

# Strategic and Holistic Plan of Finance Prepared for the City of Petersburg, Virginia



March 14, 2017

# Table of Contents



| <u>Tab</u> | <u>Section Title</u>   |
|------------|--|
| 1          | Background   |
| 2          | Current State of the City  |
| 3          | Strategic and Holistic Plan of Finance – Targeted Restructuring of City Debt |
| Appendix A | Rating Table/Petersburg Credit Rating  |
| Appendix B | Standard & Poor’s Credit Report Dated December 14, 2016                      |
| Appendix C | City of Petersburg Financial Policy Guidelines                               |
| Appendix D | Existing Debt  |



# 1. Background



## Background

- In the 3rd and 4th quarters of FY 2016, the City of Petersburg (the “City”) faced a financial crisis resulting from years of structurally unbalanced budgets and a breakdown of its utility billing/collection processes, among other issues.
  
- In the summer of 2016, at the request of the City the Commonwealth’s Technical Assistance Team undertook a review of the City’s financial operations.
  
- In August 2016, the Commonwealth, Davenport & Company LLC (Financial Advisor to the City) and PFM delivered a Joint Presentation to City Council:
  - Commonwealth: presented its finding that the City had upwards of \$18.8 million of unpaid obligations as of June 30, 2016.
  - Davenport: presented its review of the City’s deteriorating year-to-year financial condition, which had been previously provided in 2012.
  - PFM: presented its FY 2017 budget amendment action plan.



## Background

- In response to the August 2016 Joint Presentation, the City took the following steps:
  - Hired an Emergency Management Team (the Robert Bobb Group) and hired an Interim Assistant City Manager;
  - Amended its FY 2017 Budget in an attempt to bring about structural balance and conducted a mid-year budget review to further adjust the budget as necessary;
  - Obtained a Revenue Anticipation Note;
  - Implemented greater financial controls to monitor and control spending;
  - Worked to repay its outstanding unpaid obligations, which approximated \$18.8 million at June 30, 2016, through various payment plans; and
  
- In late 2016 and early 2017, Davenport & Company LLC, as Financial Advisor, worked with the City in developing a Strategic and Holistic Plan of Finance in order to “reset” the City’s finances.



## 2. Current State of the City



## Key Observations

- The City continues to be in fiscal stress and is actively managing its finances on a daily basis.
- The City has NEGATIVE Fund Balance, which means that it has effectively no savings that can be used to manage cash flow
  - Rather, the City is still projected to owe various creditors an estimated \$8.7 million (excluding the 2016 RAN) as of June 30, 2017 (the "Remaining Unpaid Obligations" – i.e. past due bills).
- With the development of the FY 2018 budget, the City continues to face pressure on limited resources in order to fund both current needs and repay its Remaining Unpaid Obligations.
  - The City still faces financial challenges in FY 2018 and beyond.
- Absent a liquidity event that provides a one-time windfall of cash, the City will need to undertake another Revenue Anticipation Note ("RAN") borrowing almost immediately after the current RAN is repaid by this October.

# Current State of the City (Cont)



## Key Observations

- The City’s bond rating from Standard & Poor’s (“S&P”), one of the three National Credit Rating Agencies, is “BB” with a Negative Outlook (See Appendix A). This rating is below investment grade and is the lowest of any local government in the Commonwealth.
- S&P cites the following in its most recent Credit Report dated December 14, 2016 (See Appendix B):
  - “The Negative Outlook reflects uncertainty regarding the City’s ability to create, implement and sustain structural budgetary reforms.”
  - “The current long-term rating is constrained by our view of the City’s very weak liquidity based on diminished market access, very weak management conditions that resulted in an ongoing structural imbalance...”
  - “...No credible long-term plan in place to restore fiscal solvency...”
  - “...Very weak flexibility with available reserves less than negative 5% of general fund expenditures.”
- The City adopted Financial Policy Guidelines in September 2, 2014 (See Appendix C) that govern Budgeting Practices, Debt Management and Fund Balance, but has not adhered to the adopted policies.

# Current State of the City (Cont)



## Unassigned Fund Balance

- Most recent audited financial statements for fiscal year ended June 30, 2015 show a **NEGATIVE Unassigned Fund Balance of \$5.0 million and a Reconciled Overdraft of approximately \$7.1 million.**
  - Unassigned Fund Balance is essentially a “Rainy Day” Fund or “savings account” that the City needs to have in order to manage the timing of revenue inflows and expenditure outflows of the annual budget.
  - In addition, an Unassigned Fund Balance could also serve as a source of one-time cash in an emergency situation.
  
- The City’s Unassigned Fund Balance should be sufficient and in keeping with “Best Practices” so that annual RAN cash flow borrowings are not necessary.
  - “Best Practices” are those considered to be appropriate and prudent for fiscally responsible and well managed local governments based on National Credit Rating Criteria, Government Finance Officers Association (“GFOA”) criteria and strongly rated local governments.
  - Minimum of two months general fund operating revenues according to GFOA – This translates into an approximate amount of \$13.2 million<sup>(1)</sup>.
  - 15% to 20% of budgeted operating revenues/expenditures based on comparative data for strongly rated “A” or better local governments – This translates into a range of \$11.9 to \$15.8 million<sup>(1)</sup>.
  - Based on the City’s financial policies adopted in 2014, the Unassigned Fund Balance goal is 10% of Operating Revenues. Currently the City does not meet this goal.

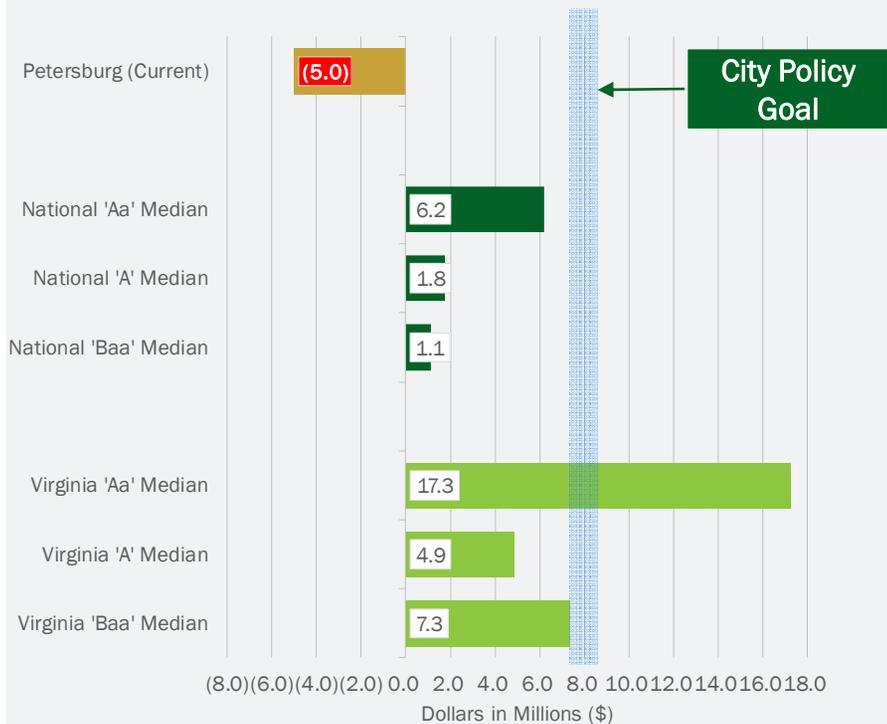
(1) Based on a \$79.2 million budget excluding water and sewer and storm water utilities.



