OUR MEANS

- Not enough cash to build many multi-million-dollar projects, so the city issues debt to finance them
- Need to know how much debt service (debt payments) we can afford when authorizing capital projects.
- Knowing how much we can afford helps to manage and prioritize the long-term debt.
- Make informed financing decisions to fund long-term capital needs.

DECISIONS MADE TODAY HAVE LONG-TERM IMPACTS



Project	Authorization	Amount	Payoff
Coliseum	FY 2001	$8.7M	FY2024
Carpenter Center	FY 2007-2010	$22.9M	FY2030
Justice Center	FY 2010-2014	$137.6M	FY2038
New School	FY 2019/2024	$350.0M	FY2046

Note: Total city debt service not represented.

MUCH LIKE YOUR OWN CREDIT SCORE, THE CITY HAS RATINGS TOO

National Credit Rating Agency	G.O. Bond Rating	Utility Revenue Bond Rating
Fitch Ratings	**AA+**	**AA**
Moody's Investors Service	**Aa1**	**Aa1**
S&P Global	**AA+**	**AA**

- The city's General Obligation credit ratings are in the top tier of the second highest category, with utility's rating one notch below.
- Neighboring counties' General Obligation and utilities are AAA rated.

- Credit ratings are like a FICO score for an individual…
  - The higher your FICO Score, the easier and less expensive it is to borrow (mortgage, car loan, etc.)
- The higher the credit ratings, the easier and less expensive it is to borrow money.
- Weaker the credit ratings the higher the interest rate.
- The higher the interest rate, the less we have for other priorities.
- Issuing debt is necessary for fund capital needs.
- The more debt issued; more money needed to pay back.

Recent Rating Agency Comments and S&P Outlook Upgrade

Moody's Investors Service

Moody's Investors Service

City Rating: Aa1
Outlook: Stable

- Affirmed Aa1 rating and stable outlook.
- Profile is very strong and benefits from diverse economic base.
- Sustained improvement in reserves as a credit strength.
- Expects reserves to remain healthy due to continued economic growth, conservative budgeting practices, and adherence to formal fund balance policies.

S&P Global Ratings

S&P Global

City Rating: AA+
Outlook: *Positive*

- Affirmed the AA+ rating and **upgraded** its outlook to positive, because of very strong economic growth and strong financial management.
- Noted track record of strong financial results and strong reserves because of:
  - Expanding tax base
  - Conservative budgeting
  - Well-established and strong financial management policies and practices

Fitch Ratings

FitchRatings

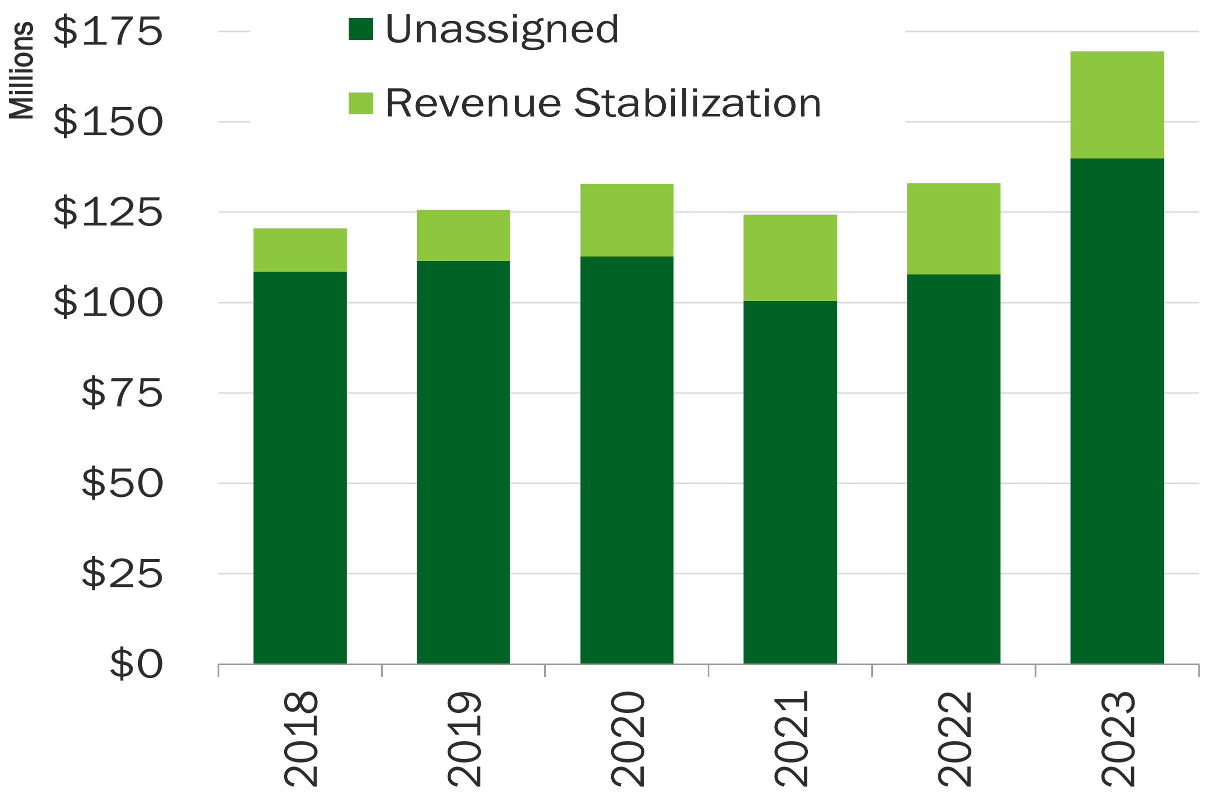
City Rating: AA+
Outlook: Stable

- Affirmed AA+ rating and stable outlook.
- Solid long-term revenue growth outlook supported by the collective trend of improving labor market conditions and income and poverty rates.
- Believes the city is well positioned to maintain highest degree of financial and budget resilience through future economic cycles.

