

## **General Fund - Six-Year Financial Forecast**

This section addresses the City's ability to meet its capital needs over the six-year planning period. The development of the City's Capital Improvements Program is a process of assessing needs and making choices in relation to a balanced budget and a reasonable forecast of future financial conditions in the City. A forecasting model gives policy makers the ability to test assumptions behind the projections for future reserve balances and future debt capacity.

The projects in the City's Capital Improvements Program (CIP) are paid for either with grants, debt or on a "pay as you go" basis with a combination of operating and reserve funds. The bottom of the Summary Tables in Tab 3 show the portions of the CIP that are proposed to be paid for with grants, debt and what portions are planned for "pay as you go".

The use of debt and reserve funds is subject to adhering to policies previously adopted by the City Council. The following sections will illustrate how this proposed CIP for the six-year period beginning in FY2024 meets those debt and reserve fund policies.

### **Section I: Debt**

General obligation bonds have been issued throughout the City's history to provide funding for long-term capital improvements. Such bonds are direct obligations of the City, and the full faith and credit of the City are pledged as security. The City is not required by state law to submit to public referendum for authority to issue general obligation bonds. However, the City Council has established a policy, by resolution, which calls for public referendum on any single project debt issuance that exceeds ten percent of annual general fund expenditures for that year. The most recent bond referendum was held in November 2017, for voter approval to issue General Obligation bonds totaling \$120 million for renovation and construction of the Meridian High School. Previously, in November 2016, voters approved a bond referendum for the issuance of bonds for the renovation and expansion of the Mary Riley Styles Public Library (MRSPL) for approximately \$8.7M. The debts for these projects were issued in 2018 and 2019.

In addition to General Fund tax-supported debts, the City also issues other General Obligations bonds to fund improvements for the City's sanitary sewer system and storm water system. These systems are accounted for as an enterprise fund and the debt service on these bonds are paid from revenues generated by the respective systems and therefore, the debt service on those bonds are not counted towards the policy-related ratios and are not included in the debt service requirements in the table above. Although Revenue Bonds have been issued in the past to finance Sewer Fund projects, those debts have been paid off.

The City maintains the highest Triple A credit ratings from Moody's Investor Services and AAA from Standard and Poor's Corporation and Fitch Ratings.

The chart below shows all the general obligation bonds that are outstanding as of June 30, 2022:

	<b>Interest Rates</b>	<b>Date Issued</b>	<b>Final Maturity Date</b>	<b>Amount of Original Issue</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
General obligation	2.00-4.00%	03/06/2012	08/01/2024	\$ 15,300,000	\$ 4,970,000	\$ -
General obligation	2.00-5.00%	12/18/2013	07/01/2033	\$ 17,620,000	1,850,000	180,000
General obligation	2.00-5.00%	12/23/2014	07/15/2030	\$ 11,740,000	6,760,000	850,000
General obligation	2.31%	08/31/2015	07/15/2035	\$ 5,360,000	2,401,151	1,288,849
General obligation 2016B	1.41%	11/16/2016	7/15/2026	\$ 4,071,000	79,000	1,587,000
General obligation 2016C	1.79%	11/16/2016	7/15/2031	\$ 2,511,000	175,000	2,077,000
General obligation	2.02-3.35%	06/06/2018	01/15/2048	\$ 22,305,000	17,570,000	475,000
VRA line of credit	3.35%	05/13/2009	09/01/2029	\$ 4,100,000	-	1,858,813
VPSA bond	4.10-5.10%	05/11/2006	07/15/2026	\$ 1,935,000	475,000	-
VPSA bond	4.25%	12/15/2011	12/01/2030	\$ 3,000,000	1,500,000	-
General obligation 2019B	3.00-5.00%	11/07/2019	7/15/2048	\$ 119,111,000	113,610,000	1,030,000
General obligation 2020A	2.24%	11/09/2020	7/01/2040	\$ 658,342	-	625,424
General obligation 2020B	1.351%	11/09/2020	7/01/2032	\$ 2,652,372	2,275,875	-
General obligation 2020C	1.88%	11/09/2020	7/01/2033	\$ 8,246,695	7,175,943	941,497
					<u>\$ 158,841,969</u>	<u>\$ 10,913,583</u>

