



Board Retreat Presentation

prepared for

York County, Virginia

January 31, 2025

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Agenda

- I. Review of the County's Financial Policies
- II. County's Debt Capacity
- III. Budget Forecasting



I. Review of County's Financial Policies



Overview

- York County (“York” or “the County”) maintains the following minimum fund balance policy:
 - Unassigned fund balance should be at least 12.0% of budgeted General Fund expenditures of the subsequent fiscal year
- The County also maintains two primary tax-supported debt capacity policies:
 - Debt as % of net taxable real property assessed value limited to 3.0%
 - Debt service as % of General Fund expenditures limited to 10.0%
- The County has historically met its financial policy thresholds and considers these thresholds when making financial decisions
- The County’s policies are in line with GFOA guidance and peers



Ratings

- There are 3 primary rating agencies – Moody’s Investor Service (Moody’s), Standard & Poors (S&P), and Fitch Ratings (Fitch) that give credit ratings to local governments
- York has historically maintained ratings of Aa1* from Moody’s and AAA* from S&P, which is indicative of historical strong financial performance and prudent management

Moody’s		S&P / Fitch	
Aaa	Aaa	AAA	AAA*
	Aa1*		AA+
Aa	Aa2	AA	AA
	Aa3		AA-
	A1		A+
A	A2	A	A
	A3		A-
	Baa1		BBB+
Baa	Baa2	BBB	BBB
	Baa3		BBB-



Peer Analysis

- PFM has included the financial policies for 9 neighboring and / or comparable Virginia localities (sorted by the size of the localities General Fund Revenues):

	Ratings	Population	General Fund Revenues (\$)
City of Poquoson	Aa2/AAA/NR	12,582	\$35,291,657
City of Williamsburg	Aa1/AAA/NR	16,224	46,089,642
Isle of Wight County	Aa2/AA+/AA	40,151	83,477,315
Goochland County	Aaa/AAA/AAA	26,565	85,350,832
York County*	Aa1/AAA/NR	72,077	173,116,310
James City County	Aaa/AAA/AAA	79,488	235,978,534
City of Suffolk	Aaa/AAA/AAA	99,179	283,147,447
Hanover County	Aaa/AAA/AAA	115,526	327,730,451
City of Newport News	Aa1/AA+/NR	184,306	582,414,936
City of Chesapeake	Aaa/AAA/AAA	251,959	738,452,859

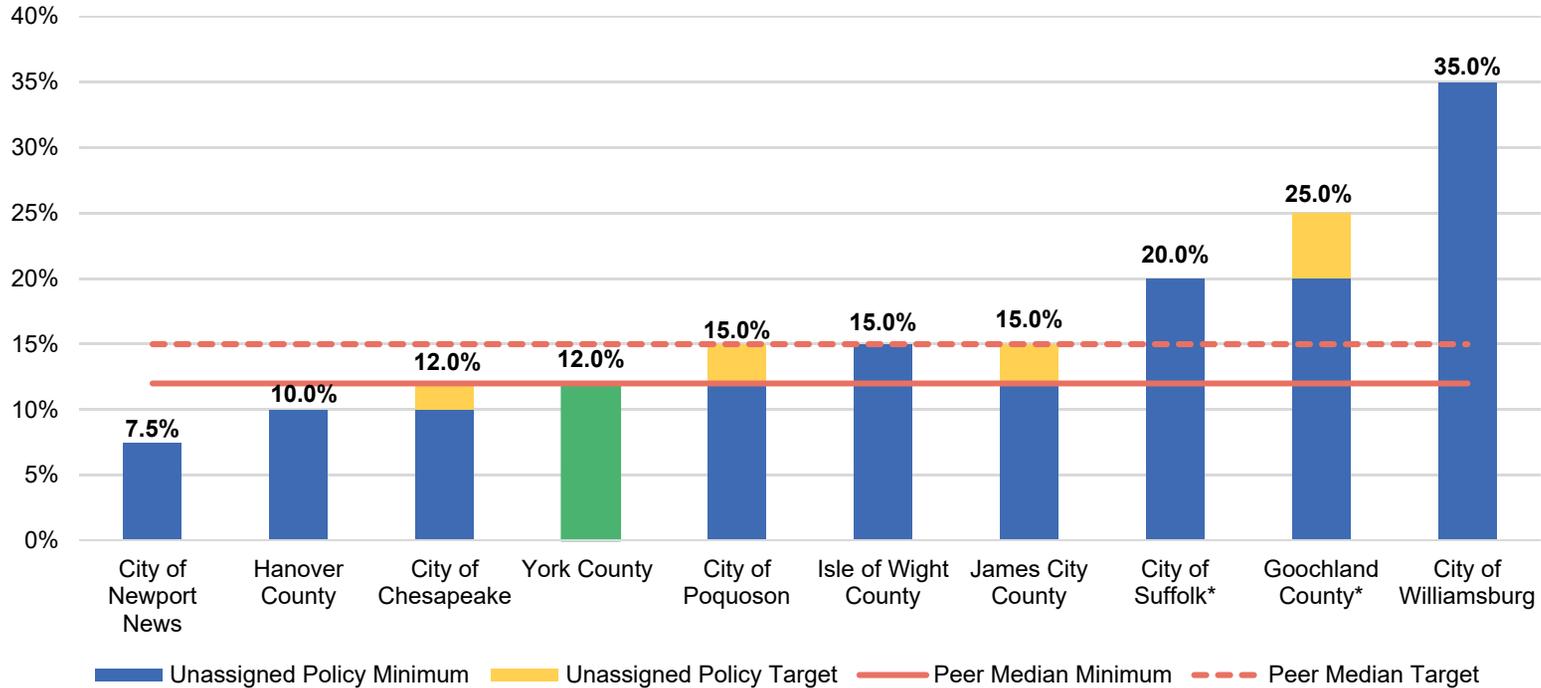
*County currently has no standalone debt obligations outstanding so bond ratings are no longer active