Fund Balance Dedication Is a Positive Impact

- The Surplus Policy requires the city to dedicate 50 percent of the surplus to the Unassigned Fund Balance.
- These balances are a very important credit positive and perhaps the most important offsetting factor to the City's G.O. Debt Burden.
- Credit agencies view the policy as a positive.

Unassigned Fund Balance



Source: City of Richmond Annual Comprehensive Reports

FACTORS THAT PREVENT US FROM READING AAA

	Factors
1.	Pension/OPEB/Debt liabilities
2.	Poverty Rate
3.	Management Stability
4.	Fund Balance ("Reserves")

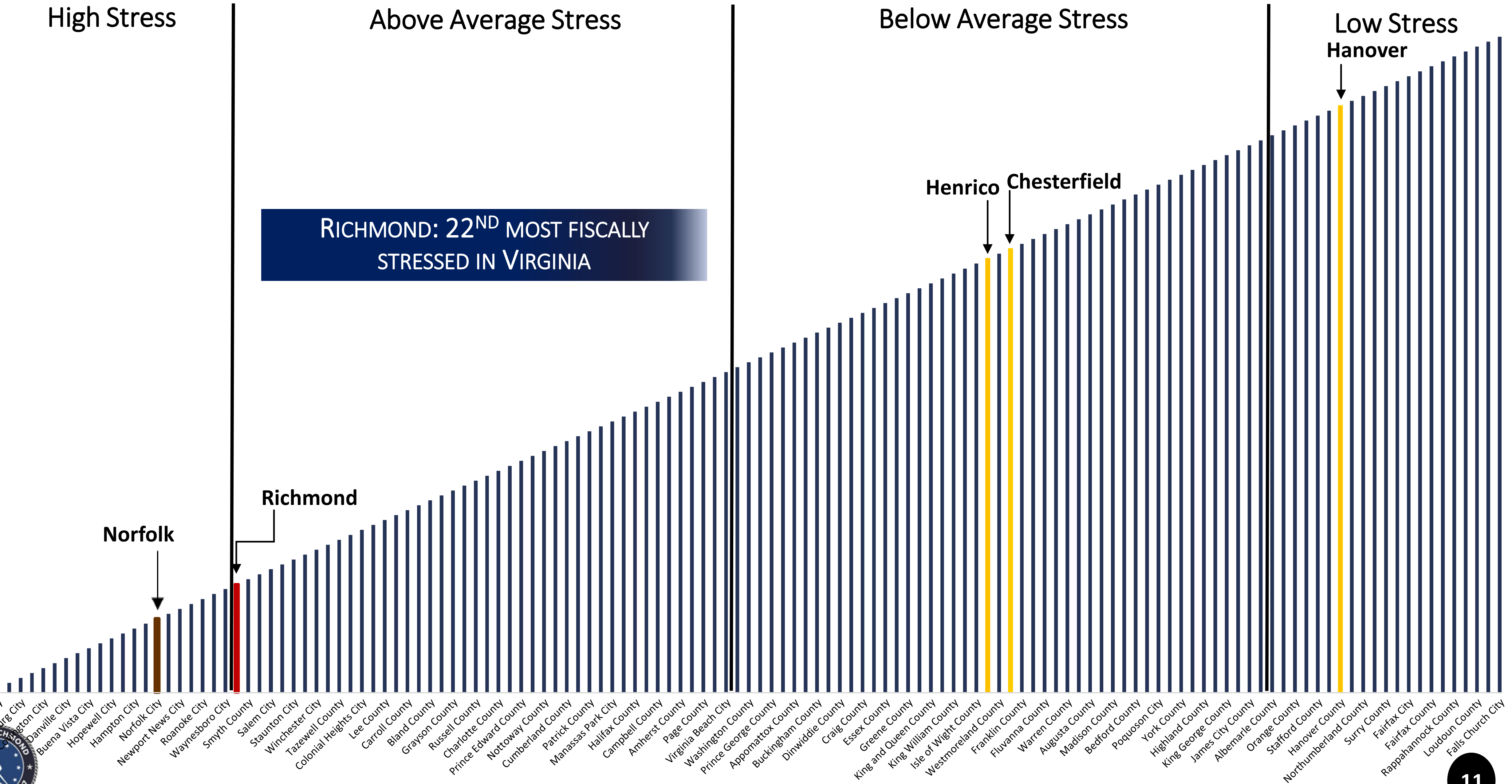
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fitch Ratings	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+
Moody's Investors Service	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa1	Aa1	Aa1	Aa1
Standard and Poor's Global Ratings	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+

WHAT IS FISCAL STRESS?

