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 FY2022 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 George Mason High School (GMHS). 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 these 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 chart below shows all the general obligation bonds that are outstanding:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Outstanding Balance Governmental Activities	Outstanding Balance Business-Type Activities
General Obligation	4.00%	3/8/2007	8/1/2021	$6,260,000	$ 715,000	$ -
General Obligation	2.00-4.00%	3/6/2012	8/1/2024	15,300,000	6,545,000	-
General Obligation	2.00-5.00%	12/18/2013	7/1/2033	17,620,000	2,775,000	270,000
General Obligation	2.00-5.00%	12/23/2014	7/15/2030	11,740,000	7,280,000	920,000
General Obligation 2015B	2.31%	8/31/2015	7/15/2035	5,360,000	2,576,845	1,383,155
General Obligation 2016A	1.24%	11/16/2016	7/15/2021	607,000	125,000	-
General Obligation 2016B	1.41%	11/16/2016	7/15/2026	4,071,000	94,000	2,068,000
General Obligation 2016C	1.79%	11/16/2016	7/15/2031	2,511,000	191,000	2,116,000
General Obligation	2.02-3.35%	6/6/2018	1/15/2048	22,305,000	18,515,000	505,000
VRA Bond	2.13-5.13%	10/1/2011	10/1/2031	3,125,000	-	145,000
VRA Line of Credit	3.35%	5/13/2009	9/1/2029	4,100,000	-	2,080,067
VPSA Bond	4.10-5.10%	5/11/2006	7/15/2026	1,935,000	570,000	-
VPSA Bond	4.25%	12/15/2011	12/1/2030	3,000,000	1,740,000	-
General Obligation 2019B	3.00-5.00%	11/7/2019	7/15/2048	119,111,000	116,380,000	1,095,000
General Obligation 2020A	2.24%	11/9/2020	7/1/2040	3,310,714	2,652,372	658,342
General Obligation 2020B	1.351%	11/9/2020	7/1/2031	7,290,148	7,290,148	-
General Obligation 2020C	1.88%	11/9/2020	7/1/2033	956,547	-	956,547
					$167,449,365	$12,197,111

Annual debt service requirements to maturity for the general obligation long-term bonds are summarized as follows:

	General Fund			Sewer Fund			Stormwater Fund		
Ending June 30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2022	8,607,425	5,407,673	14,015,098	1,113,722	209,524	1,323,246	169,777	74,145	243,922
2023	7,723,281	5,081,816	12,805,097	1,130,775	182,829	1,313,603	169,911	67,390	237,301
2024	7,810,070	4,765,018	12,575,088	1,138,987	158,237	1,297,225	170,047	60,630	230,677
2025	7,676,574	4,467,582	12,144,156	1,151,657	134,122	1,285,779	169,556	54,323	223,879
2026	6,099,440	4,200,390	10,299,830	762,001	113,513	875,514	168,628	48,829	217,457
2027-2031	31,867,276	17,382,601	49,249,877	3,013,665	324,281	3,337,946	823,573	170,782	994,355
2032-2036	30,460,299	12,295,859	42,756,158	1,111,043	83,989	1,195,032	664,184	70,863	735,047
2037-2041	25,480,000	8,145,081	33,625,081	203,305	11,480	214,785	236,280	13,407	249,687
2042-2046	25,080,000	4,480,544	29,560,544	-	-	-	-	-	-
2047-2049	16,645,000	763,525	17,408,525	-	-	-	-	-	-
Totals	167,449,365	66,990,089	234,439,454	9,625,155	1,217,976	10,843,131	2,571,956	560,368	3,132,324

Debt Policies

The Financial Policies adopted by the City Council establish sustainable limits for debt management as listed below. A copy of the full text of the City's debt policies is provided at the end of this section.

The current debt limits are as follows:

- General Fund supported debt shall not exceed five percent of the net assessed valuation of taxable real property in the City.
- 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%). If at any time the 12% target is exceeded, the City shall target available fund balance of twenty percent (20%) but not less than fifteen percent (15%) for the then current fiscal year.