Peer Unassigned Fund Balance Policies

- The County's peers maintain the following unassigned fund balance policy minimums as a % of Expenditures¹

Peer Unassigned Fund Balance Policy Comparison



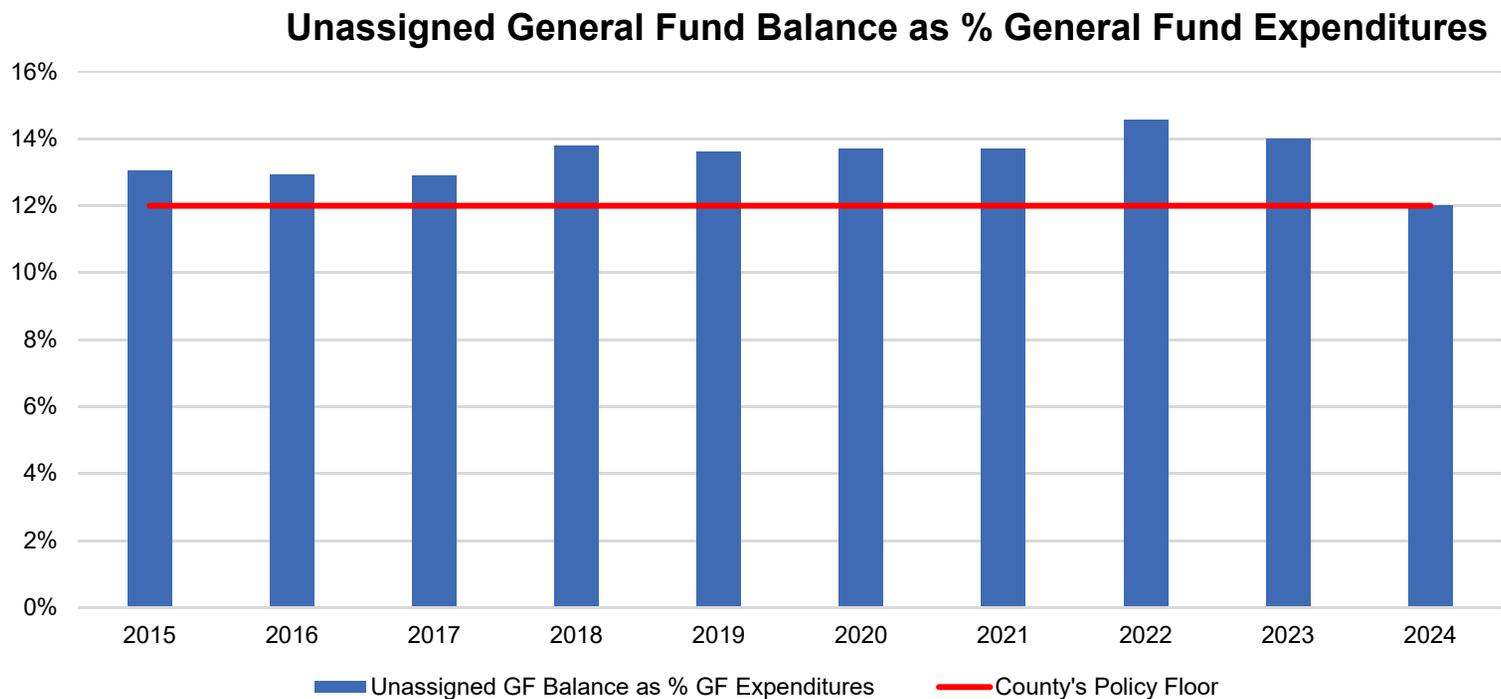
* Includes School Operating Expenditures in denominator

