

## Debt Related Financial Policies

City Council passed a set of debt-related financial policies on June 9, 1987. During FY 1998, the Budget and Fiscal Affairs Advisory Committee (BFAAC), a City Council appointed citizen committee, analyzed these debt-related financial policies, examined the City's financial condition in comparison to other jurisdictions with superior credit ratings (other double-triple A rated jurisdictions). The BFAAC and the City Manager recommended that City Council reaffirm the updated debt-related financial policies, incorporating BFAAC's recommended updates to the policies to establish a consistent set of appropriate relationships between debt targets and limits. Because three of the six debt indicators measure the debt capacity of the City in relation to the size of the City and its economy, BFAAC recommended that these indicators should not produce debt capacity limits that vary greatly from each other.

City Council reaffirmed its commitment to sound financial management and adopted the updated debt-related financial policies on December 9, 1997. City Council amended the policies on October 26, 1999, to allow priority consideration for an increase in the designation of fund balance for capital project funding. (*Reference the June 24, 2008 update*). On May 4, 2017m City Council amended the Debt Related Financial Policies to recognize the self-supporting nature of the City's sewer-related debt and to increase ratios to better balance the City's ability to pay for increased capital investment needs with the need to maintain the City's top AAA/Aaa bond ratings. These updated policies are as follows:

### Debt as a Percentage of Fair Market Real Property Value

Target = Variable based on the level of tax supported in the current CIP; Limit = 2.5 percent

This ratio indicates the relationship between the City's debt and the full value of real property in the City as assessed annually at fair market value. It is an important indicator of the City's ability to repay debt because real property taxes are the primary source of the City's revenues used to repay debt. A small ratio is an indication that the City will be better able to withstand possible future economic downturns and continue to meet its debt obligations.

### Debt Service as a Percentage of General Government Expenditures

Target = Variable based on the level of tax supported debt in the current CIP; Limit = 12 percent

This ratio is a measure of the City's ability to repay debt without hampering other City services. A small ratio indicates a lesser burden on the City's operating budget.

### **Payout Ratio for Outstanding Debt**

The repayment structure for the City's tax supported, General Fund debt will reflect a strategy of paying off outstanding debt at a rate of 50 percent in the first 10 years, with a target repayment rate of 65 percent. Excluded from this measure would be major capital projects where the life span of the project will likely substantially exceed a 20-year repayment time period.

~~Unreserved Spendable~~ General Fund Balance as a Percentage of General Fund Revenue  
Target = ~~Not applicable~~ 15%; Limit = Undefined

~~Undesignated General Fund Balance as a Percentage of General Fund Revenue~~  
Target = 5.5 percent; Limit = 4.0 percent

Unrestricted Net Assets as a Percentage of General Revenues  
Target = 5.5 percent; Limit = 4.0 percent

These ratios indicate the ability of the City to cope with unexpected financial problems or emergencies. The ~~Unreserved Spendable~~ General Fund Balance represents the funds legally available to the City. It is desirable that the City maintain ~~Unreserved a Spendable~~ General Fund Balance ~~that is comparable to the ratio maintained by other double-triple A-rated jurisdictions, but not to fall below the limit of 10 percent~~ target of 15 percent. The Undesignated General Fund Balance corresponds to the checkbook balance of the City. Both balances are important to consider. The ~~unreserved Spendable~~ balance includes ~~designations~~ Commitments and Assignments that the City Council has made but presumably could change. Net assets correspond to stockholders' equity for publicly traded companies. The larger the ~~undesignated Spendable~~ General Fund Balance or unrestricted net assets, the greater the City's ability to cope with financial emergencies and fluctuations in revenue cycles.

The ~~ratios for undesignated general fund balance and ratio~~ unrestricted net assets ~~are~~ is calculated after adjusting for the effect of subsequent year's expenditures, and funding for future equipment replacement and capital projects, grants and contributions restricted to specific programs, and extraordinary and special items.

The City will not issue tax or revenue anticipation notes to fund ongoing governmental operations. The City of Alexandria will manage its cash in a fashion that will prevent any borrowing to meet working capital needs.

The City will not issue bond anticipation notes (BAN's) for a period of longer than two years. If the City issues a BAN for a capital project, the BAN will be converted to a long-term bond or redeemed at its expiration, but will not be rolled over.