- The ability for a locality to provide services depends on its capability to generate revenue from its own sources.
- A lack of revenue-generating capacity will lead to either a shrinking budget or a gap between revenues and expenditures.
- Either of these scenarios are considered "fiscal stress."
- The Fiscal Stress Index: an index that illustrates a locality's ability to generate additional local revenues from its current tax base relative to the rest of the Commonwealth.
- The three components are:
  - Revenue capacity per capita (the theoretical ability of a locality to raise revenue)
  - Revenue effort
  - Median household income

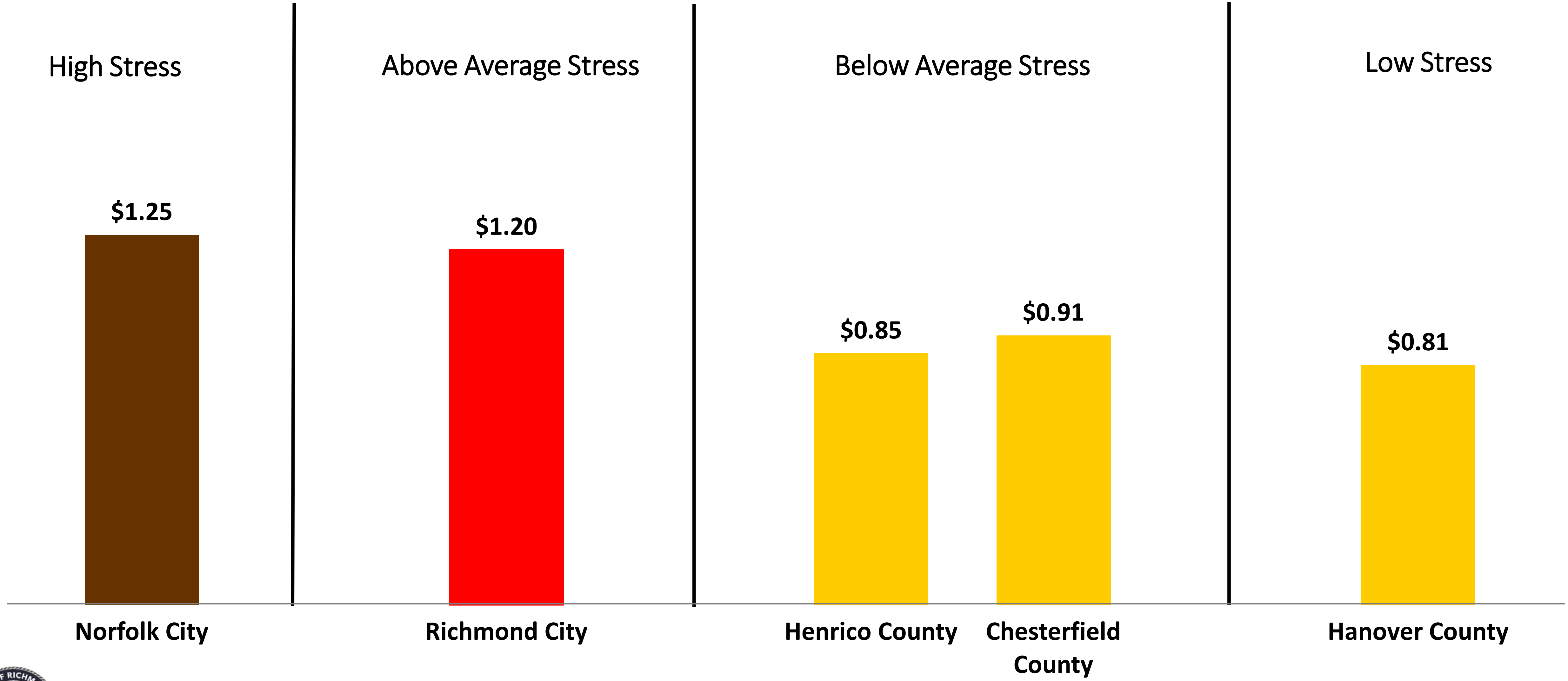
Source: Commission on Local Government FY 2021 Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia's Cities and Counties

Comparison of All Virginia Localities



Source: Commission on Local Government FY 2021 Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia's Cities and Counties. The analysis included 134 cities/counties. The names of some localities do not appear above due to chart size restrictions.