1. Each policy specifies a unique fund balance denominator which is important to understanding the policy
Source: Each locality's FY 2025 Adopted Budget



Historical Unassigned Fund Balance

- The County has historically exceeded its unassigned 12% fund balance policy
- In FY24, the County's unassigned fund balance was at 12% of the FY25 Budget



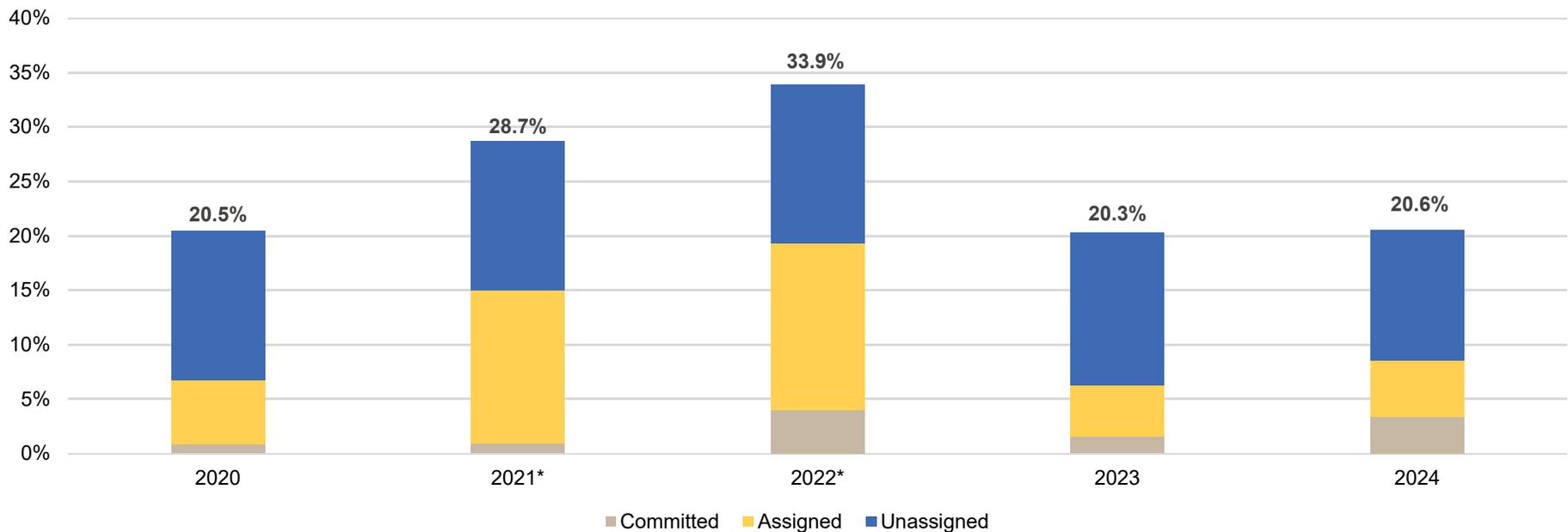
Note: Expenditures exclude transfers out and correspond to the original budget for the subsequent fiscal year, per the County's policy



Fund Balance Outside of Unassigned

- In addition to unassigned fund balance, the County also maintains committed and assigned fund balance that could be utilized for emergencies, if authorized by the Board
- The County has historically had unrestricted fund balance of at least 20% of budgeted expenditures for the following fiscal year

Unrestricted General Fund Balance as % General Fund Expenditures



*Note: Expenditures exclude transfers out and correspond to the original budget for the subsequent fiscal year
FY21 & FY22 include stimulus funds from the American Rescue Plan Act (ARPA)