Annual debt service requirements as of June 30, 2022 for the general obligation long-term bonds are summarized as follows:

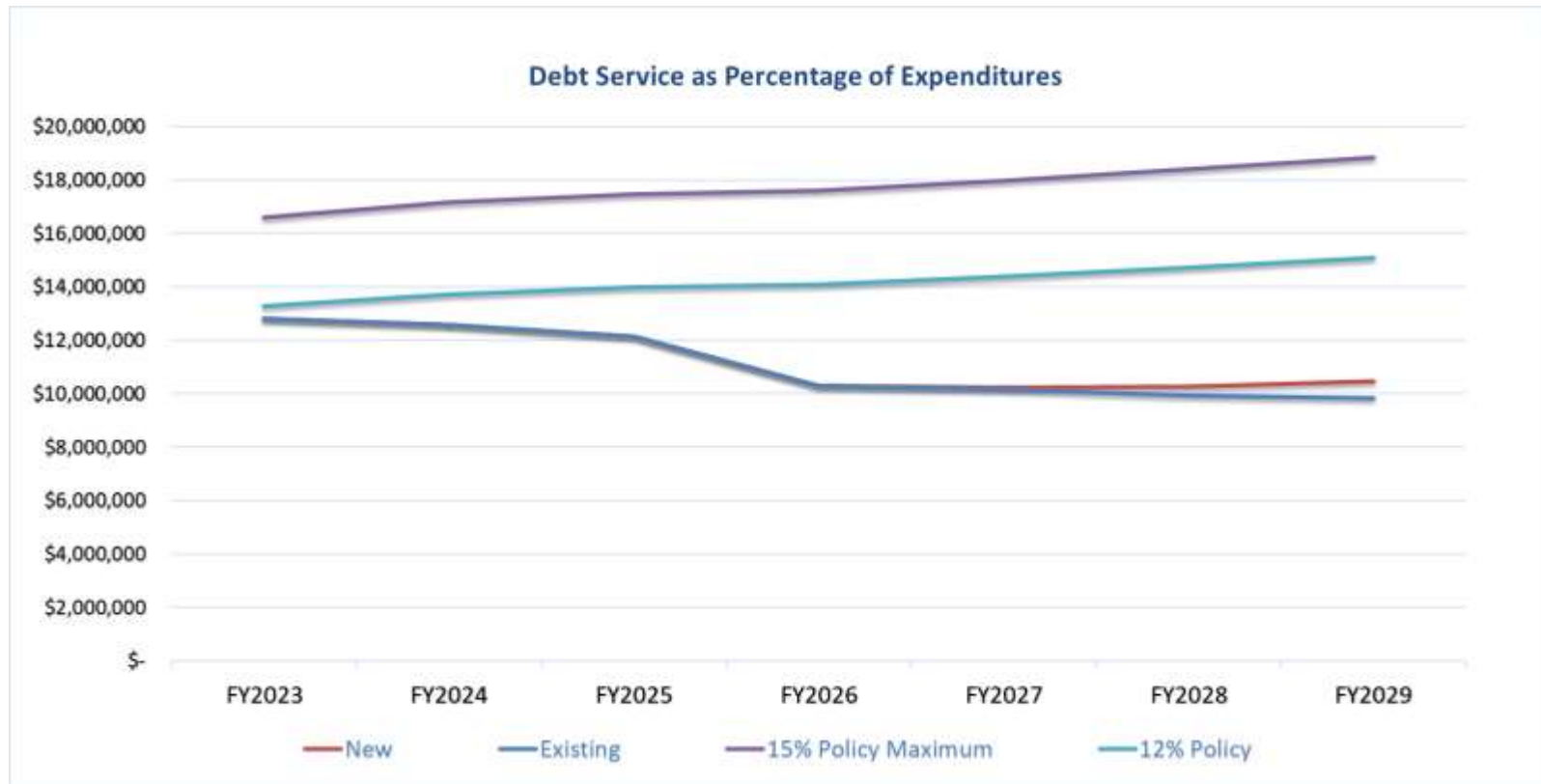
	<b>Governmental Activities</b>				<b>Business-type Activities</b>	
	<b>General Obligation Bonds</b>		<b>Leases</b>		<b>General Obligation Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2023	\$ 7,723,310	\$ 5,081,066	\$ 38,266	\$ 5,198	\$ 1,300,657	\$ 250,218
2024	7,810,070	4,765,018	39,430	4,034	1,309,034	218,867
2025	7,676,574	4,467,582	40,629	2,835	1,321,213	188,445
2026	6,099,440	4,200,390	39,103	1,633	930,629	162,342
2027	6,226,994	3,948,557	33,283	567	836,859	140,221
2028-2032	32,079,934	16,245,382	-	-	3,584,203	404,377
2033-2037	29,430,647	11,432,134	-	-	1,309,320	116,156
2038-2042	24,790,000	7,391,899	-	-	321,668	14,049
2043-2047	25,850,000	3,710,913	-	-	-	-
2048-2050	11,155,000	338,725	-	-	-	-
	<u>\$ 158,841,969</u>	<u>\$ 61,581,666</u>	<u>\$ 190,711</u>	<u>\$ 14,157</u>	<u>\$ 10,913,583</u>	<u>\$ 1,494,575</u>