Real estate tax rates and fiscal stress



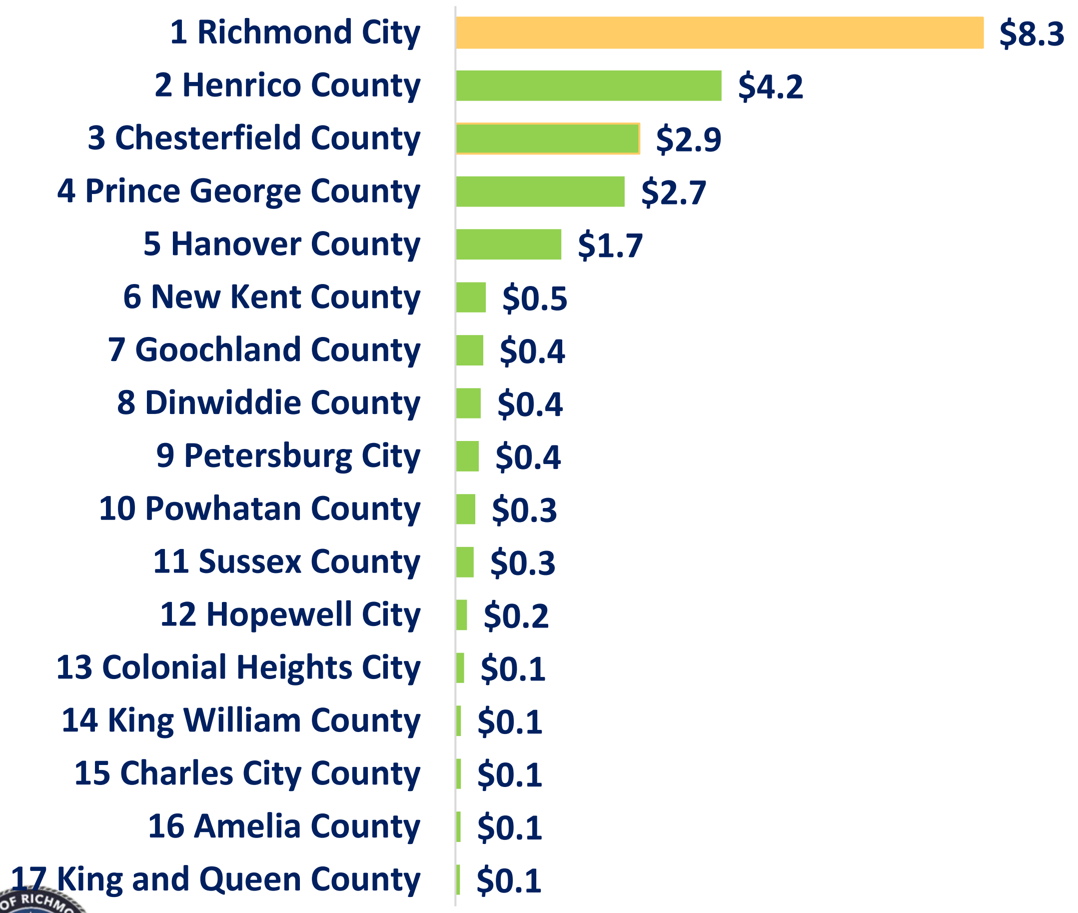
Source: CY 2023 tax rates and FY 2021 Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia's Cities and Counties

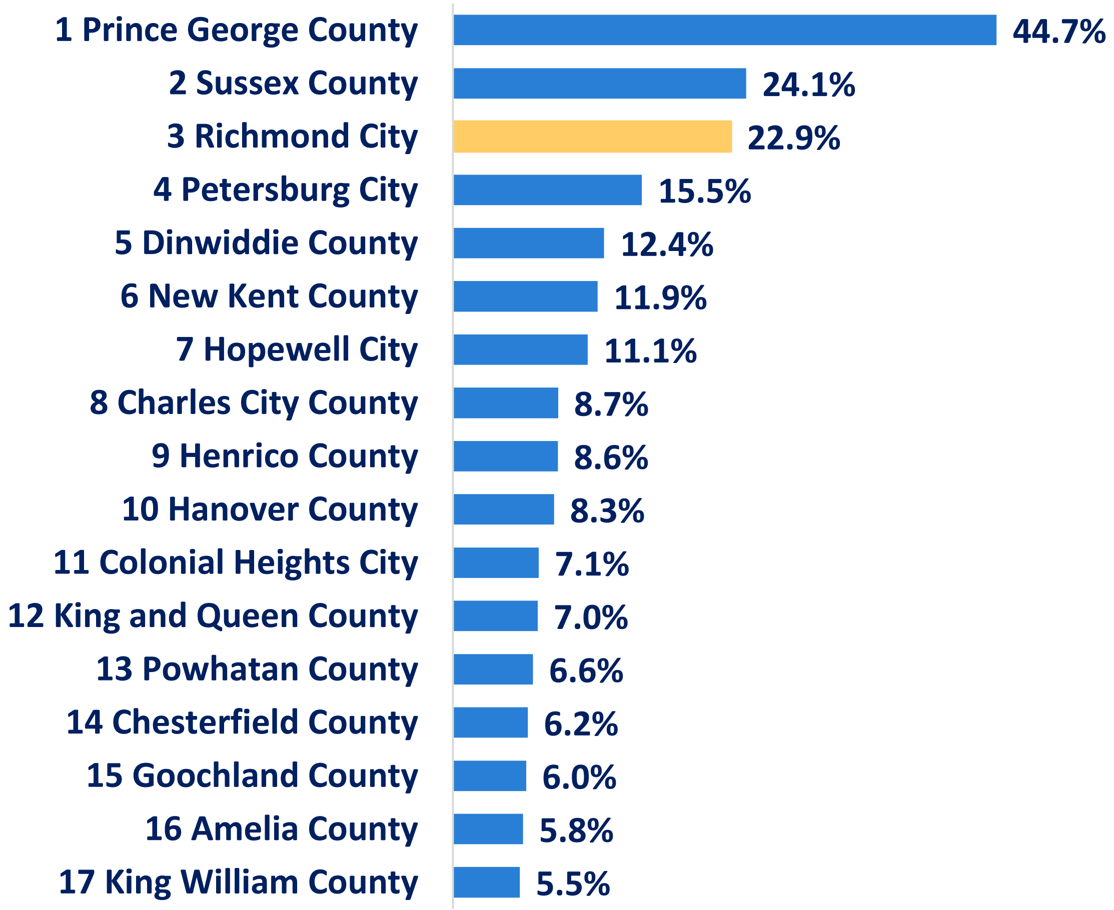
RICHMOND IS 3RD IN THE REGION FOR TAX-EXEMPT REAL ESTATE

Richmond has the Highest Assessed Value of Tax-Exempt Real Estate in the Region in Tax Year 2021

Richmond has the 3rd Highest Percentage of Tax-Exempt Real Estate in the Region in Tax Year 2021