# Unassigned Fund Balance Comparative

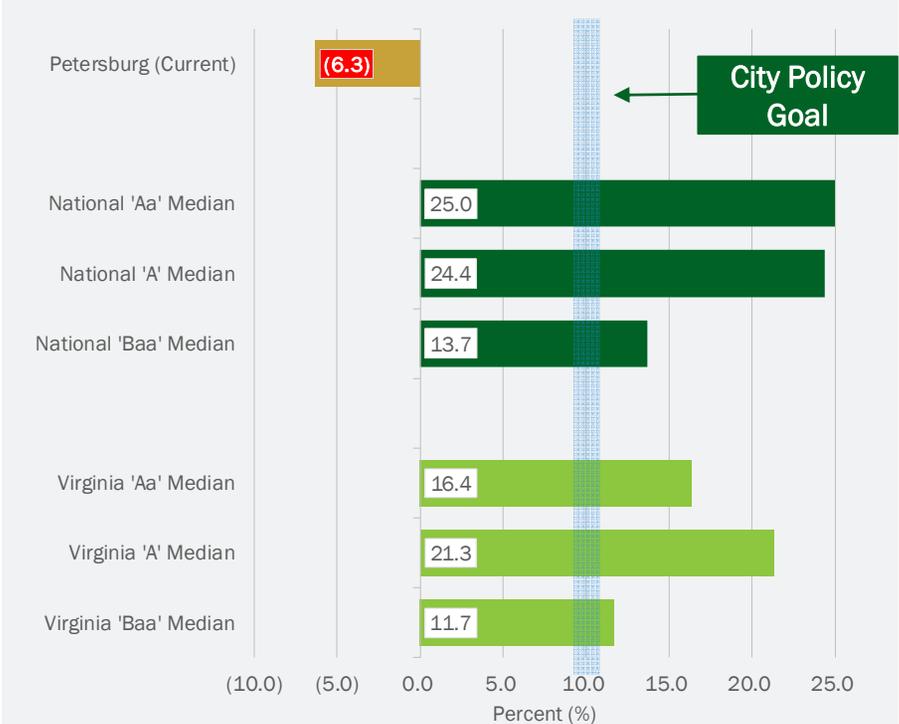
## Unassigned Fund Balance \$

- The City has a **NEGATIVE \$5.0 million** Unassigned Fund Balance.



## Unassigned Fund Balance - % of Revenue

- Unassigned Fund Balance as a % of Revenue is **NEGATIVE 6.3%**.



# The Path Forward: The Road to Financial Recovery



## The Road to Financial Recovery

*The Road to Financial Recovery is a long-term plan to restore fiscal solvency and includes:*

- Structurally balanced governmental operating budgets that are responsible and sustainable.
- Budgeting annual additions to Unassigned Fund Balance until the appropriate policy target level has been attained.
  - An Unassigned Fund Balance at a appropriate level is essential to a healthy and vibrant city.
- Follow the adopted Financial Policy Guidelines in all areas.
- As soon as practical, implement the Strategic and Holistic Plan of Finance that includes a Targeted Restructuring of annual debt service payments.
- Implement a plan to address the City's Utility Enterprise Fund with the understanding that rates will increase in order to pay for operations, repairs, maintenance and capital investment.
  - Note: the plan and rate study impact for the Utility Enterprise Fund is currently being analyzed by the City's Management, Engineering Consultants, Financial and Rate consultants and will be presented to City Council at a later date.



# 3. Strategic and Holistic Plan of Finance

Targeted Restructuring of City Debt

# Strategic and Holistic Plan of Finance

## The Targeted Restructuring of City Debt



- Davenport has developed the Strategic and Holistic Plan of Finance – The Targeted Restructuring of City Debt– to be implemented by the City that will assist in resetting the City’s finances.
  
- Goals & Objectives of the Targeted Restructuring include:
  - A. Provide budgetary cash flow relief from a heavily front-loaded debt service structure;
  - B. Level out the City’s debt service payments akin to a home mortgage style repayment.
  - C. Provide budget flexibility by reducing debt service payments in the next 5-years;
  - D. Allow the City to begin to rebuild fund balance as soon as possible;
  - E. Provide the ability to repay any remaining Unpaid Obligations so as to avoid potential litigation.
  - F. Preserve the ability to borrow for future capital needs at a later date.

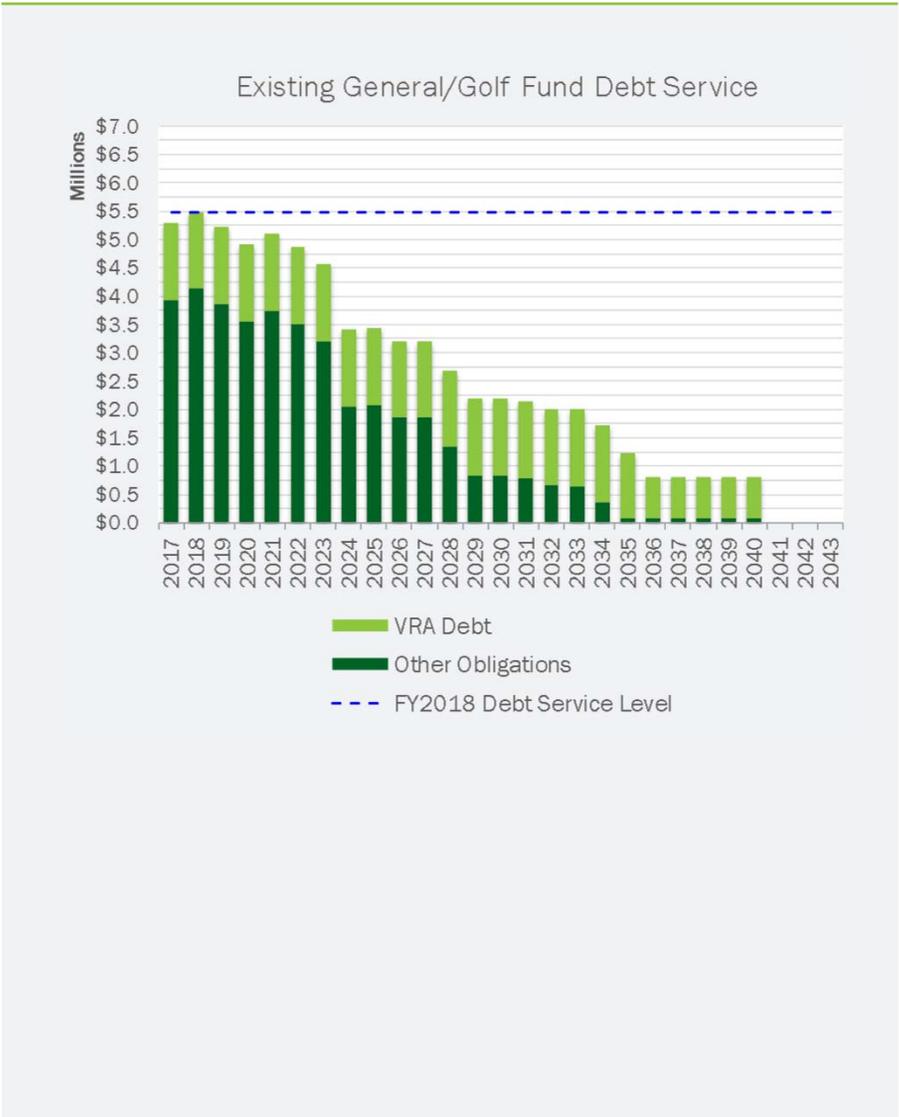


# Existing General/Golf Fund Debt Service

## Key Observations

- As of 3/14/2016, outstanding debt supported by the General/Golf Funds totals \$50.5\* million as follows:
  - \$17.9 million G.O. Bonds issued through VRA;
  - \$23.9 million non-VRA G.O. debt.
  - \$8.7 million of Leases.
- FY 2017 debt service is \$5.3 million.
- FY 2018 debt service is \$5.5 million.
- Note: the City has \$15.0 million of Utility/Stormwater Fund related debt not included in the figures above.

## Existing General/Golf Fund Debt Service\*



\* Does not include Utility/Stormwater Fund debt.