GFOA on General Fund Balance Best Practices

- **Appropriate Level** – at least 2 months (or approximately 16.7%) of regular annual operating revenues or expenditures; fund balance levels should account for a variety of unique factors:
 - Predictability of revenues and volatility of expenses
 - Perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
 - Potential drain upon general fund resources from other funds
 - Potential impact on the entity’s bond ratings and corresponding increased costs of borrowing funds
 - Commitments and assignments of funds
- **Use and Replenishment** – Fund balance policy should dictate conditions warranting use and plans for replenishment
 - Funds should generally be replenished within 1 – 3 years of use
 - Revenue sources typically used for replenishment include nonrecurring revenues, budget surpluses, and excess resources from other funds (assuming legally permissible), as well as year-end surpluses
- **Unrestricted Fund Balance Above Formal Policy Requirement**
 - Surpluses above the formal policy requirement should be addressed by policy to determine if there are structural trends driving the surplus
 - Use of funds above the formal policy requirement for ongoing, recurring expenses should be prohibited
- A fund balance range (rather than a set level) can provide a locality flexibility to adapt its policy



GFOA Guidance on Evaluating Risk

◆ Types of risks to analyze

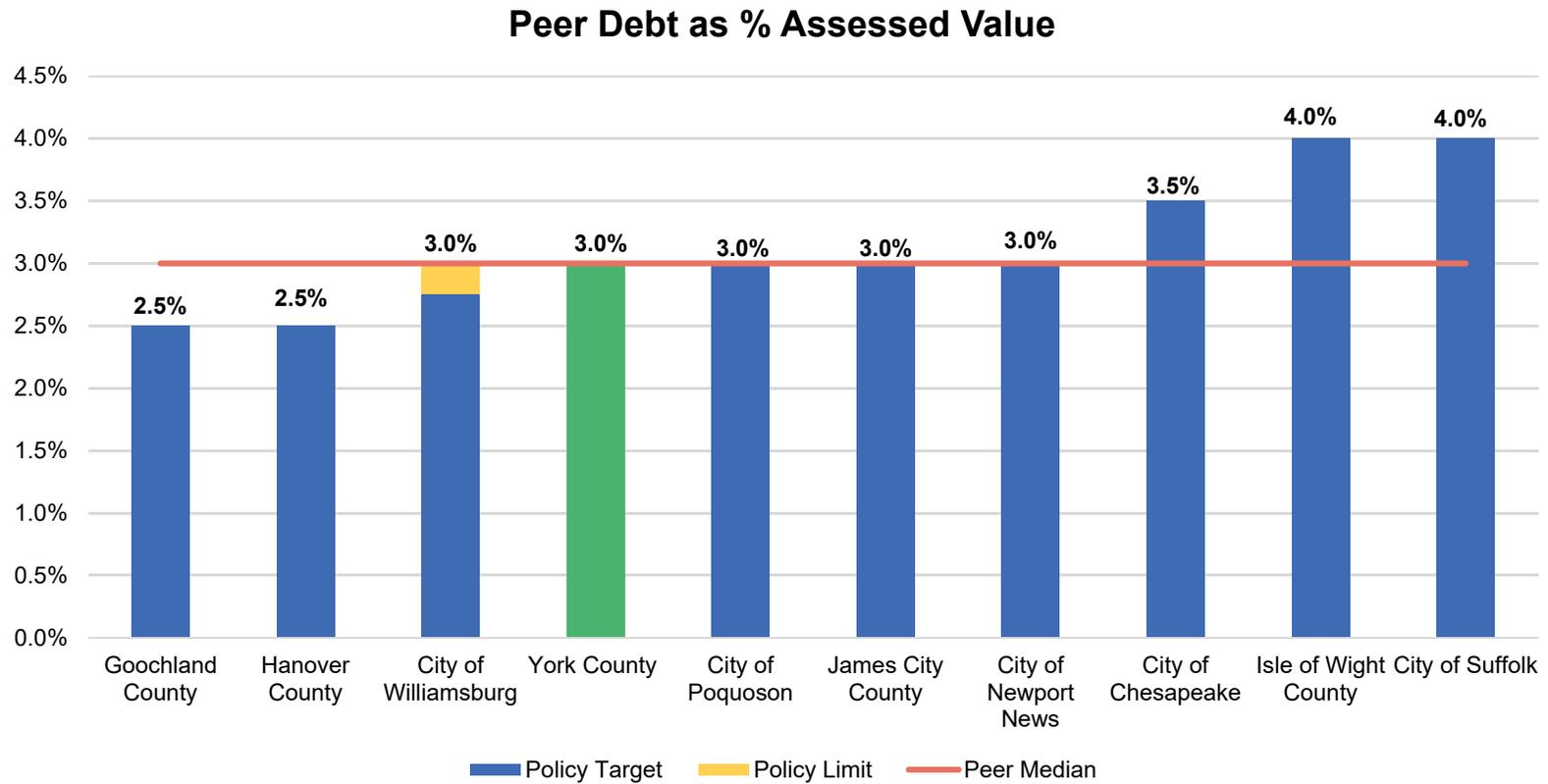
- Extreme event risk (i.e., climate change, wildfire risk)
- Loss in revenue risk (i.e., loss of major employer, reduction in real estate tax base AV)
- Expenditure volatility
- Future leveraging plan & reliance on use of reserves as a source of funding
- Liquidity volatility