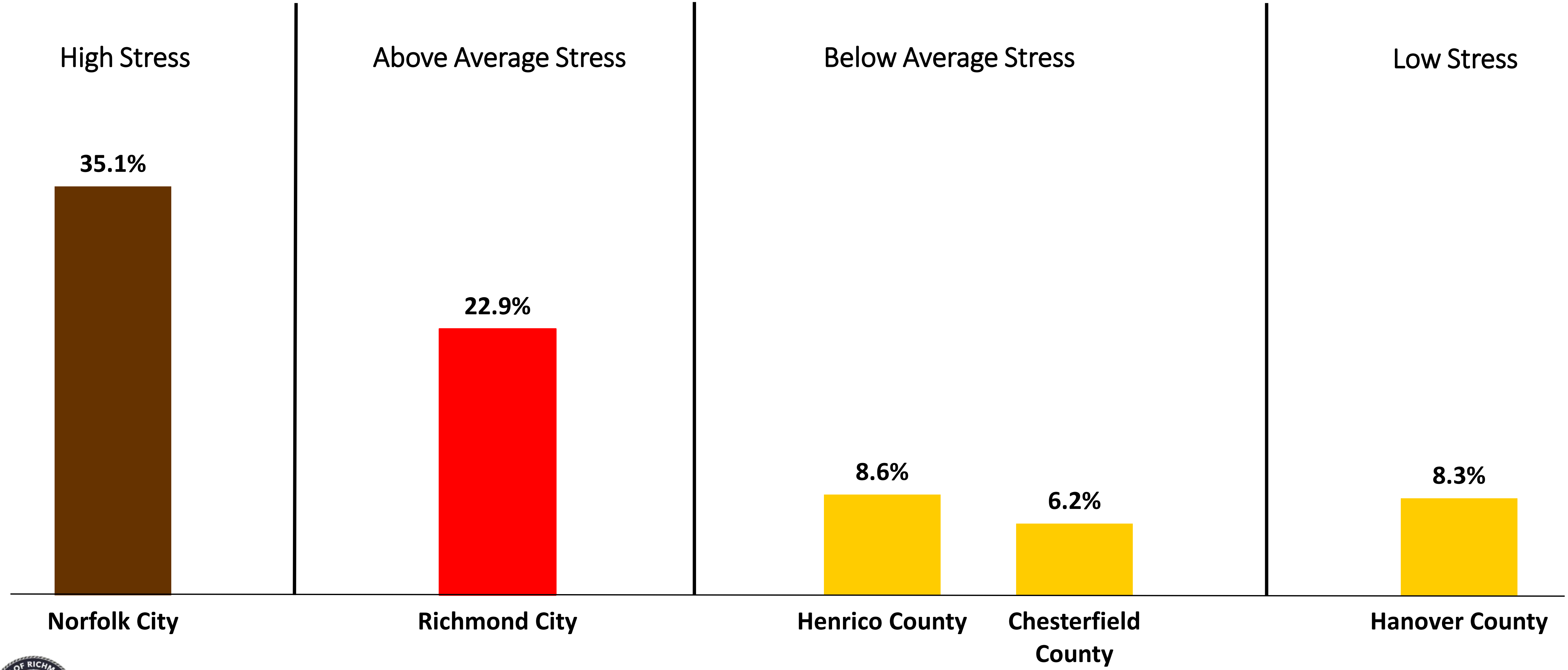
Amounts are in billion $





Source: Virginia Department of Taxation Annual Report FY 2022 (Table 6.3)

Percent of Tax-Exempt Real Estate and Fiscal Stress



Source: Virginia Department of Taxation Annual Report FY 2022 (Table 6.3) and Commission on Local Government FY 2021 Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia's Cities and Counties

THE VALUE OF ONE-CENT REAL ESTATE TAX IN FY 2024

- Real Property Tax (real estate) revenue is the largest revenue source for the city.
  - Accounts for almost half (46 percent) of city revenue.

$3.7 million

$50.0 million G.O. bonds in Capital Improvement Projects

$50.0 million CIP = $4.0 million yearly in debt payment

The CIP has ongoing need

- Debt Capacity is not just about now, but also the future costs:

Description	Estimated Amount (in millions)
Planned FY 2024 through FY 2028 CIP Needs	$632.8
Phase 3 Multi-Year School Capital Funding Plan (FY 2029 - 2033)	$200.0
Potential New Courthouse (Estimated FY 2029)	$300.0
FY 2029 Anticipated Citywide CIP Projects (all other)	*$60.0*
TOTAL	**$1,192.8**