# Preliminary Results

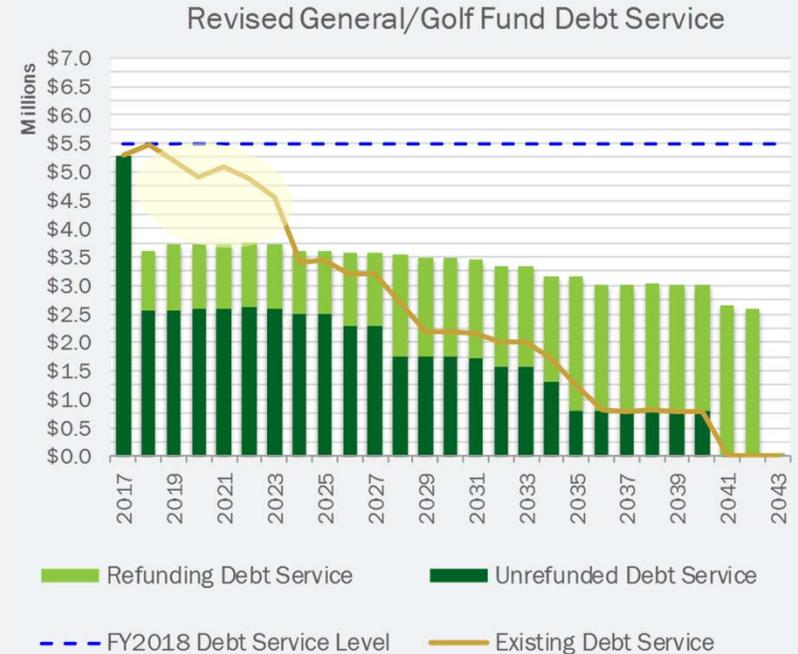
## The Targeted Restructuring of City Debt



### Key Observations

- Approximately \$18.6\* million of Existing Debt is restructured:
  - \$13.5\* million of City G.O. Bonds; and
  - \$5.1 million of bonds issued through VRA.
- Approximate \$23.3 million financing minimizes issuance of Stand Alone “BB/A (intercept)” rated City G.O. Bonds.
- Revised annual Debt Service approximates \$3.7 million for the next 10 Years and gradually declines thereafter.

### Revised Debt Service Schedule vs. FY 2018 Budget



\* Includes \$733,000 of Utility Fund allocated debt.

# Cash Flow Relief

## The Targeted Restructuring of City Debt



### Revised Debt Service Schedule vs. FY 2018 Debt Service Budget

- Provides \$8.9 million in Cash Flow Relief in the next five years (i.e., from FY 2018 to FY 2022) related to General/Golf Fund debt service.

|               | FY 2018<br>Budgeted<br>Debt Service | Revised<br>Debt<br>Service | Cash<br>Flow<br>Difference |
|---------------|-------------------------------------|----------------------------|----------------------------|
| <b>Totals</b> | <b>\$ 32,726,834</b>                | <b>\$ 23,830,063</b>       | <b>\$ 8,896,771</b>        |
| FY            |                                     |                            |                            |
| 2017          | 5,293,118                           | 5,288,809                  | 4,309                      |
| 2018          | 5,486,743                           | 3,619,195                  | 1,867,549                  |
| 2019          | 5,486,743                           | 3,719,520                  | 1,767,223                  |
| 2020          | 5,486,743                           | 3,728,690                  | 1,758,053                  |
| 2021          | 5,486,743                           | 3,726,268                  | 1,760,475                  |
| 2022          | 5,486,743                           | 3,747,581                  | 1,739,163                  |

Note: FY 2023 and thereafter not shown.

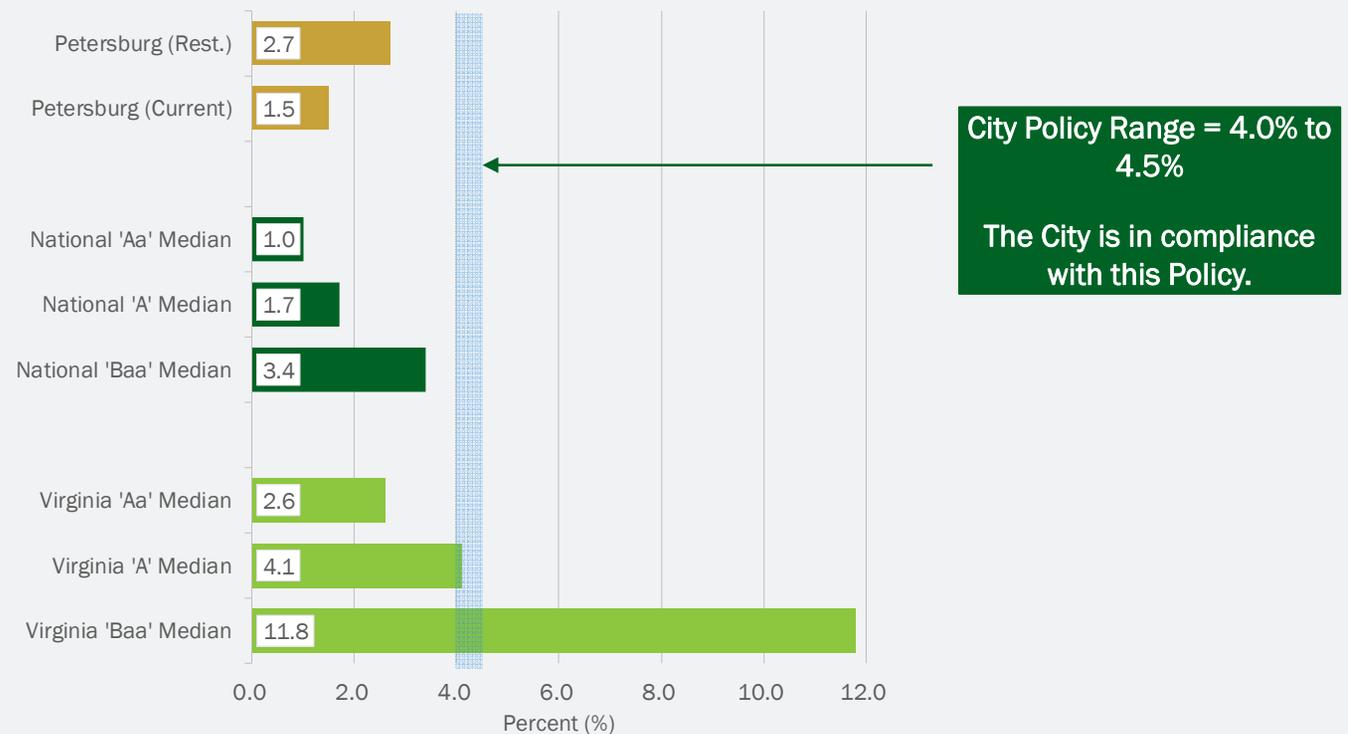
# Key Debt Ratio/City Policy: Debt to Assessed Valuation

## The Targeted Restructuring of City Debt



### Tax Supported Debt to Assessed Valuation

- The City's Debt to Assessed Value<sup>(1)</sup> is in-line with National and Virginia medians and is below 4%, which is generally considered an industry standard benchmark for strongly rated communities.
  - City Policy: Debt shall not exceed 4.0% to 4.5% of Assessed Value.



(1) Total Assessed Value is based on FY 2017 Budget for Real Estate Values and FY 2015 Personal Property Values.

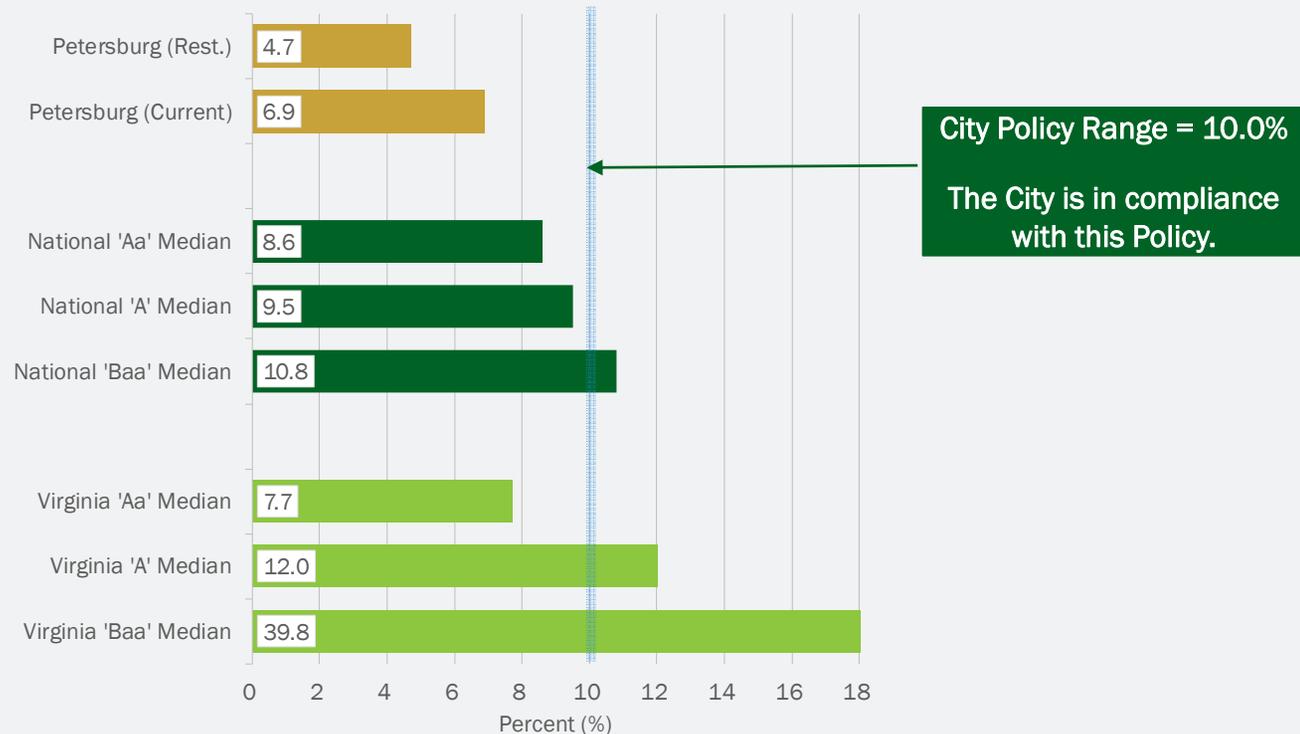
# Key Debt Ratio/City Policy: Debt Service vs Expenditures