Risk Profile	GFOA Recommended Reserve Levels
Minimal risk	~16.7%
Low to moderate risk	17% - 25%
Moderate to high level of risk	26% - 35%
High level of risk	35% or higher



Peer Debt % Assessed Value Policies

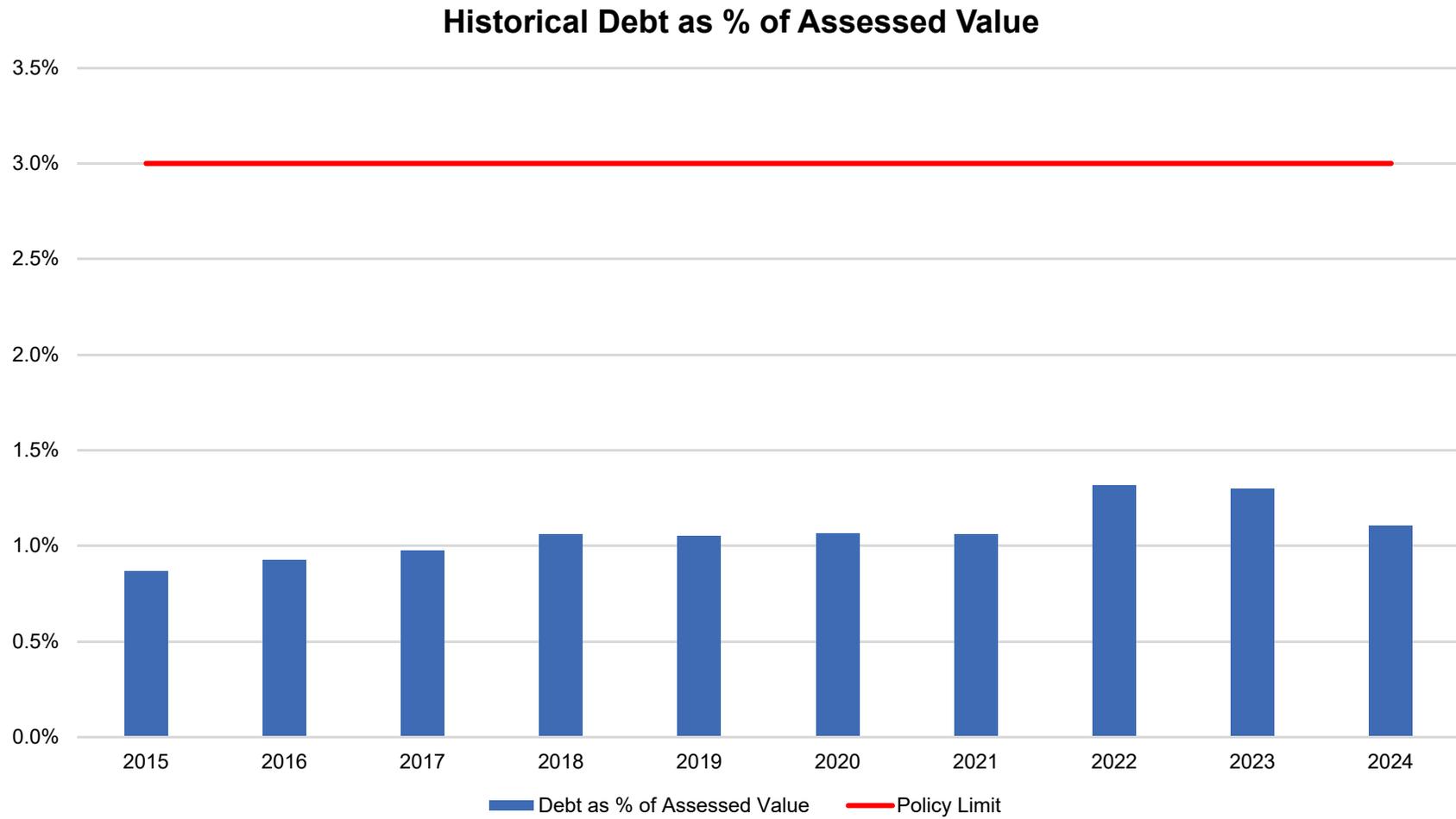
- ◆ The County's peers maintain the following debt as a % of Assessed Value policies¹