**Debt Policies**

The City’s legal limit for outstanding debt as set by the Commonwealth of Virginia is 10% of taxable assessed real property within the city, which was \$458.7 million as of January 1, 2022. The City’s long-term debt that is applicable to this limit, which includes general obligation debt issued for the sanitary sewer and stormwater utilities, was \$176.8 million as of June 30, 2022.

Additionally, the City Council adopted Financial Policies that further establish sustainable limits for debt management as listed below for the City’s General Fund supported debt. A copy of the full text of the City’s debt policies is provided at the end of this section.

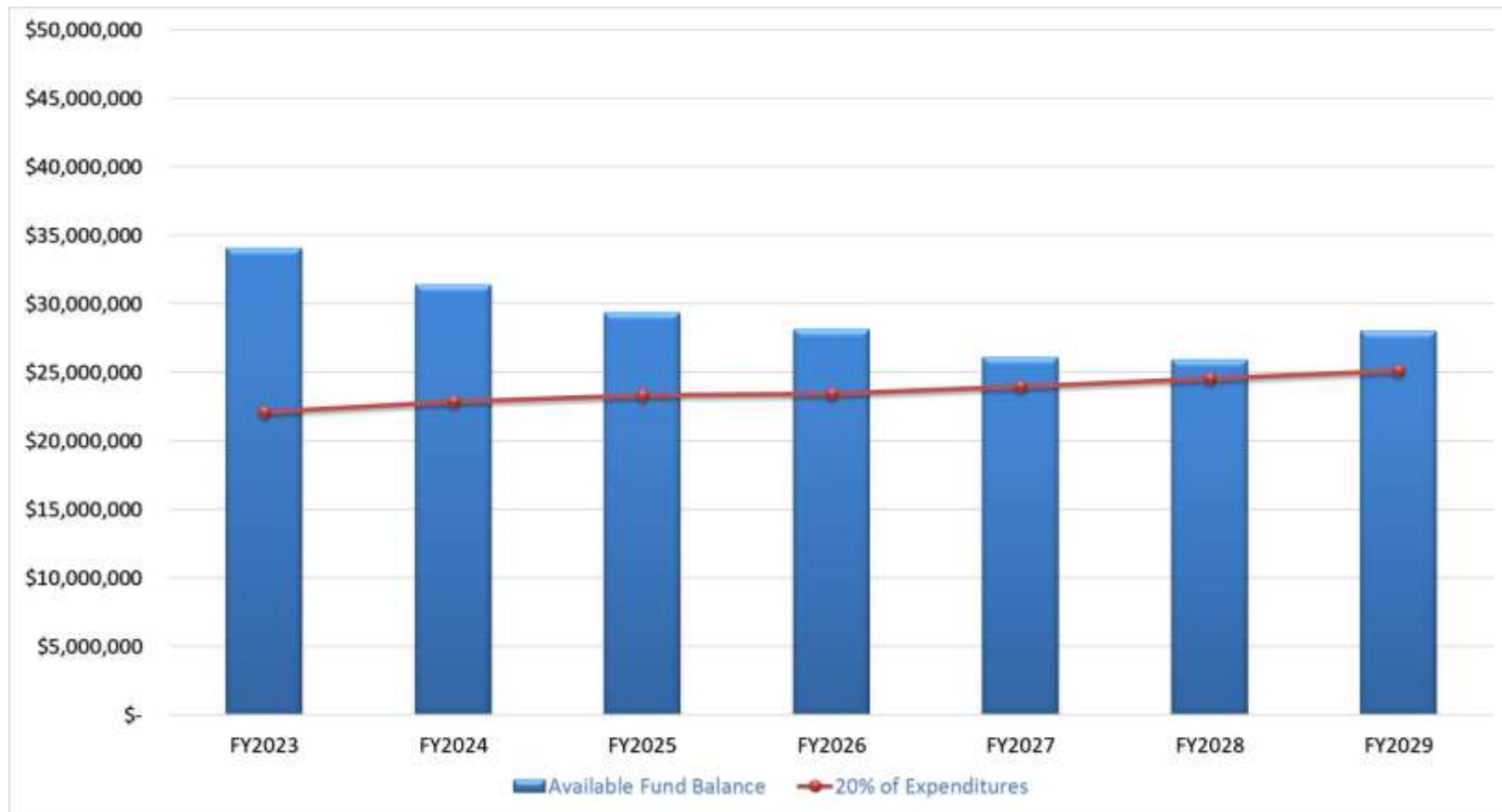
1. General Fund supported debt shall not exceed five percent of the net assessed valuation of taxable real property in the City. As of June 30, 2022, total outstanding General-Fund supported debt was 3.5% of taxable assessed value of real property.
2. The goal is to maintain the annual debt service expenditures for all General Fund supported debt below twelve percent (12%) of total General Fund operating expenditures, including school board transfer and debt service and in no event shall it exceed fifteen (15%). General Fund debt service payment is estimated to be 11.6% of General Fund expenditures in FY2023. Looking ahead, in relation to the CIP's projected need for debt financing, the City expects to see this ratio go down to previous normal levels of around 8% in FY2026 with the maturity of the debt issued for the Mary Ellen Henderson Middle School as shown in the chart below.