UPCOMING NEW PROJECT ESTIMATES

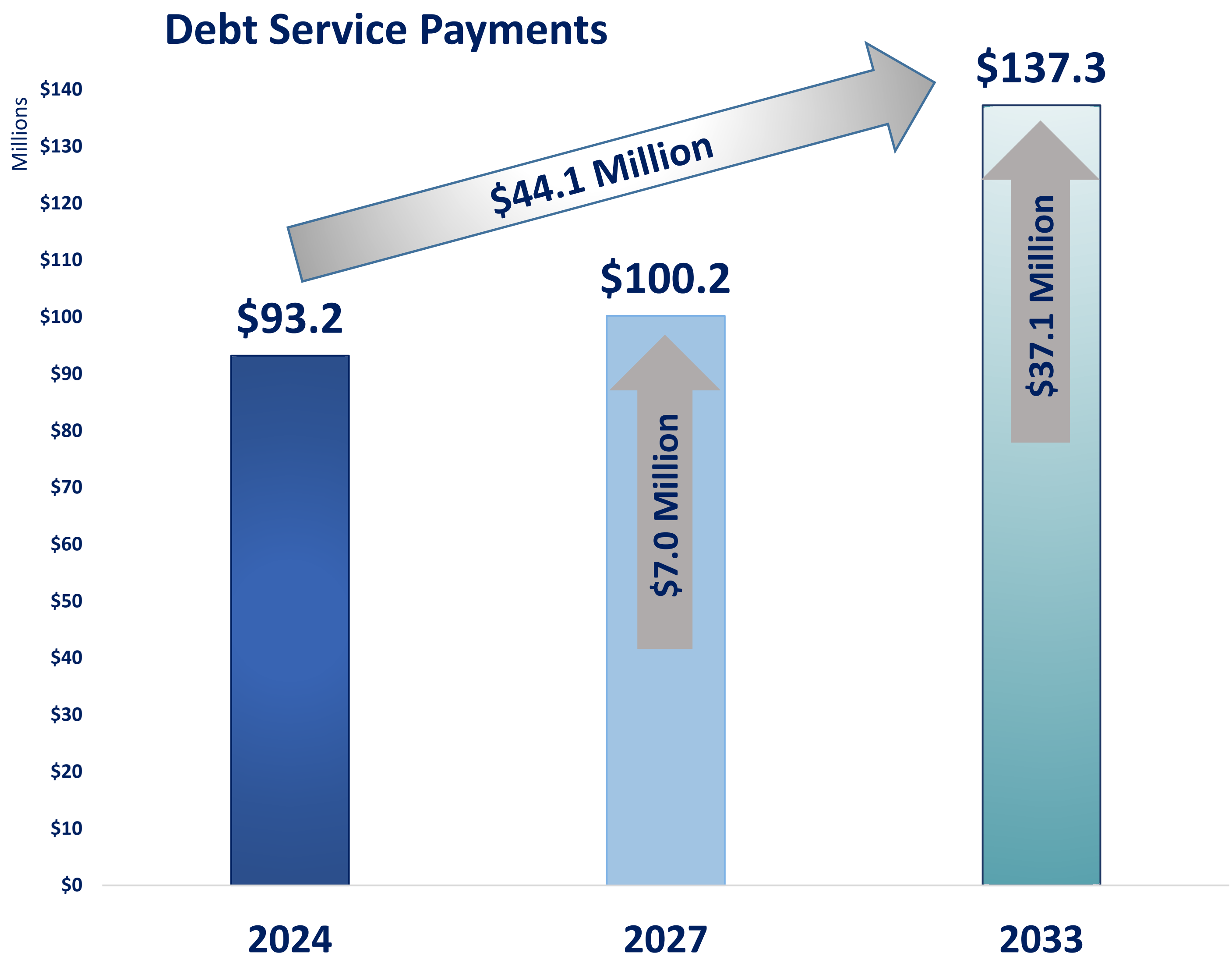
Cost = $300 million

$19.5 million annual debt payment

Cost = $200 million

$16.0 million annual debt payment

AN ADDITIONAL $44 MILLION IS NEEDED FOR THE NEW COURTHOUSE AND SCHOOLS BY 2033

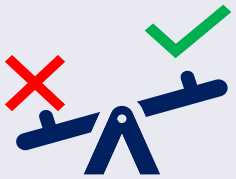


DEBT MANAGEMENT POLICIES GOVERN THE CIP

- CIP has been planned and managed through strict adherence to the three ratios set out in the Debt Management Policies:
  - *Total tax Supported Debt Service shall not exceed 10 percent of the General Fund budget.*
  - *Tax Supported Debt vs. Total Assessed Taxable Valuation shall not exceed 3.75 percent.*
  - *The City's 10–Year payout ratio of Tax Supported Debt shall not be less than 60 percent.*
- The Credit Rating Agencies evaluate the City's wherewithal to repay its debt and its ability to live within with the above policies.