The City will continue to rely on current revenue, including its fund balance, to finance its short-lived and maintenance-oriented capital improvements. The City believes in funding a significant portion of capital improvements on a pay as you go basis; therefore, the City will continue to finance short-lived and maintenance-oriented capital improvements with current revenues, and its fund balance. The priority to consider when additional General Fund revenues become available at the end of the fiscal year would be a ~~designation~~ Commitment within the General Fund fund balance for pay as you go capital.

The City will not establish a trend of using General Fund equity to finance current recurring operations. The City's General Fund equity has been built over the years to provide the City with sufficient working capital and to enable it

to finance equipment replacement, capital projects, and unforeseen emergencies without borrowing. To conserve the General Fund equity balance and to avoid reliance on this balance, the City will not finance recurring operations from the General Fund equity balance for periods longer than two years as confirmed by the audited financial statements. If the audited financial statements confirm that recurring operations have been funded from the General Fund equity balance for a period longer than two consecutive fiscal years, then the City will adopt in its next ensuing budget a balanced budget in which the operating revenues meet the operating expenditures without any consideration of the General Fund equity balance.

*In the event that unforeseen and severe economic conditions result in a draw down of fund balance to finance current operations, replenishment of fund balance will be given priority over discretionary funding decisions to ensure that the target of 15 percent of Spendable Fund Balance as a proportion of General Fund Revenues is reached within three fiscal years.*

The City will annually prepare a ten-year capital improvement program. In accordance with the City Charter and in order to meet the debt ratio targets, to schedule debt issuance, and to systematically improve the capital structure, each year the City will prepare and adopt a ten-year capital improvement program. This capital improvement program will identify the source of funding for all capital projects. The debt issuances that are a part of the capital improvement program will be structured to meet the City's debt policies and debt ratio targets.

The City Manager will prepare each year and submit a set of five-year scenarios of possible future revenues and expenditures that match the ten-year Capital Improvement Program time horizon with the proposed budget to be considered by the City Council. Those scenarios will be updated to reflect the decisions of the City Council and issued with the approved budget. In order to improve financial planning and decisions, the City Manager also will annually prepare with the approved budget a set of ten-year scenarios of possible future General Fund revenues and expenditures and their effects on the debt-related financial policy ratios outlined above, including the effect of planned borrowing under the approved CIP.

### **General Fund Cash Capital Related Policies**

On January 13, 2015, through Resolution #2660, City Council provided specific guidance regarding the amount of recurring General Fund Cash Capital applied to the CIP. The minimum or floor was set at 2.0% and the target was set at 2.5%. This percentage provides a minimum and a target to ensure that cash capital will be maintained at an acceptable level, but at the same time providing flexibility in setting budget priorities between the annual General Fund Operating Budget and annual cash capital transfer from the General Fund to the CIP.

In accordance with the Government Finance Officers Association budget review requirements, this table, taken from the City's FY 2019 Comprehensive Annual Financial Report, is repeated here:

City of Alexandria, Virginia  
Computation of Legal Debt Margin  
as of June 30, 2019

Assessed Value of Real property, January 1, 2019.....	<u>\$40,977,242,214</u>
Debt Limit: 10 Percent of Assessed Value.....	<u>4,097,724,221</u>
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds .....	<u>\$589,957,000</u>
Total General Obligation Debt.....	<u>(589,957,000)</u>
LEGAL DEBT MARGIN REMAINING.....	<u>\$3,507,767,221</u>

Limitations on the Incurrence of General Obligation Debt:

There is no requirement in the Virginia Constitution, the Virginia Statutes or in the Charter of the City of Alexandria that the issuance of general obligation bonds of the City be subject to approval of the electors of the City at referendum.

Under the City Charter, the City Council has full authority to authorize and issue general obligation bonds. The authorizing procedure consists of the passage on first reading of an ordinance authorizing the issuance of the bonds followed by a notice of public hearing at a subsequent meeting and the final passage on second reading following the public hearing.

The only constitutional limitation on the issuance of general obligation bonds is contained in Article VII, Section 10 of the Virginia Constitution, which states that: No city or town shall issue any bonds or other interest-bearing obligations which, including existing indebtedness, shall at any time exceed ten percent of the assessed valuation of real estate in the city or town subject to taxation, as shown by the last preceding assessment for taxes.