*\*In the above chart, expenditures other than debt service are projected to grow at 2.5% year over-year. The above chart reflects anticipated debt issuances to finance the FY2024-FY2029 CIP.*

3. The 5-year payout ratio shall not be less than 25% and the 10-year payout ratio shall not be less than 50%. As a result of the large debt issued in 2019, the city's 5-year payout ratio as of June 30, 2023 is 23.5% and 10-year payout ratio is 44.7%.

As indicated above, the City is below the annual debt service ratio but is still below its 5-year and 10-year payout ratio requirements. The Financial Policies provide that when these requirements are not met, available fund balance must be between 15% and 20% of General Fund expenditures. Available fund balance consists of committed, assigned, and unassigned fund balances in the General Fund. As of June 30, 2023, available fund balance is expected to be 30.8% of General Fund expenditures.



Available fund balance is comprised of unassigned fund balance, permit fee reserves, and capital reserves as well as projected payments from a developer for the lease of 10 acres of land next to the Meridian High School, also known as West Falls Church. A comprehensive agreement for this lease was executed in May 2019 and closing occurred in May 2022. The first payment of \$6.5 million from the developer was received in August 2019 and the second payment of approximately \$4.7 million was received during FY2022. Annual payments for rent are also scheduled through 2118 totaling \$95.1 million.