- The term of any bond issue will not exceed the useful life of the capital project, facility or equipment for which the borrowing is intended.

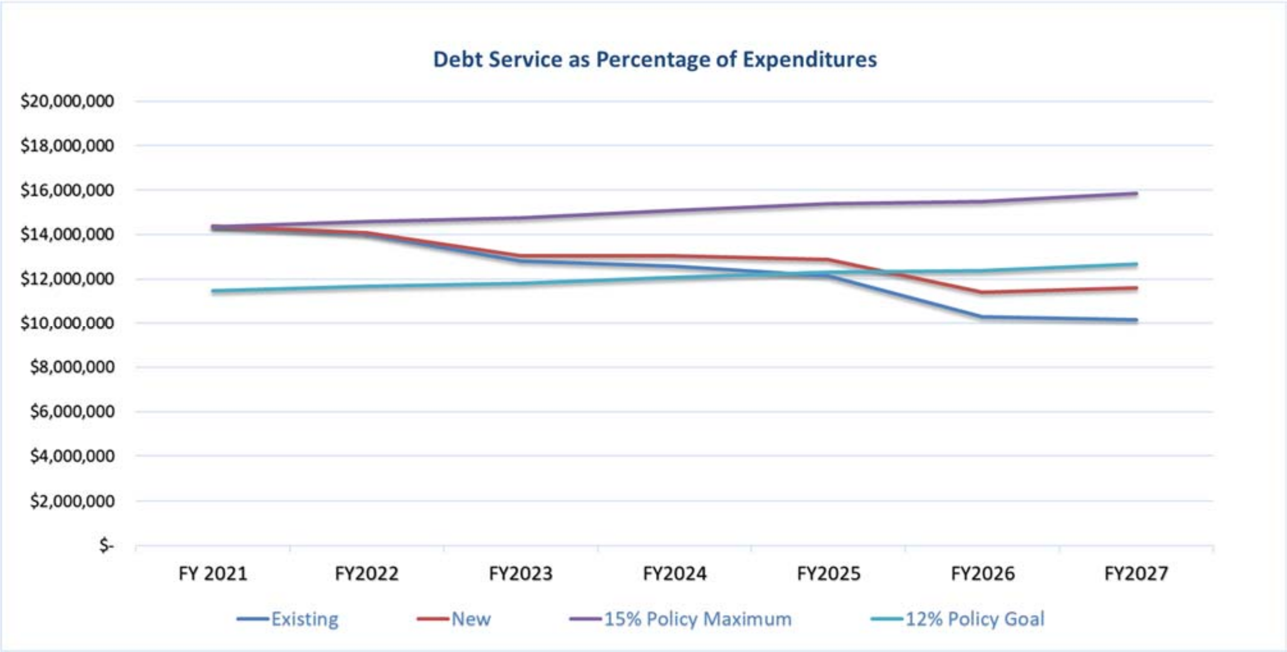
Ratio of Debt Principal to Assessed Value of Real Property

As of January 1, 2020, the assessed value of taxable real property in the City was $4.28 billion, of which five percent equals $214.2 million. Current outstanding debt for the General Fund is $167.5 million and it is currently projected that this will go down over the next few years as annual principal payments will exceed expected new debt issuances.