## The Targeted Restructuring of City Debt



### Tax Supported Debt Service vs. Expenditures

- The City's Debt Service versus Expenditures<sup>(1)</sup> is below National and Virginia medians and is well below the industry standard benchmark level of 10% to 12% for strongly rated communities.
  - City Policy: Debt Service shall not exceed 10.0% of Expenditures.



(1) Based on FY 2018 Budget for debt service versus amended FY 2017 Budget (excluding Utilities and Stormwater).

# Goals Achieved

## The Targeted Restructuring of City Debt



### Goals Achieved by the Targeted Restructuring

- Immediate reduction in debt service payments beginning in FY 2018.
- Provides enhanced budget flexibility.
- Preserves approximately \$24 million of borrowing capacity in the next decade;
- Allows the City to:
  - Rebuild fund balances sooner rather than later. ***This is a key consideration for the Credit Rating Agencies;*** increasing fund balance will enable the City to reduce its reliance on costly RAN borrowings;
  - Repay Remaining Unpaid Obligations from cash flow;
  - Fund new capital projects and/or deferred maintenance needs sooner rather than later; or
  - Some combination of the above.

\* Does not include Utility Fund debt.

# Key Considerations

## The Targeted Restructuring of City Debt



- The Targeted Restructuring results in an approximate present value cost of \$3.1 million. However, the following offsets need to be taken into consideration:
  - Ability to reduce and eventually eliminate the RAN – potential interest costs avoidance ranging from \$200,000 to \$500,000 per year.
  - Funding capital sooner rather than later avoids potential inflationary impacts. (i.e. for each \$5 million investment that is accelerated by 5 years, approximately \$800,000 in inflationary costs<sup>(1)</sup> can be avoided).
  
- Non-quantifiable offsets include:
  - Enhanced financial and budget flexibility; and
  - Improved credit standing as determined by the Rating Agencies (Note: Unassigned Fund Balance is viewed as the single most important factor in addition to structurally balanced budgets).

(1) Assumes compounded inflation rate of 3.5% on \$5 million project cost over 5 years.

# Next Steps / Timetable for Action

## The Targeted Restructuring of City Debt



### Preliminary Time Schedule

- Implementing the Strategic and Holistic Plan of Finance is dependent on the completion of the FY 2016 Audited Financial Statements (Preliminary time schedule below assumes Audited Financial statements are completed by May 1).
- Note: to the extent the Audited Financial Statements are delayed beyond May 1, the timing below will be affected.

| Date           | Activity   |
|----------------|--|
| March          | <ul style="list-style-type: none"> <li>• Begin drafting of Preliminary Official Statement (disclosure document)</li> </ul>   |
| April          | <ul style="list-style-type: none"> <li>• City to provide status report on unpaid obligations and year-to-date FY 2017 revenues versus expenditures.</li> </ul>   |
| Mid/Late May   | <ul style="list-style-type: none"> <li>• Rating agency meeting/conference call with Standard &amp; Poor's - formal rating request for Restructuring Bonds.(timing subject to draft audit availability).</li> </ul> |
| Late May       | <ul style="list-style-type: none"> <li>• City Council to authorize via resolution the issuance of the Restructuring Bonds.</li> </ul>  |
| By May 31      | <ul style="list-style-type: none"> <li>• Completion of FY 2016 Audited Financial Statements.</li> </ul>  |
| Early/Mid June | <ul style="list-style-type: none"> <li>• Receive ratings; Mail Preliminary Official Statement</li> <li>• Sell Restructuring Bonds; results are finalized.</li> </ul>   |
| Mid/Late June  | <ul style="list-style-type: none"> <li>• Close Restructuring Bonds.</li> </ul>   |



# Appendix A: Rating Table/Petersburg Credit Rating

# Petersburg Credit Rating



- The City’s current rating is “BB” with Negative Outlook by Standard & Poor’s, one of the three nationally recognized rating agencies for municipal debt and local governments.
- “BB” is a “Below Investment Grade” rating.
- “Negative Outlook” means that in the next rating review, the Rating Agency may either:
  - Take additional rating action that could include further downgrades; or
  - Removal of the “Negative Outlook”.

|  |           | <u>Moody's</u> | <u>S&amp;P</u>   | <u>Fitch</u> |
|--|-----------|----------------|------------------|--------------|
| Top tier "Highest Possible Rating"               |           | Aaa            | AAA              | AAA          |
| 2nd Tier "Very Strong"                           | (Highest) | Aa1            | AA+              | AA+          |
|  | (Middle)  | Aa2            | AA               | AA           |
|  | (Lowest)  | Aa3            | AA-              | AA-          |
| 3rd Tier "Strong"                                | (Highest) | A1             | A+               | A+           |
|  | (Middle)  | A2             | A                | A            |
|  | (Lowest)  | A3             | A-               | A-           |
| 4th Tier "Adequate Capacity to Repay"            | (Highest) | Baa1           | BBB+             | BBB+         |
|  | (Middle)  | Baa2           | BBB              | BBB          |
|  | (Lowest)  | Baa3           | BBB-             | BBB-         |
| <b>5th - 10th Tiers "Below Investment Grade"</b> |           |                |                  |              |
| 5th Tier   |           | Ba             | <b>BB</b>        | BB           |
| 6th - 10th Tiers                                 |           |                | B, CCC, CC, C, D |              |



# Appendix B: Standard & Poor's Credit Report Dated December 14, 2016

# RatingsDirect®

---

## Summary:

# Petersburg, Virginia; General Obligation

### Primary Credit Analyst:

Timothy W Little, New York (212) 438-7999; [timothy.little@spglobal.com](mailto:timothy.little@spglobal.com)

### Secondary Contact:

Timothy W Barrett, Washington D.C. (1) 202-942-8711; [timothy.barrett@spglobal.com](mailto:timothy.barrett@spglobal.com)

## Table Of Contents

---

Rationale

Outlook

Related Research

## Summary:

# Petersburg, Virginia; General Obligation

### Credit Profile

Stafford Cnty & Staunton Indl Dev Auth GO (recovery act) pool II

*Long Term Rating*

BB/Negative

Affirmed

#### **Petersburg GO rfdg bnds**

*Unenhanced Rating*

BB(SPUR)/Negative

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings has removed its 'BB' rating on Petersburg, Va.'s existing general obligation (GO) debt from CreditWatch, where it had been placed with negative implications on Aug. 26, 2016. We affirmed the rating. The outlook is negative.

At the same time, due to the city's participation in governmental agreements to provide for debt service payments, we affirmed our 'BB' underlying rating on the Stafford County & Staunton Industrial Development Authority's Municipal League-Virginia Association of Counties Finance Recovery Act Bond Pool II (of which Petersburg is a participant). Each participant's obligation to pay loans is several and not joint. In the absence of a step-up provision, the rating reflects the credit quality of the pool's weakest participant, which we believe is Petersburg.

We removed the rating from CreditWatch due to the city securing \$6.5 million in cash-flow notes. Petersburg annually issues cash-flow notes, but was unable to do so earlier this year and faced a substantial liquidity shortfall. By placing the notes, it will be able to meet debt service and primary operating expenses as it works to address its structural imbalance. The notes issued December 2016 mature in 10 months.