1. Each policy specifies a unique numerator and denominator which is important to understanding the policy
Source: Each locality's FY 2025 Adopted Budget



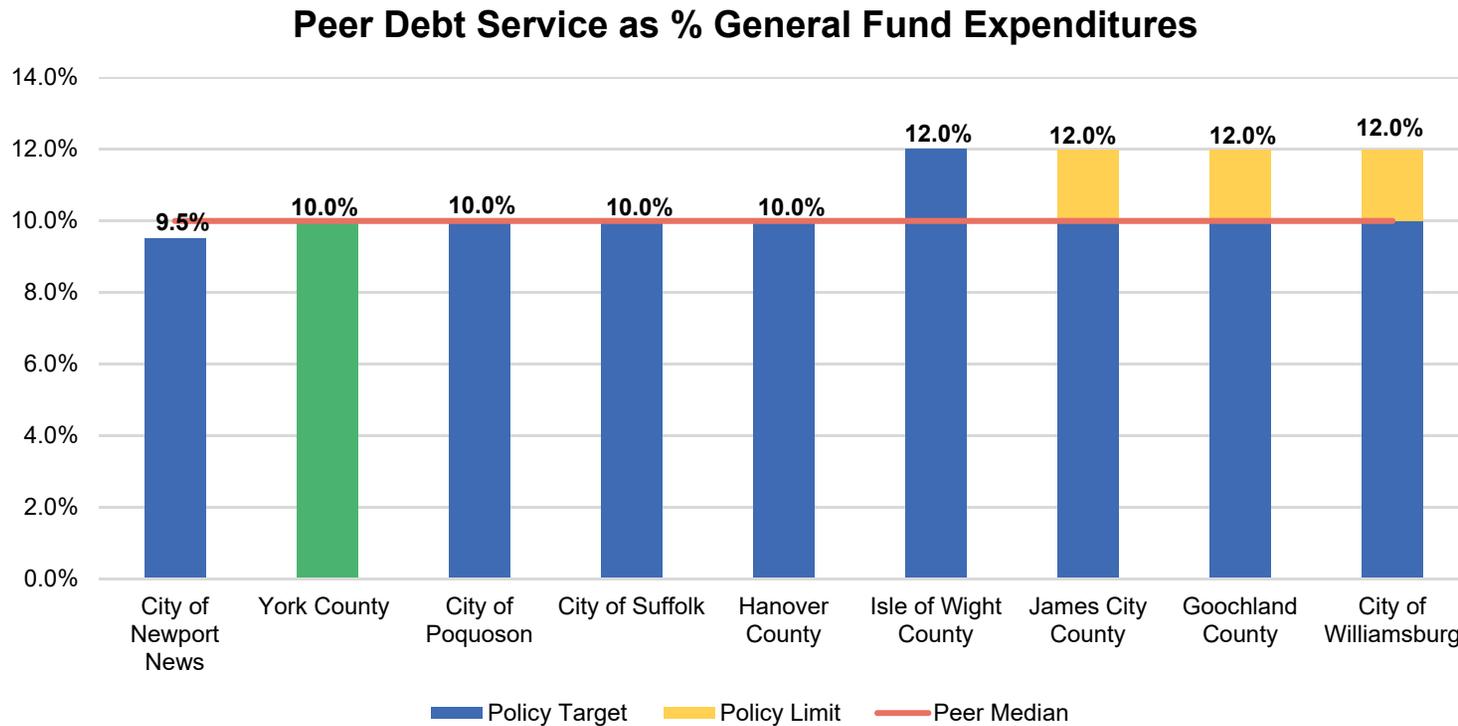
Historical Debt as % Assessed Value





Peer Debt Service % General Fund Expenditures

- The County's peers maintain the following debt service as a % of General Fund Expenditures policies¹