Forecasting these reserve balances requires assumptions about future operating revenues and expenditures. Key assumptions included in the model used in the chart above include:

- West Falls Church will be developed timely as projected;
- interest rates for new debts not exceeding 5%; and
- a balanced operating budget every year.

It is worth noting that the discussion of “debt capacity” in terms relating strictly to policy guidance does not address the separate *issue of affordability within current tax rates.*

In summary, the ratio of annual debt service to total General Fund expenditures is a constraint that bears close attention. This ratio is used by bond rating agencies to assess fiscal health, and must be used by the City to assess the affordability of specific projects and the six-year CIP as a whole.

## **Section II: Capital Reserve Balance Policies (Pay-As-You-Go/PAUG)**

A minor portion of the City’s CIP projects are funded on a “Pay as you go” basis; the focus for the next six years is in executing previously approved projects. Under this financing option, capital projects are funded by available current year revenues or, if available, the use of capital reserve balances.

The City’s financial policy establishes the funding of a capital reserve at a minimum of 5% of fixed assets or \$3.75 million, whichever is lower. The capital reserve balance shall be used to pay for projects in the CIP or for debt service for those projects. Over the coming years, the City will be using a portion of the capital reserves to pay for debt service as well as to cash fund projects in the CIP while still maintaining a balance above the policy minimum<sup>[CM1]</sup><sup>[MR2]</sup><sup>[KB3]</sup><sup>[MR4]</sup><sup>[MR5]</sup>. This will allow deferring issuance of new debt till FY2027.

**Attachments:**

2018 Financial Policies, adopted

Budget Guidance, adopted

Budget Glossary

RESOLUTION TO ADOPT A GUIDANCE STATEMENT ON THE  
DEVELOPMENT OF THE FY2024 CITY BUDGET

WHEREAS, the City Council has received initial projections for revenues and information about key new initiatives and trends for the coming fiscal year and has considered these projections in providing budget guidance; and

WHEREAS, the guidance statement is intended to provide a framework for the City Manager and the School Board as they develop a proposed budget for presentation in the spring that is aligned with fiscal projections as well as citywide goals as expressed in the Capital Improvements Program, the Comprehensive Plan, the Council Work Plan, and other approved plans; and

WHEREAS, the City takes tremendous pride in the quality of public input and citizen involvement in the budget process, and the budget process is designed to provide as many opportunities as possible for citizens to exchange information about budget priorities, and this public input will ultimately inform the Council's final budget decisions next spring;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Falls Church that the attached "FY2024 Budget Guidance Statement" is hereby adopted.

Reading: 12-12-22  
Adopted: 12-12-22  
(TR22-47)

IN WITNESS WHEREOF, the foregoing was adopted by the City Council of the City of Falls Church, Virginia on December 12, 2022 as Resolution 2022-48.



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Celeste Heath  
City Clerk



## **City Council FY2024 Budget Guidance Statement December 12, 2022**

The City Council seeks a FY2024 budget development process that advances the City Vision and Comprehensive Plan; supports the City's excellent schools and excellent government services; and adheres to adopted fiscal policies that keep City finances on a sound footing. The City of Falls Church is committed to providing valuable public services that promote a high quality of life in a cost effective manner.

Actions by the State Government may have significant impacts to City finances, such as possible legislation to eliminate the sales tax on grocery, and unfunded mandates. In addition, the current trend of rising cost for fuel, materials, and labor puts new pressure on the City budget, even as those same inflationary pressures cause hardship for city tax payers and city employees. In this dynamic environment City Management will need to provide regular and timely updates to the City Council, School Administration, and the larger community, to allow revisions of this Guidance Statement as appropriate.