The negative outlook reflects uncertainty regarding the city's ability to create, implement, and sustain structural budgetary reforms. To aid Petersburg's efforts to obtain short-term financing, ensure implementation of a balanced 2017 budget, generate a budget calendar for 2018, and develop a long-range plan to restore fiscal stability, the city council has hired The Robert Bobb Group to serve as interim city management for a five-month period (ending March 2017). City council previously adopted measures toward establishing a balanced fiscal 2017 budget, but it is unknown if such measures are sufficient to achieve structural balance and management could not provide an update on expected results for fiscal 2016 (fiscal year-end June 30). The audit results for 2016 are likely to be significantly delayed. Further heightening implementation risks are an uncertain management environment following the conclusion of the interim financing team's contract and substantial staff turnover within the past year.

The current long-term rating is constrained by our view of the city's very weak liquidity based on diminished market access, very weak management conditions that resulted from an ongoing structural imbalance with no credible long-term plan in place to restore fiscal solvency, and very weak flexibility with available reserves less than negative

5% of general fund expenditures.

The city's full faith and credit pledge secures its GO bonds to levy, without limitation as to rate or an amount, an ad valorem tax on all taxable property within its jurisdiction to pay principal and interest on its GO bonds.

Payments on the Stafford County & Staunton Industrial Development Authority's Municipal League-Virginia Association of Counties Finance Recovery Act Bond Pool II bonds are secured by an intergovernmental agreement among various participants. The bonds are a limited obligation of the issuer and payable from loan or lease repayments made by pool participants. The loan agreements structure loan or lease repayments to match debt service coming due on the series 2010A-F bonds, which is due 10 days before debt service on the authority's bonds. Pursuant to the loan agreements, the trustee will give the borrowers notice in writing of the total amount of the next basic payment due on the 15th day of the month immediately preceding an interest payment date. Unless an amount equal to the expected federal subsidy is on deposit with the trustee, participants are obligated to pay the gross amount of debt service. Each participant that has received recovery zone economic development bond (RZEDB) allocations has assigned its RZEDB allocation to the Stafford County & Staunton Industrial Development Authority, as the issuer. The issuer will also receive the Build American Bonds (BABs) subsidy, and each borrower will receive its BABs credit. Each participant's obligation to pay loans is several and not joint. In the absence of a step-up provision, the rating reflects the credit quality of the pool's weakest participant, which we believe is Petersburg.

Our view of the city's credit quality reflects the following characteristics, specifically its:

- Weak economy, with market value per capita of \$63,736 and projected per capita effective buying income (EBI) at 66.7%, but that benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Very weak management, with "vulnerable" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Very weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2015;
- Very weak budgetary flexibility, with an available fund balance in fiscal 2015 of negative 6.1% of operating expenditures that is also low on a nominal basis at negative \$5.0 million, as well as limited capacity to raise revenues due to consistent and ongoing political resistance;
- Very weak liquidity, with total government available cash at 0.5% of total governmental fund expenditures and 9.6% of governmental debt service, and access to external liquidity we consider limited;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.7% of expenditures and net direct debt that is 56.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

### **Weak economy**

We consider Petersburg's economy weak. The city, with an estimated population of 32,899, is in Petersburg City (in the Dinwiddie County/Colonial Heights/Petersburg combined area) in the Richmond MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 66.7% of the national level and per capita market value of \$63,736. Overall, market value fell by 2.4% over the past year to \$2.1 billion in 2015. The county unemployment rate was 6.6% in 2015.

Despite access to a broad and diverse MSA, the city exhibits below-average wealth and income levels and has undergone a population decline over the past decade. Property values have also remained stagnant at around \$2.1 billion on average for the past five years.

According to the U.S. Census Bureau, the city's poverty rate of 27.5% is more than double the percentage of people living in poverty in the state overall (11.5%) and in the Richmond MSA (12.3%) and a slightly higher rate of poverty than the city of Richmond (25.5%).

### **Very weak management**

We view the city's management as very weak, with "vulnerable" financial policies and practices under our FMA methodology, indicating the government lacks policies in many of the areas we believe are most critical to supporting credit quality.

Our view of the city's weak management is constrained by our view of an ongoing structural imbalance with no plan to correct and the city's substantial staff turnover and lack of internal controls. While measures have been identified for the current fiscal year, it is unclear if such measures can be sustained over the long term.

The city council negotiated an exit of its former city manager of five years in March 2016 and the finance director of five years also departed in April 2016. Interim managers replaced them. In May 2016, the state received an informal request for technical assistance from the acting city manager. Since then, the city council passed an ordinance authorizing a request for additional technical assistance past June 30, 2016, that had been approved by the governor through July 29, 2016.

The city council has hired The Robert Bobb Group to serve as interim city management for a five-month period (ending March 2017). The major goals of the group are to obtain short-term financing, ensure implementation of a balanced 2017 budget, generate a budget calendar for 2018, and develop a long-range plan to restore fiscal stability. As part of the deficit mitigation this summer, the city cut 10% of pay across the board. This has resulted in 146 resignations and to date this fiscal year, almost \$200,000 in leave payouts. Over the past summer, most senior department heads have left. While it is a goal of the interim management to recruit and hire key staff to facilitate the city's turnaround once its contract ends, the instability and turnover, coupled with what have been inadequate financial controls, have contributed to negative financial results.

Our current FMA assessment reflects our view of the city's recent overly optimistic revenue and expenditure assumptions and lack of meaningful budgetary amendments to addresses annual shortfalls. The lack of such controls has resulted in a structural imbalance as expenditures have significantly exceeded revenues in recent years. The city has a negative reserve position, coupled with inadequate cash management practices that have contributed to historically thin liquidity. While it does not currently have a credible long-range planning in place, we recognize that through outside consultants, a plan is being developed to restore fiscal stability. However, in our opinion, implementation risk is a concern as the city attempts to improve its fiscal position. The city does not maintain formal debt management policies.

We recognize the city has hired interim management to aid in its recovery and new financial policies and controls are likely to be implemented over the next four months.

### **Very weak budgetary performance**

Petersburg's budgetary performance is very weak, in our opinion. The city had operating deficits of negative 6.7% of expenditures in the general fund and negative 6.5% across all governmental funds in fiscal 2015. Weakening our view of Petersburg's budgetary performance is the city's deferral of significant expenditures, which we think inflates the budgetary result ratios.

In fiscal 2015, the general fund expended \$82.9 million while revenues totaled \$77 million, a deficiency of \$5.9 million. The negative variance largely reflects revenues, mainly general property taxes of \$3.5 million and other local taxes of \$1.8 million coming in under budget and expenditures for public safety and health and welfare exceeding budget by \$2.5 million.

Based on the state's technical assistance team report, the general fund ledger across all funds shows expenditures exceeded revenue by at least \$5.3 million in fiscal 2016, indicating continued weak performance in the fiscal year. The city has insufficient resources to meet current-year expenditures evidenced by a back-log of unpaid bills and paying prior-year invoices from current-year resources. These deferred payments on a cash basis further inflate audited results.

The state's technical assistance team has also identified a structural imbalance with the city's fiscal 2017 budget. The city council acted on measures to eliminate the \$12.5 million deficit. Even with the reduction, there is significant risk; it is unclear if sufficient controls and monitoring are in place to ensure Petersburg can meet its fiscal 2017 targets. Significant mitigation measures included a 10% pay reduction for employees that will generate an estimated \$2.5 million in savings for fiscal 2017 and \$4.1 million reduction to the minimum level required by state law. These two changes make up more than 50% of the city's estimated fiscal 2017 budget gap. However, we believe these budget practices may not be sustainable for future budgets and that future fiscal reforms beyond the current year are at risk.

Given these risks, in our opinion, the plan will likely alleviate short-term pressures, but is not credible to restore balance over the long term. The city has had negative revenue and expenditure variances for all funds (excluding schools) of about \$16 million from 2012-2016 despite a positive year in fiscal 2014 due primarily to expenditure reductions. The city underperformed its budget on revenues by nearly \$3 million in 2014.

### **Very weak budgetary flexibility**

Petersburg's budgetary flexibility is very weak, in our view, with an available fund balance in fiscal 2015 of negative 6.1% of operating expenditures. We expect the available fund balance to remain below negative 5% of expenditures for the current and next fiscal years, which we view as a negative credit factor. In addition, the city's reserves are low on a nominal basis at negative \$5.0 million, which we view as vulnerably low and a negative credit factor. Weakening budgetary flexibility, in our view, is limited capacity to raise revenues due to consistent and ongoing political resistance.