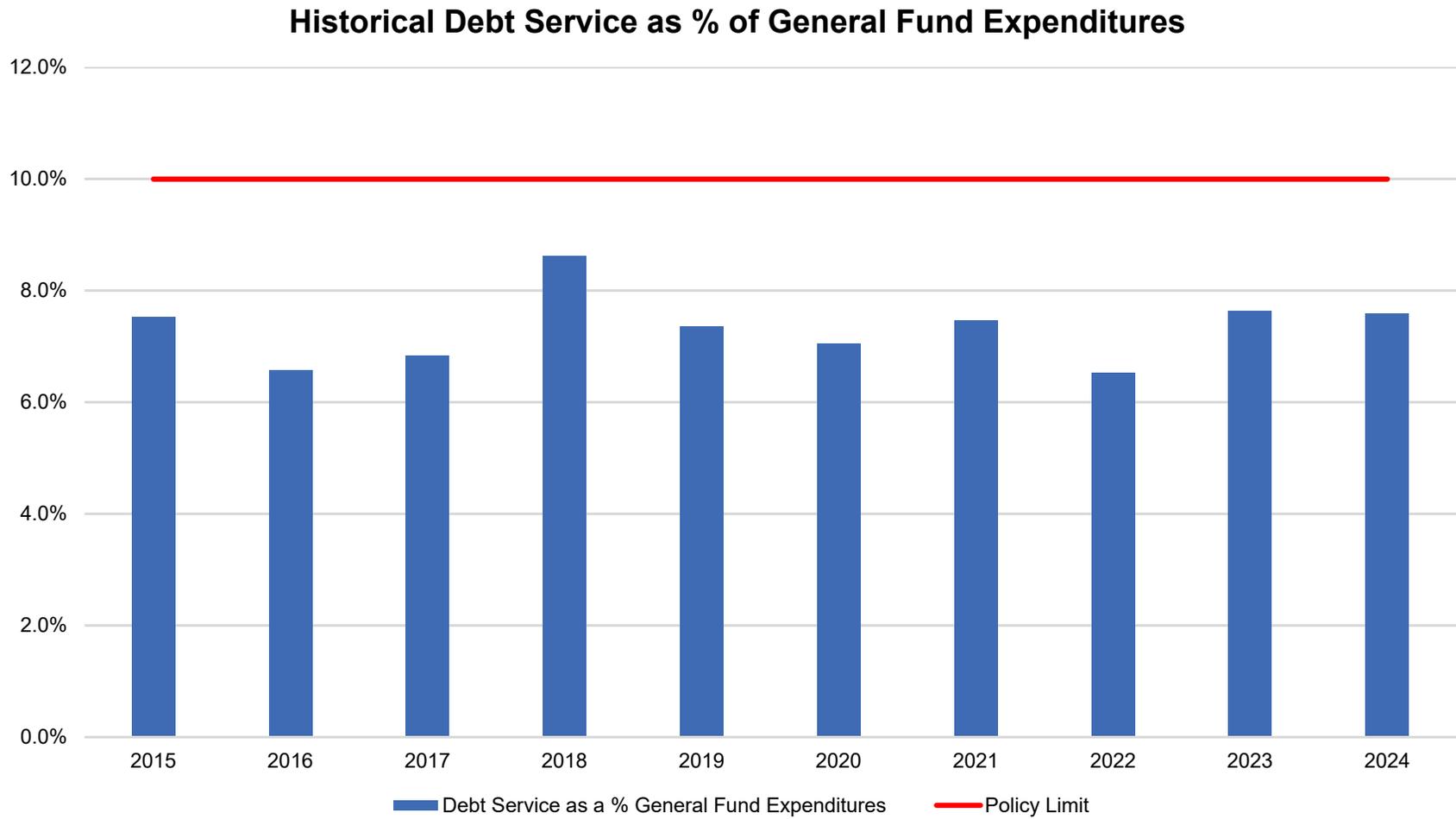


**Note, the City of Chesapeake does not maintain a debt service as % general fund expenditures policy*

1. Each policy specifies a unique numerator and denominator which is important to understanding the policy
Source: Each locality's FY 2025 Adopted Budget