With these and other considerations in mind, the FY2024 Budget Guidance is as follows:

- Continue the spirit of cooperation and collaboration between the General Government and the Schools in the development of the annual Budget and Capital Improvements Program.
- The FY2024 General Fund operating budget, inclusive of both general government and school operations, should strive to be within organic tax revenue growth, currently projected at 4.2% over the current FY2023 budget. This guidance is mindful of the inflationary cost pressures that are being experienced by both the government, local businesses, and residents this year, and it is also mindful that there may be greater budgetary challenges in FY2025 should the economy go into recession as some economists predict.
- The budget should avoid the issuance of new debt and use of Capital Reserves to fund core community capital needs in a responsible manner through the six-year Capital Improvements Plan.
- The budget should seek to sustain funding for professional development and training, and ensure that employee compensation is competitive within the regional labor market, fosters strong employee retention and recruitment, and is sustainable over the long term. The budget should incorporate the findings of the independent compensation study that was completed this year.
- The budget should fund improvements that will further progress in making the City's business districts vibrant, with holiday lighting, flower baskets, public art, and like amenities; and the budget should increase City funding for special events like Watch Night and Independence Day celebrations.

- The budget should strive to sustain the higher levels of funding made in FY2023 for streets, signals and sidewalks, and the rapid response crew to help make streets more safe and attractive for pedestrians and cyclists; fund the neighborhood traffic calming program and the sidewalk program on a sustained basis; and sustain Capital Bikeshare. The budget should include the necessary project management, procurement, and grant management staffing for successful delivery and maintenance of these improvements.
- The CIP should continue the strategic use of the NVTAs 30% and 70% funds as well as other state and federal sources of funds for transportation improvements for all modes of transportation, including walking, cycling, microtransit, public transit, and vehicles. These transportation investments should be aligned with the walkability priorities established in the Mobility for All Modes Chapter of the Comprehensive Plan.
- The budget should address funding for WMATA that does not exceed the 3% cap on annual increases to jurisdictional contributions for the operating and capital budget.
- The budget should continue the progress made in FY2023 of providing both local and grant funding for the preservation and development of affordable housing.
- The budget must promote racial and social equity in the allocation of public dollars.
- The budget should seek to implement and fund the recommended strategies of the Government Energy Plan and the Community Energy Plan to reduce greenhouse gas emissions.
- The budget should fund improvements to the City storm water infrastructure as called for in the CIP and wherever possible apply federal and state funding for this necessary infrastructure in lieu of stormwater fee increases.
- Calculate and highlight in the budget presentation the pension expense avoided by the investment of a portion of the water sales proceeds in the pension fund.
- Accompany the FY2024 budget presentation with public information that explains the budget clearly and solicits public participation and input in budget decisions.

**Accrual Basis of Accounting** – A method of accounting that recognizes the financial effect of transactions, events, and inter-fund activities when they occur, regardless of the timing of related cash flows.

**Adopted Budget** – The original adopted operating and capital budget approved by the City Council after public hearings and amendments to the proposed budget; becomes legal guidance to City management and departments for spending levels.

**Advisory Referendum** – A measure voted on by the general public in an election; refers to a specific question posed on a ballot which is non-binding and used to provide guidance to the elected representatives.

**Appropriation** – An authorization made by the City Council that permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are usually made for fixed amounts and are granted for a one-year period.

**Assessed Value** – The fair market value placed upon real and personal property by the City as the basis for levying property taxes.

**Assessment/Sales Ratio** – Assessed value for each sale of real property divided by its selling price; used to determine if real property is assessed within a reasonable range of fair market value. The Commonwealth of Virginia requires that real property be assessed at 100 percent of fair market value. An acceptable assessment/sales ratio percentage is 70 percent or higher.

**Balanced Budget** – By law, local government budgets must be balanced; i.e., expenditures may not exceed revenues.

**Basis of Accounting** – The timing of recognition, that is, when the effects of transactions or events should be recognized for financial reporting purposes.

**Bond Debt Instrument** – A written promise to pay a specified sum of money (called principal or face value) at a specified future date (called the maturity date) along with periodic interest paid at a specified percentage of the principal. Bonds are typically used for long-term debt to pay for specific capital expenditures.

**Bond Ratings** – A rating of quality given on any given bond offering as determined by an independent agency in the business of rating such offerings.