Audited 2015 results reported the city had \$9.148 million due from other governmental units on its general fund balance sheet, representing primarily \$6.4 million from its mass transit enterprise fund and \$2 million from its golf course enterprise fund. The balance of this receivable is recorded as a non-spendable in the general fund balance sheet for McKenney scholarships.

Given the extreme fiscal imbalance for the year and significant decline in available general fund reserves, the uncollected receivables represent a significant challenge for the city. Petersburg has historically used special revenue and enterprise funds to pay general fund obligations. Budgetary flexibility will likely remain very weak for the medium term.

Property taxes represent the city's largest revenue source at 42% for the general fund. Petersburg has one of the highest property tax rates in the state at \$1.35 per \$100 of value. The rate was reduced to \$1.35 in 2007 and has stayed there since. In our opinion, the city has demonstrated a limited capacity to raise revenues during a period of ongoing fiscal pressure.

### **Very weak liquidity**

In our opinion, Petersburg's liquidity is very weak, with total government available cash at 0.5% of total governmental fund expenditures and 9.6% of governmental debt service in 2015. In our view, the city has limited access to external liquidity if necessary.

The city's liquidity position is extremely thin, with no unrestricted cash assets in its governmental funds and only \$392,090 in its enterprise funds based on audited 2015 results. The state's technical assistance team estimates that following the tax anticipation note (TAN) repayment at the end of fiscal 2016, there were \$18.8 million in unpaid obligations (\$14.7 million to external entities and \$4.1 million of internal loans from other funds).

In our opinion, the city has market obstacles to the use of debt instruments for liquidity management and the availability of bank loans is limited given its direct placement of its annual TAN and difficulty securing short-term financing. The city was able to secure a \$6.5 million privately placed TAN maturing cross fiscal years in 10 months (October 2017) with Wells Fargo at an interest rate of 4.5%. In our opinion, the interest rate is high compared to other non-distressed entities that annually place TANs, further underscoring the fiscal distress of the city. The loan should bridge the timing needed for implementing structural reforms and improving budgetary practices while the 2016 audit is completed, fiscal 2017 is monitored, and a budget for fiscal 2018 is developed. However, it is likely the city will continue to rely on short-term financing for annual operating expenditures.

The city has entered into privately placed GO- and appropriation-backed bonds. Some appropriation-backed obligations are subject to partial acceleration for all payments due within the year. However, in our opinion, these do not pose a liquidity concern at this time. The city does not report any covenant violations and is not aware of any ratings triggers on its obligations.

### **Very strong debt and contingent liability profile**

In our view, Petersburg's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.7% of total governmental fund expenditures, and net direct debt is 56.4% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is, in our view, a positive credit factor.

The city has no additional debt plans, but may seek to restructure its debt for budgetary relief. While it has a significant back-log of unpaid bills, it is unclear at this point how it will choose to address these outstanding obligations.

Petersburg's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.9% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

All full-time, salaried permanent employees of the city are automatically covered by the Virginia Retirement System (VRS). The city's contractually required contribution rate for the year ended June 30, 2015 was 15.25% of covered employee compensation. The plan's fiduciary net position as a percentage of the total pension liability measured at the fiscal year-end 2015 was 86.88% for the city. Eligible retirees may elect to purchase retiree health care up until age 65 through the city's health plan. For participating retirees, the city contributed zero per month toward the monthly premium and the retiree contributes all remaining funds toward the premium. Retirees pay 100% of spousal premiums. The plan is funded on a pay-as-you-go basis.

In a letter dated July 11, based on publicly available reports, the VRS informed state legislators that the city was more than 60 days late on payments totaling \$1.9 million, and the total had since risen to \$2.3 million. Late payments are likely to continue, further stressing the city's liquidity pressures.

### **Very strong institutional framework**

The institutional framework score is very strong.

## **Outlook**

The negative outlook reflects the extreme uncertainty regarding Petersburg's ability to return to structural balance and what will likely be persistently very weak liquidity in a difficult budgetary environment. If the city cannot continue implementing and sustaining structural reforms following the departure of interim management in March 2017, resulting in further fiscal deterioration or potential inability to make timely payments on its obligations, we could lower the rating further. Over the next year, if the city can produce a credible plan to restore solvency, meet its fiscal targets, and improve liquidity, we may revise the outlook to stable.

## **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.



# Appendix C: City of Petersburg Financial Policy Guidelines



# City of Petersburg, VA

## Financial Policy Guidelines



# Contents

---

|  |   |
|--|---|
| 1. Financial Policy Objectives         | 1 |
| 2. Capital Improvement Budget Policies | 2 |
| 3. Budget Development Policies         | 3 |
| 4. Debt Policies                       | 4 |
| 5. Reserve Policies                    | 5 |

---



# 1. Financial Policy Objectives

This financial policy is a statement of the guidelines and goals that will influence and guide the management practice of City of Petersburg, Virginia. Financial Policy Guidelines that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Effective Financial Policy Guidelines:

- Contribute significantly to the City's ability to insulate itself from fiscal crisis,
- Enhance short-term and long-term financial credit of the City by helping to achieve the highest credit and bond ratings possible,
- Promote long-term financial stability by establishing clear and consistent guidelines,
- Direct attention to the total financial picture of the City rather than single issue areas,
- Promote the view of linking long-run financial planning with day to day operations, and
- Provide the City Council and the citizens with a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

While adherence to this policy is expected, the City understands that changes in the capital markets, City programs, or other unforeseen circumstances may from time to time produce situations that are not covered by this policy and will require modifications or exceptions to achieve the policy goals. In these cases, the City's management may act, provided specific authorization from the City Council is obtained. These Financial Policy Guidelines shall be reviewed at least every two years by the Director of Finance, who shall in turn report his findings to the City Manager and City Council.



## 2. Capital Improvement Budget Policies

The City will develop a five-year Capital Improvement Plan which will serve as the basis for planning and prioritizing the City's capital improvement needs based on affordability and compliance with Debt and Reserve Policies. The Capital Improvement Plan will only include projects with identified and known realistic funding sources. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.

1. The City will consider all capital improvements in accordance with an adopted Capital Improvement Plan.
2. The City, in consultation with the City of Petersburg Public School System, will develop a five-year Capital Improvement Plan that includes funding sources and uses and review and update the plan annually.
3. The City will enact an Annual Capital Budget based on the five-year Capital Improvement Plan. The first year of the Capital Improvement Plan will be used as the basis for the Annual Capital Budget.
4. The City will coordinate development of the Annual capital Budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
5. The City will maintain all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
6. The City will project its equipment replacement and maintenance needs in conjunction with the five-year Capital Improvement Plan and will develop a maintenance and replacement schedule to be followed.
7. The City will attempt to determine the least costly and most flexible financing method for all new projects.
8. The City will target a minimum amount of equity (e.g. cash pay-as-you-go) funding of 5% of the Capital Improvement Plan on a five-year rolling average after reaching the Unassigned Fund Balance Policy Goal (See Section 5 for definition).



### 3. Budget Development Policies

1. The City will strive to maintain diversified and stable revenue streams to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services.
2. Current revenues will fund current expenditures. One-time or other special revenues will not be used to finance continuing City operations but instead will be used for funding special projects.
3. The City will pursue an aggressive policy seeking the collection of delinquent utility, license, permit and other fees due to the City.
4. The City will prepare and annually update a long range (5 year) financial forecast model utilizing trend indicators and projections of annual operating revenue, expenditures, capital improvements with related debt service and operating costs, and fund balance levels.
5. Expenditure and revenue projections will be developed quarterly and reviewed with Departmental Directors, the City Manager, and City Council. The City Manager, through the Finance Department, will exercise appropriate fiscal management as necessary to live within the limits of the adopted budget.
6. The City will budget for operating subsidies, if any, to its golf, mass transit or other funds requiring annual support from the General Fund.