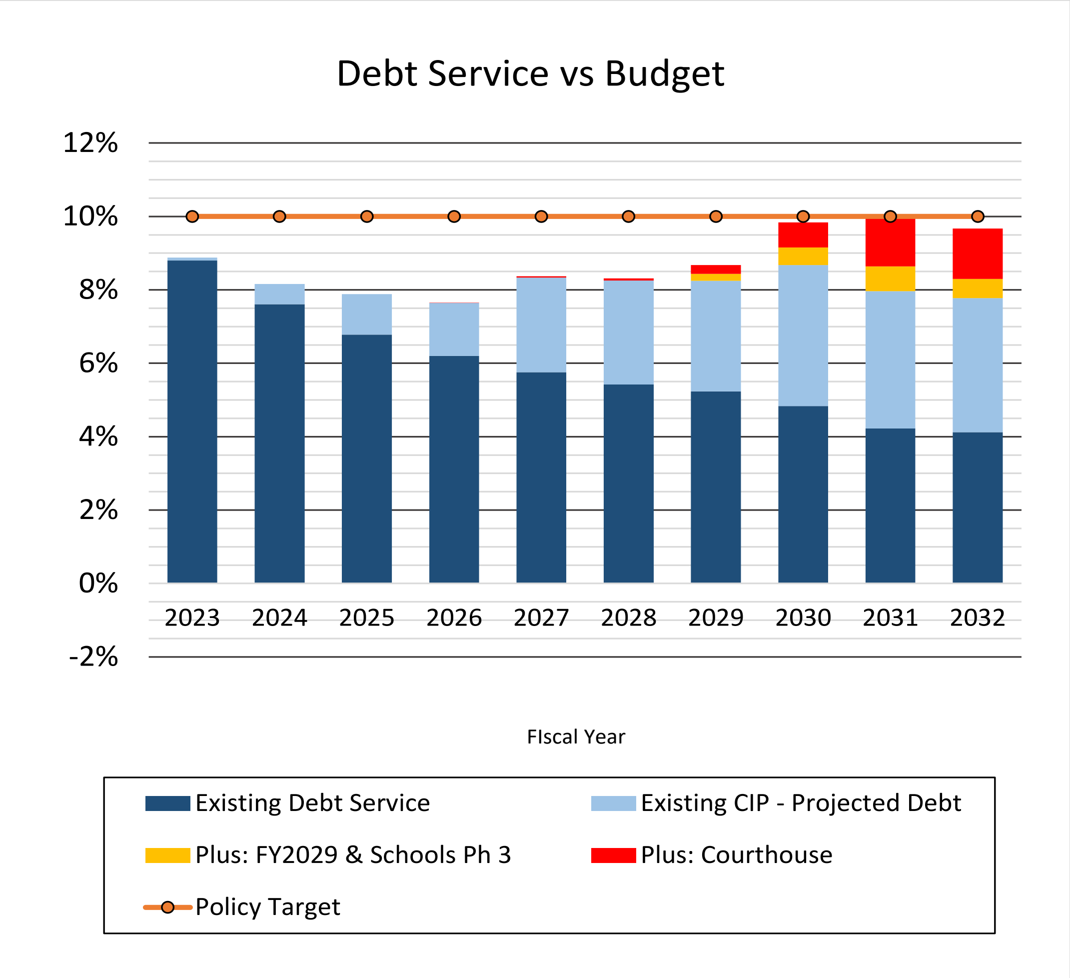
Policy targets are stressed in the next ten years

Outlook FY 2025 -2035

	Policy	Current Status	Future Status
1.	Total Tax Supported Debt Service shall not exceed 10% of the General Fund budget.	✓	
2.	Tax Supported Debt vs. Total Assessed Taxable Valuation shall not exceed 3.75%.	✓	✓
3.	10–Year payout ratio of Tax Supported Debt shall not be less than 60%.	✓	✗ **Below beginning 2030**

Barely under the 10% Policy Target

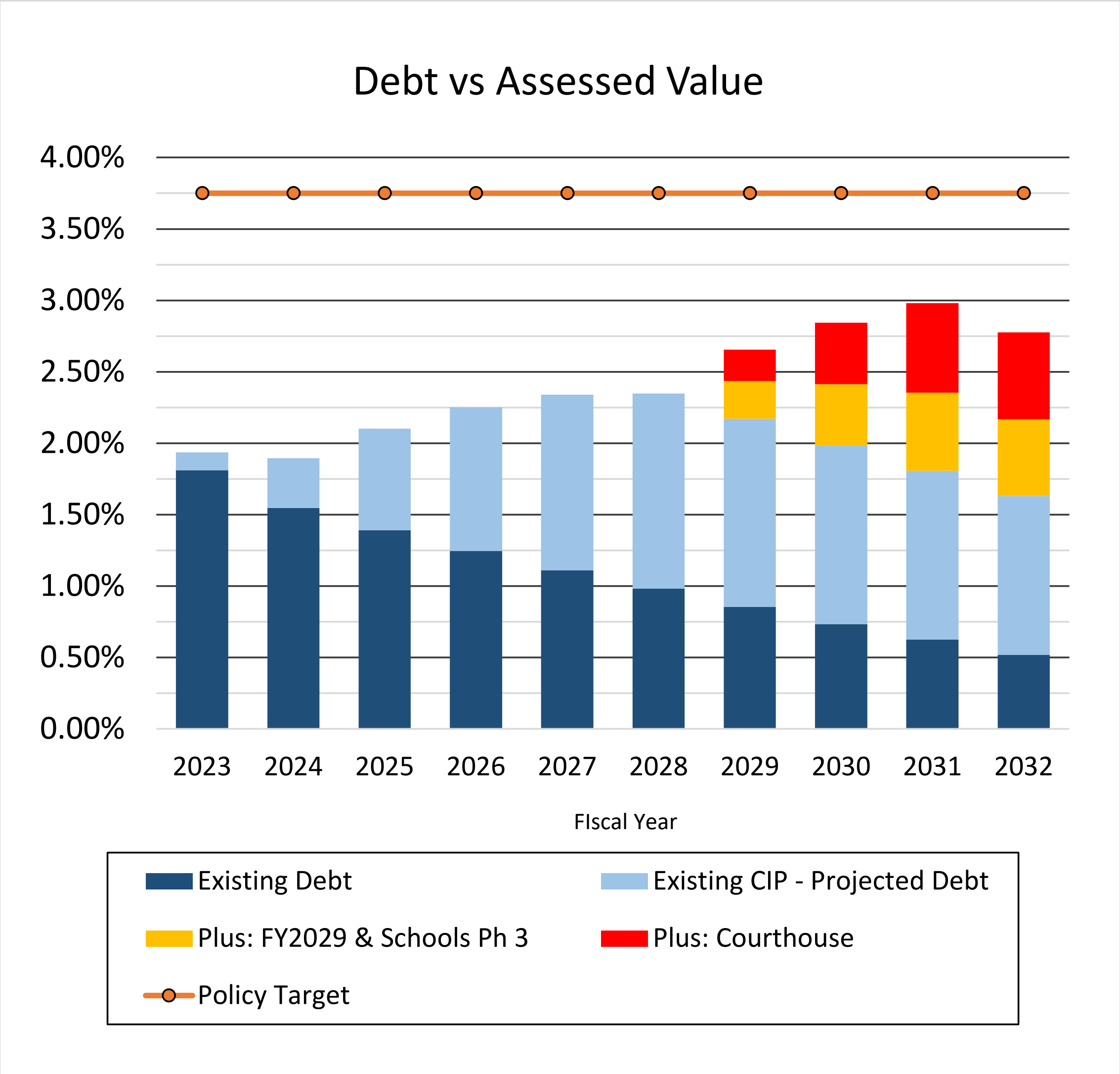
Total Tax Supported Debt Service shall not exceed 10% of the Total Budget.