Ratio of Annual Debt Service Payments to Total General Fund Expenditures

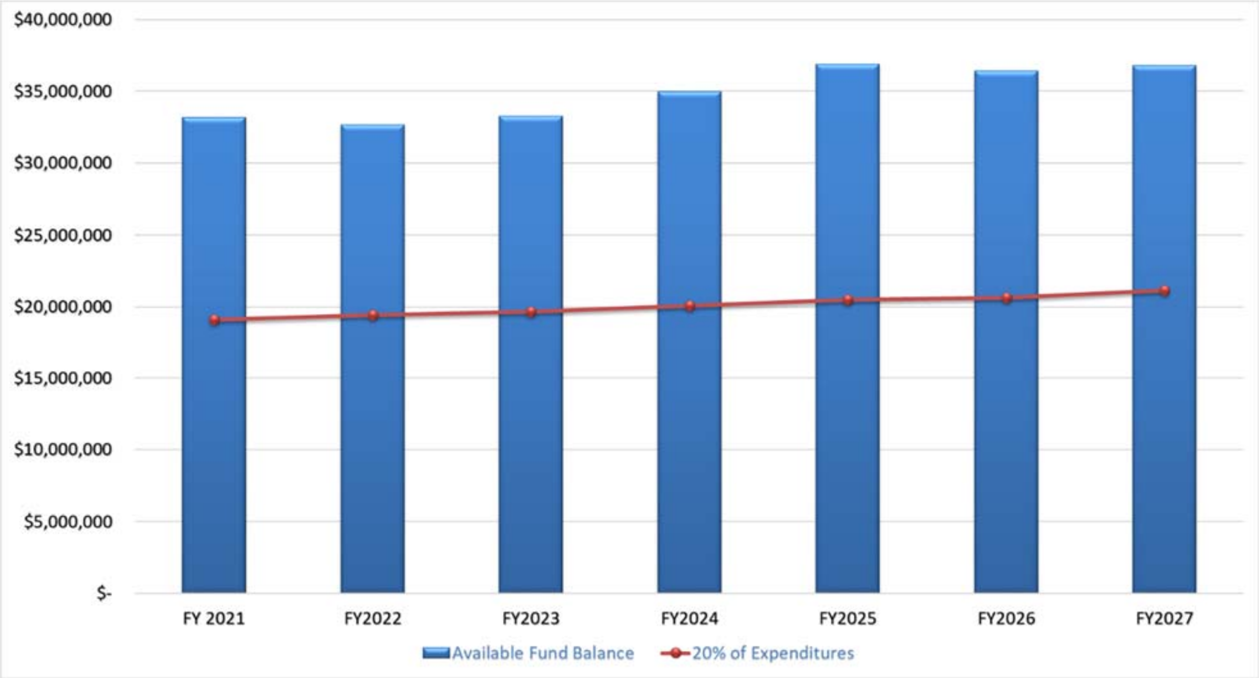
The second element of the debt limit policy bears closer attention as this ratio goes more directly to the question of how much debt the City can afford.

The chart below illustrates the relationship of debt service payments to total expenditures through FY2027. Expenditures projected are based on a balanced budget based on conservative revenue projections.



As shown in the chart, the debt service to expenditure ratio exceeds the policy goal of 12% in FY2021 and will return to below the 12% policy goal by FY2026, taking into account planned debt issuances as included in the FY2022-FY2027 CIP. Debt service increased significantly in FY2021 as a result of the issuance of debt in FY2020 for $116.4 million primarily to finance the construction of the new George Mason High School.

While exceeding the 12% policy goal the City is required by its financial policy to maintain available fund balance of 20% and no less than 15% of total General Fund expenditures. The chart below shows the City's available fund balance in relation to the goal of 20% ratio.



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 George Mason High School, also known as Little City Commons. A comprehensive agreement for this lease was executed in May 2019. The first payment of $6.5 million from the developer was received in August 2019. Four payments in the amount of $4.5 million each or $18 million total is expected to be received annually beginning FY2022.

The projected reduction in available fund balance is a result of the City's intended use of capital reserves to help pay for debt service in the coming years.

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

- Little City Commons will be developed timely as projected;

- interest rates 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 bonding rating agencies to assess fiscal health, and must be used by the City to assess the affordability of specific projects and the five-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 but is currently projected to maintain a balance at or above the policy minimum.

Attachments:

2018 Financial Policies, adopted
Budget Guidance, adopted
Budget Glossary