## 4. Debt Policies

1. The City will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the City finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Direct Net Debt as a percentage of estimated market value of all taxable property shall not exceed a range of 4.0% to 4.5%. Direct Net Debt is defined as any and all debt that is tax-supported. This ratio will be measured annually.
4. The ratio of Direct Net Debt Service expenditures as a percent of Total Governmental Fund Expenditures should not exceed 10%. Direct Net Debt Service is defined as any and all debt service that is tax-supported. Utility Fund debt service that is self-supporting shall be excluded. Total Governmental Fund Expenditures includes the General Fund and School Component Unit Expenditures less the local government transfer. This ratio will be measured annually.
5. Payout of aggregate outstanding tax-supported Direct Net Debt principal shall be no less than 50% repaid in 10 years.
6. The City recognizes the importance of underlying and overlapping debt in analyzing financial condition. The City will regularly analyze total indebtedness including underlying and overlapping debt.
7. Where feasible, the City will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
8. The City will retire tax anticipation debt, if any, annually.



## 5. Reserve Policies

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City needs to maintain fund balance reserves sufficient to fund all cash flows of the City, to provide financial reserves for unanticipated or emergency expenditures and/or revenue shortfalls, and to provide funds for all existing encumbrances.

The purpose of this policy is to specify the composition of the City's financial reserves, set minimum levels for certain reserve balances, and to identify certain requirements for replenishing any fund balance reserves utilized.

### 1. Fund Balance Categories:

For documentation of the City's fund balance position, communication with interested parties and general understanding, a clear and consistent system of classification of the components of the City's fund balances is necessary. The City's reporting and communication relating to fund balance reserves will utilize the classifications outlined in generally accepted accounting principles (GAAP). GAAP dictates the following hierarchical fund balance classification structure based primarily on the extent to which the City is restricted in its use of resources.

- a. Non-spendable Fund Balance: These are fund balance amounts that are not in a readily spendable form, such as inventories or prepayments, or trust or endowment funds where the balance must remain intact.
- b. Restricted Fund Balance: These are amounts that have constraints placed on their use for a specific purpose by external sources such as creditors, or legal or constitutional provisions.
- c. Committed Fund Balances: These amounts are designated for a specific purpose or constraints have been placed on the resources by City Council. Amounts within this category require City Council action to commit or to release the funds from their commitment.
- d. Assigned Fund Balances: These are amounts set aside with the intent that they be used for specific purposes. The expression of intent can be by City Council or their designee and does not



necessarily require City Council action to remove the constraint on the resources.

- e. Unassigned Fund Balances: These are amounts not included in the previously defined categories. The City General Fund is the only fund that should report a positive Unassigned Fund Balance. Amounts in this classification represent balances available for appropriation at the discretion of City Council. However, City Council recognizes that the Unassigned Fund Balance needs to be sufficient and comprised of liquid cash and investments to meet the City's cyclical cash flow requirements and allow the City to avoid the need for short term tax anticipation borrowing. The Unassigned Fund Balance should also allow for a margin of safety against unforeseen expenditures that could include, but not be limited to, natural disasters, severe economic downturns, and economic development opportunities. Unassigned Fund Balance shall not be used for annual recurring expenditures, except for unforeseen emergency circumstances.

As of the date of this policy document, City Council recognizes that it does not have any liquid Unassigned Fund Balance (e.g. cash and investments) and as a result shall budget approximately \$750,000 (the "Annual Budgeted Amount") toward rebuilding the Unassigned Fund Balance until the balance, at a minimum, reaches an amount that is sufficient to eliminate the need for annual cash flow Revenue Anticipation Note borrowings (The "Minimum Initial Target").

To the extent that the City has any remaining operating surplus after all expenditures (including the Annual Budgeted Amount) have been satisfied, the City shall apply at a minimum 50% of such remaining operating surplus to further accelerate the build-up of the Unassigned Fund Balance.

After the Minimum Initial Target has been reached, the City shall adopt a plan to increase the Unassigned Fund Balance to a balance that is not less than 10% of the combined budgeted expenditures of the City General Fund and the City of Petersburg Public Schools Operating Fund, net of the City's local contribution (the "Policy Goal").

City Council recognizes that if amounts above the 10% Policy Goal exist, City Council could contemplate strategically utilizing these amounts, if appropriate. However, City Council also recognizes that maintaining an Unassigned Fund Balance above the minimum



policy level may be beneficial to the overall well being of the City. Should any amounts above the 10% policy exist they should only be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years. Amounts above the 10% policy minimum could be used for the following purposes (listed in order of priority):

- i. Increase Restricted Fund Balances as necessary.
- ii. Fund an additional reserve for use during an emergency or during periods of economic uncertainty or budget adversity. Such additional reserves shall be determined by City Council.
- iii. Allocating such amounts toward equity funding of the Capital Improvement Plan or transfer to the Capital Improvement Fund.

2. Prioritization of Fund Balances:

As indicated, the fund balance classifications outlined above are based on the level of restriction. In the event expenditures qualify for disbursement from more than one fund balance category, it shall be the policy of City of Petersburg that the most constrained or limited fund balance available will be used first. Unassigned fund balance will be used last.

3. Accounting for Encumbrances:

Amounts set aside for encumbered purchase orders may be either restricted, committed or assigned fund balance depending upon the resources to be used to fund the purchases. Amounts set aside for encumbrances may not be classified as unassigned since the creation of an encumbrance signifies a specific purpose for the use of the funds.

4. Replenishment of the Unassigned Fund Balance

Upon the use of any Unassigned Fund Balance, which causes such fund balance to fall below either the Policy Goal and/or Minimum Initial Target levels, City Council must approve and adopt a plan to restore amounts used within 24 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the City, then the City Council will establish a different time period.



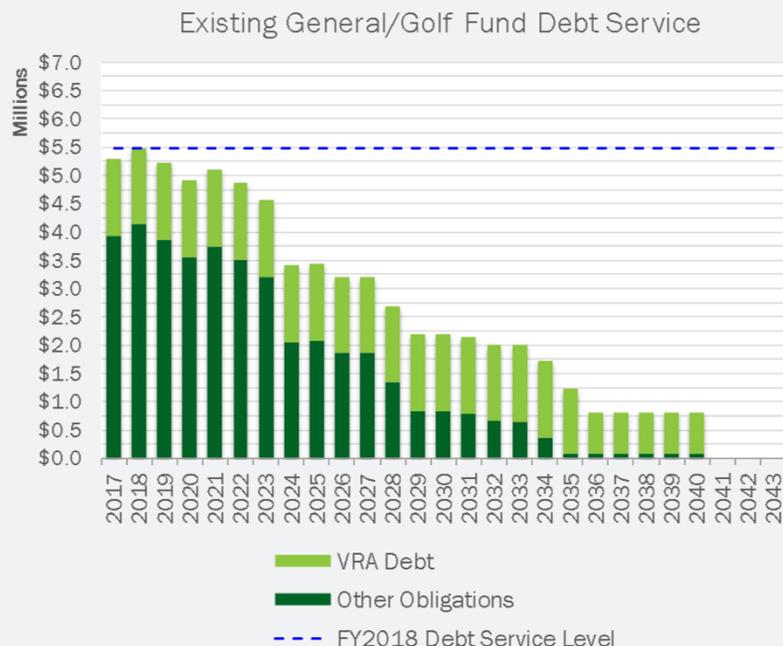


# Appendix D: Existing Debt



# Exhibit A: Existing Debt Service\*

## General Fund/Golf Fund Debt Service



- As of 12/8/2016, outstanding debt supported by the General/Golf Funds totals \$50.9 million.
  - VRA related debt is \$17.6 million or 35% .
- FY 2017 debt service is \$5.3 million.
- FY 2018 debt service is \$5.5 million.