- Based on 30-year amortization of the Schools and Courthouse debt, we will barely be able to remain in compliance.
- Does not address our ability to afford this new debt.
- Adds a strain on operating revenues

General Fund Budget Growth - 3.5% in FY 2025; approximately 2.3% thereafter; Streets Special Fund/RPS Budget growth – 0%

WITHIN TOTAL TAX SUPPORTED DEBT POLICY

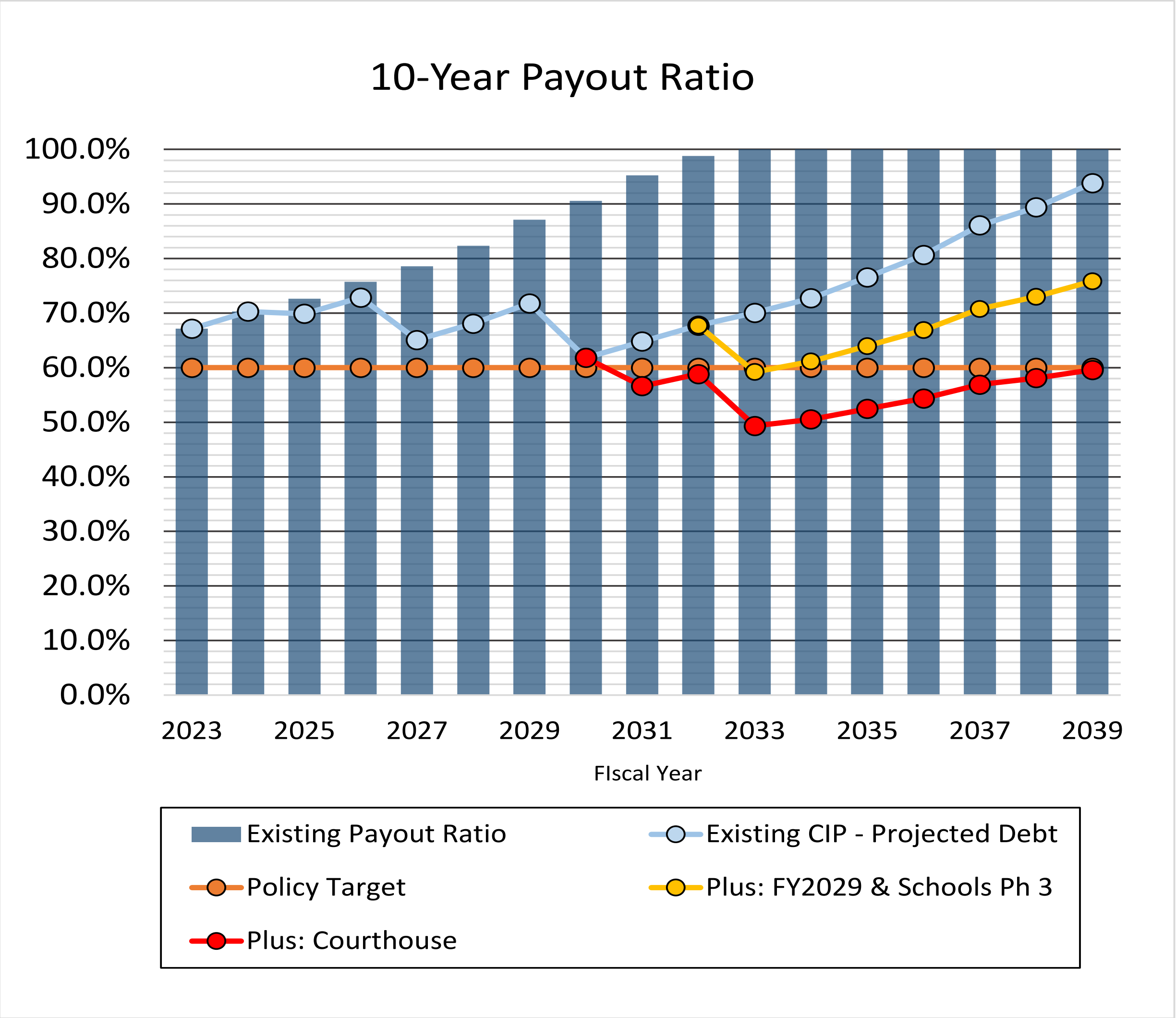


- Debt Policy: Tax Supported Debt vs. Total Assessed Taxable Valuation shall not exceed 3.75 percent.

Real Estate AV Growth – 2.0%; Personal Property AV Growth – 1.0%; M&T AV Growth – (1.5%).

Exceeding the Payout Ratio Policy

The City's 10–Year payout ratio of Tax Supported Debt shall not be less than 60 percent.



Discussion