**BPOL Tax** – Business license or gross receipts tax, this item taxes the total revenues of a business.

**Budget** – A plan of financial operation including an estimate of proposed means of financing them (revenue estimates). The term also sometimes is used to denote the officially approved expenditure ceilings under which the City and its departments operate.

**Budget Calendar** – The schedule of key dates or milestones the City follows in the preparation and adoption of the budget.

**BZA** – Board of Zoning Appeals.

**Capital Projects Fund** – Each year, the City adopts a six-year Capital Improvements Program (CIP) that serves as a blueprint for the long-term physical improvements the City wishes to make. The Capital Fund

is funded through a transfer from the general, storm water and sewer funds, State aid and proceeds from bond issuances. The current year CIP is included as part of the annual budget.

**Capital Improvements Program (CIP)** – A six-year plan of proposed capital expenditures for long-term improvements to City facilities including water, sewer, transit and schools; identifies each project and source of funding. To be included in the CIP a project must be estimated to cost more than \$150,000 and have a useful life in excess of five years.

**Capital Outlay** – An appropriation or expenditure category for government assets with a value of \$5,000 or more and a useful economic life of one year or more.

**Carryforward (carryover)** – Funds in the School Division budget unexpended in one year that are used as a funding source for the subsequent year. This is required by 6.18 of the City Charter.

**Coefficient of Dispersion** – Represents the mean percentage deviation from a median.

**Comprehensive Annual Financial Report (CAFR)** – The annual report that represents a locality's financial activities and contains the independent auditor's reports on compliance with laws, regulations and internal controls over financial reporting based on an audit of financial statements performed in accordance with "Government Auditing Standards."

**COG** – Metropolitan Washington Council of Governments – an independent, nonprofit association of 17 member governments located in the Washington metropolitan region.

**Constitutional Officers** – Officials elected to four-year terms of office who are authorized by the Constitution of Virginia to head City departments; the Treasurer, the Commissioner of Revenue, and the Sheriff in the City.

**Consumer Price Index (CPI)** – A measure, calculated by the United States Department of Labor, commonly used to indicate the rate of inflation.

**Contingency** – A budgetary reserve set aside for emergencies or unforeseen expenditures for which no other budget exists.

**CSA** – Comprehensive Services Act.

**CY** – Calendar year.

**Debt Per Capita** – Total outstanding debt divided by the population of the City.

**Debt Ratio** – A measure used that determines the annual debt service or outstanding debt as a percentage of some other item which is generally an indication of the ability of the City to repay the debt; examples include annual debt service as a percentage of total annual expenditures and total outstanding debt as a percentage of total assessed value.

**Debt Service** – The payment of interest and principal to holders of the City's debt instruments.

**Economic Development Authority (EDA)** – Responsible for encouraging industrial and commercial development in the City.

**Encumbrance** – A reservation of funds that represents a legal commitment, often established through contract, to pay for future goods or services.

**Enterprise Funds** – Account for the financing of services to the general public whereby all or most of the operating expenses involved are recorded in the form of charges to users of such services. The enterprise funds consist of the Sewer Utility Fund and the Water Utility Fund.

**Expenditure** – Actual outlay of monies for goods or services.

**Fair Market Sales** – Defined as an “arm’s length” transaction where there is a willing buyer and a willing seller, neither of which is under pressure to sell or buy. This excludes transfers such as sales within a family, foreclosures, or sales to a governmental unit.

**Fringe Benefits** – The employer contributions paid by the City as part of the conditions of employment. Examples include, among other things, health insurance, Virginia Retirement System, and the City retirement system, post-retirement health benefits, life insurance, long-term disability.

**Fiscal Year (FY)** – Section 6.01 of the City’s charter sets the fiscal year as July 1 through June 30.

**Full-Time Equivalent (FTE)** – A measure of determining personnel staffing, computed by equating 2,080 hours of work per year with one full-time equivalent position.

**Fund** – An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives.

**Fund Balance** – The excess of an entity’s assets over its liabilities; also known as excess revenues over expenditures. A negative fund balance is sometimes called a deficit.