## Debt Service Schedule

|               | Existing General+Golf Fund Debt Service |                      |                      |
|---------------|---|----------------------|----------------------|
|               | VRA Debt Service                        | Other Debt Service   | Total Debt Service   |
| <b>Totals</b> | <b>\$ 29,166,698</b>                    | <b>\$ 39,698,264</b> | <b>\$ 68,864,961</b> |
| FY            |   |                      |                      |
| 2017          | 1,355,731                               | 3,937,387            | 5,293,118            |
| 2018          | 1,353,881                               | 4,132,862            | 5,486,743            |
| 2019          | 1,353,816                               | 3,857,824            | 5,211,640            |
| 2020          | 1,356,891                               | 3,560,857            | 4,917,748            |
| 2021          | 1,358,328                               | 3,741,361            | 5,099,690            |
| 2022          | 1,358,103                               | 3,512,297            | 4,870,400            |
| 2023          | 1,355,691                               | 3,199,041            | 4,554,732            |
| 2024          | 1,357,056                               | 2,061,112            | 3,418,168            |
| 2025          | 1,356,878                               | 2,073,727            | 3,430,605            |
| 2026          | 1,354,697                               | 1,856,342            | 3,211,039            |
| 2027          | 1,360,603                               | 1,853,716            | 3,214,319            |
| 2028          | 1,360,047                               | 1,335,760            | 2,695,807            |
| 2029          | 1,357,966                               | 824,501              | 2,182,467            |
| 2030          | 1,356,463                               | 826,546              | 2,183,008            |
| 2031          | 1,358,284                               | 790,750              | 2,149,034            |
| 2032          | 1,350,863                               | 656,977              | 2,007,840            |
| 2033          | 1,356,147                               | 645,217              | 2,001,364            |
| 2034          | 1,353,638                               | 363,023              | 1,716,661            |
| 2035          | 1,140,022                               | 80,829               | 1,220,851            |
| 2036          | 724,044                                 | 82,134               | 806,178              |
| 2037          | 719,716                                 | 77,984               | 797,700              |
| 2038          | 723,906                                 | 78,834               | 802,740              |
| 2039          | 721,481                                 | 74,338               | 795,819              |
| 2040          | 722,447                                 | 74,842               | 797,289              |
| 2041          | -                                       | -                    | -                    |
| 2042          | -                                       | -                    | -                    |
| 2043          | -                                       | -                    | -                    |

\* Does not include Utility Fund debt.

# Exhibit B: Summary of Existing Debt



## Existing Debt as of March 14, 2017

|   | General/Golf<br>Fund | Utility              | Stormwater          | Total                | Amount<br>Restructured |
|---|----------------------|----------------------|---------------------|----------------------|------------------------|
| <b>1 G.O. Debt Issued Through VRA</b>     |                      |                      |                     |                      |                        |
| 2 VRA 2009A (Pool) G.O.                   | \$ 9,985,000         | \$ -                 | \$ -                | \$ 9,985,000         | \$ -                   |
| 3 VRA 2011 G.O.                           | 323,451              | -                    | -                   | 323,451              | -                      |
| 4 VRA2013C (Pool) G.O.                    | 2,530,000            | -                    | -                   | 2,530,000            | -                      |
| 5 VRA2014C (Pool) G.O.                    | 5,095,000            | -                    | -                   | 5,095,000            | 5,095,000              |
| 6 <b>Subtotal G.O. (VRA) Bonds</b>        | <b>\$ 17,933,451</b> | <b>\$ -</b>          | <b>\$ -</b>         | <b>\$ 17,933,451</b> | <b>\$ 5,095,000</b>    |
| <b>7</b>                                  |                      |                      |                     |                      |                        |
| <b>8 Non-VRA G.O. Debt</b>                |                      |                      |                     |                      |                        |
| 9 Series 2004 Bonds                       | \$ 215,000           | \$ -                 | \$ -                | \$ 215,000           | \$ -                   |
| 10 Carter Bank 2010                       | 546,138              | 178,540              | -                   | 724,678              | 466,751                |
| 11 VML/VACO Series 2010D/F                | 1,095,000            | -                    | -                   | 1,095,000            | -                      |
| 12 SunTrust 2011 EDA                      | 2,277,140            | -                    | -                   | 2,277,140            | 2,277,140              |
| 13 SunTrust 2012A G.O.                    | 3,670,250            | 617,750              | -                   | 4,288,000            | 4,288,000              |
| 14 SunTrust 2013B G.O.                    | 4,682,150            | -                    | -                   | 4,682,150            | 4,518,598              |
| 15 Literary Loans G.O. Debt               | 1,800,000            | -                    | -                   | 1,800,000            | 1,125,000              |
| 16 QSCB G.O. Debt                         | 7,019,000            | -                    | -                   | 7,019,000            | 835,000                |
| 17 QZAB G.O. Debt                         | 2,677,041            | -                    | -                   | 2,677,041            | -                      |
| 18 <b>Subtotal Non-VRA G.O. Debt</b>      | <b>\$ 23,981,719</b> | <b>\$ 796,290</b>    | <b>\$ -</b>         | <b>\$ 24,778,009</b> | <b>\$ 13,510,488</b>   |
| <b>19</b>                                 |                      |                      |                     |                      |                        |
| 20 <b>Subtotal Leases</b>                 | <b>\$ 8,667,114</b>  | <b>\$ 4,843,662</b>  | <b>\$ -</b>         | <b>\$ 13,510,776</b> | <b>\$ 18,354,438</b>   |
| <b>21</b>                                 |                      |                      |                     |                      |                        |
| <b>22 Revenue Debt</b>                    |                      |                      |                     |                      |                        |
| 23 VRA2015A (Pool) Revenue                | \$ -                 | \$ 7,220,000         | \$ -                | \$ 7,220,000         | \$ -                   |
| 24 2015 Stormwater Bond                   | -                    | -                    | 2,142,097           | 2,142,097            | -                      |
| 25 <b>Subtotal Revenue Debt</b>           | <b>\$ -</b>          | <b>\$ 7,220,000</b>  | <b>\$ 2,142,097</b> | <b>\$ 9,362,097</b>  | <b>\$ -</b>            |
| 26 <b>Total Debt as of March 14, 2017</b> | <b>\$ 50,582,284</b> | <b>\$ 12,859,952</b> | <b>\$ 2,142,097</b> | <b>\$ 65,584,333</b> | <b>\$ 36,959,926</b>   |

Note: Yellow highlighted obligations identify those components of the City's debt portfolio which are included in Part 1 (Targeted Restructuring).

# Municipal Advisor Disclaimer

---



The U.S. Securities and Exchange Commission (the "SEC") has clarified that a broker, dealer or municipal securities dealer engaging in municipal advisory activities outside the scope of underwriting a particular issuance of municipal securities should be subject to municipal advisor registration. Davenport & Company LLC ("Davenport") has registered as a municipal advisor with the SEC. As a registered municipal advisor Davenport may provide advice to a municipal entity or obligated person. An obligated person is an entity other than a municipal entity, such as a not for profit corporation, that has commenced an application or negotiation with an entity to issue municipal securities on its behalf and for which it will provide support. If and when an issuer engages Davenport to provide financial advisory or consultant services with respect to the issuance of municipal securities, Davenport is obligated to evidence such a financial advisory relationship with a written agreement.

When acting as a registered municipal advisor Davenport is a fiduciary required by federal law to act in the best interest of a municipal entity without regard to its own financial or other interests. Davenport is not a fiduciary when it acts as a registered investment advisor, when advising an obligated person, or when acting as an underwriter, though it is required to deal fairly with such persons,

This material was prepared by public finance, or other non-research personnel of Davenport. This material was not produced by a research analyst, although it may refer to a Davenport research analyst or research report. Unless otherwise indicated, these views (if any) are the author's and may differ from those of the Davenport fixed income or research department or others in the firm. Davenport may perform or seek to perform financial advisory services for the issuers of the securities and instruments mentioned herein.

This material has been prepared for information purposes only and is not a solicitation of any offer to buy or sell any security/instrument or to participate in any trading strategy. Any such offer would be made only after a prospective participant had completed its own independent investigation of the securities, instruments or transactions and received all information it required to make its own investment decision, including, where applicable, a review of any offering circular or memorandum describing such security or instrument. That information would contain material information not contained herein and to which prospective participants are referred. This material is based on public information as of the specified date, and may be stale thereafter. We have no obligation to tell you when information herein may change. We make no representation or warranty with respect to the completeness of this material. Davenport has no obligation to continue to publish information on the securities/instruments mentioned herein. Recipients are required to comply with any legal or contractual restrictions on their purchase, holding, sale, exercise of rights or performance of obligations under any securities/instruments transaction.

The securities/instruments discussed in this material may not be suitable for all investors or issuers. Recipients should seek independent financial advice prior to making any investment decision based on this material. This material does not provide individually tailored investment advice or offer tax, regulatory, accounting or legal advice. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction. You should consider this material as only a single factor in making an investment decision.

The value of and income from investments and the cost of borrowing may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions or companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance and estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes or to simplify the presentation and/or calculation of any projections or estimates, and Davenport does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not materially differ from those estimated herein. This material may not be sold or redistributed without the prior written consent of Davenport.

Version 01/13/2014 RT | RK | DR