**GAAP** – Generally Accepted Accounting Principles. These form the basis of the City’s accounting and financial reporting.

**GASB** – Governmental Accounting Standards Board – an organization that provides the ultimate authoritative accounting and financial reporting standards for state and local governments.

**General Fund** – Used to account for all general operating expenditures and revenues, this is the City’s largest fund. Revenues in the general fund primarily are from property taxes, sales tax, the business license tax and State aid.

**General Obligation Bond** – A bond for which the full faith and credit of the City is pledged for payment.

**Infrastructure** – Public systems and facilities, including water and sewer systems, roads, bridges, public transportation systems, schools and other utility systems.

**Internal Service Charges** – Charges to City departments for assigned vehicle repairs and maintenance provided by the motor pool division.

**IT** – Information Technology.

**Lease Financing Instrument** – Financial obligation which is not the general obligation debt of the City for which the full faith and credit of the City is pledged for payment.

**Median Household Income** – Median denotes the middle value in a set of values, in this case, household income.

**Modified Accrual Basis of Accounting** – Basis of accounting according to which revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which are recognized when due.

**Non-Departmental Accounts** – Accounts used to record expenditures that cannot or have not been allocated to individual departments.

**NVTA** – Northern Virginia Transportation Authority.

**NVTC** – Northern Virginia Transportation Commission.

**Object** – As used in expenditure classification, this term applies to the type of item purchased or the service obtained (as distinguished from the results obtained from expenditures). Examples are personnel services, contractual services and materials and supplies.

**OPEB** – Other Post Employment Benefits. These are benefits offered to retirees in addition to a retirement plan. The City offers retiree health insurance and life insurance.

**Personal Property Tax (PPT)** – A City tax levied on motor vehicles and boats based on published listings of values, and on machinery and tools based on a percentage of cost.

**Proposed Budget** – The operating and capital budgets submitted to the City Council by the City Manager.

**Proprietary Fund** – A fund that accounts for operations that are financed in a manner similar to private business enterprise; consists of enterprise funds.

**Public Service Corporation (PSC)** – An entity defined by the Commonwealth of Virginia as providing utilities to residents and businesses; includes power companies, phone companies, gas companies, and other similar type organizations.

**Real Estate Tax (R/E)** – A tax levied by the City Council on real property in the City of Fairfax; real property is defined as land and improvements on the land (buildings).

**Reserve** – An account used to indicate that a portion of accumulated fund balance is committed for certain expenditures. Reserves may also be funded in a given year's operation, either for contingencies for specific items, or for future expenditures.

**Reserve for Contingencies** – An account used to appropriate current revenues for unknown expenditures that may arise during the fiscal year.

**Revenue** – The income received by the City in support of a program of services to the community; includes such items as property taxes, fees, user charges, grants, fines and forfeitures, interest income and miscellaneous revenue.

**Revenue Estimate** – A formal estimate of how much revenue will be earned from a specific revenue source for some future period – typically a future fiscal year.

**ROW** – Right-of-way.

**Salaries** – The amounts paid for personal services rendered by employees in accordance with rates, hours, terms and conditions authorized by law or stated in employment contracts. This category also includes overtime and temporary help.

**Supplies and Material** – The expenditure classification used in the budget to cover office and operating supplies, construction materials, chemicals, fuels, and repair parts.

**Tax Rate** – The amount of tax levied for each \$100 of assessed value.

**Transient Occupancy or Lodging Tax** – Tax on stays at hotels and motels of less than 30 days duration.

**User Fees** – The payment of a fee for direct receipt of a public service by the person benefiting from the service.

**Utility Funds** – Sanitary sewer and Stormwater services are accounted for in the utility funds. The sanitary sewer fund and storm water fund are enterprise funds. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

**VML** – Virginia Municipal League – a nonprofit association of City, town and county officials that provides member services to Virginia local governments.

**WMATA** – Washington Metropolitan Area Transit Authority, the regional agency that operates the METRO bus and subway systems expenditures.