Historical Debt Service % General Fund Expenditures





GFOA on Debt Policies

- Debt management policies should be written with attention to an issuer's specific needs and available financing options
- GFOA recommends that a debt management policy should be approved by an Issuer's governing body & include at least the following
 - **Debt limits:** potential ratios include debt per capita, debt to personal income, ***debt to taxable property value***, and ***debt service to general fund revenues or expenditures***; could also include limits related to legal restrictions or types of debt to issue
 - **Debt structuring practices:** guidelines on maximum term, average maturity, amortization structure, use of variable rate / short-term debt, etc.
 - **Debt issuance practices:** criteria for determining method of sale, specifications for use of credit ratings, disclosure practices & procedures, etc.
 - **Debt management practices:** guidance for ongoing administrative activities including investment of bond proceeds, procedure for making debt service payments, continuing disclosure procedures, tax law compliance monitoring, etc.
 - **Use of derivatives:** state whether or not locality can / should consider use of derivatives

Source: GFOA's "Best Practices for Debt Management Policy," dated March 6, 2020.



Financial Policies Takeaways

- The County's fund balance policy is in-line with peers and is at a healthy level
- When factoring in unrestricted fund balance outside of unassigned, the County has historically exceeded GFOA's recommendation of having at least 16.7% annual General Fund expenditures in reserves though this has been lower in recent years
- The County's debt affordability policies are also in-line with peers and include many of the facets noted by GFOA
- Historically, the County has been in compliance with its debt policies and when factoring in new general fund supported debt, the County is expected to continue to be in compliance
- PFM believes the County's policies are at the appropriate levels and does not recommend any changes



II. County's Debt Capacity



Overview

- As stated previously, the County has two primary debt policies to adhere to:
 - Debt as % of net taxable assessed value limited to 3.0%
 - Debt service as % of General Fund expenditures limited to 10.0%
- The County plans to fund \$226.1 million of capital projects over the next 6 years, \$141.2 million of which is expected to be debt financed
- It is important to confirm the County falls within its debt affordability policies, when evaluating CIP projects

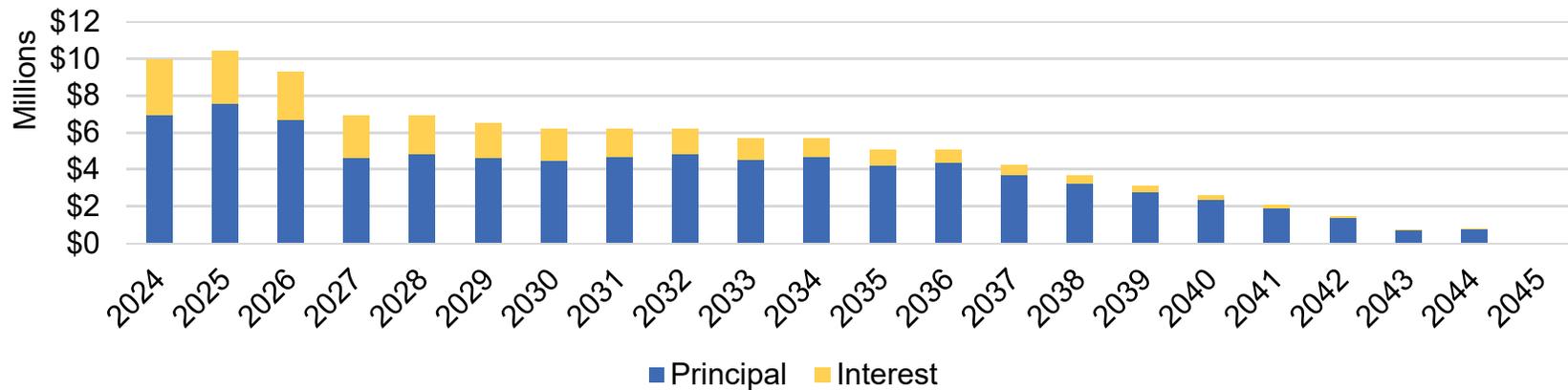


Existing Debt

The County currently has \$140.5 million of debt outstanding, \$112.7 million of which is supported by the General Fund.

	Par Outstanding June 30, 2024 (000s)	Final Maturity
General Fund G.O. Bonds	\$79,910	FY 2045
General Fund Leases	\$32,803	FY 2043
Self-Supported G.O. Bonds	\$27,805	FY 2041
Total	\$140,518	-

Tax-Supported Debt Service by Fiscal Year





Recommended FY26 General Fund CIP Sources

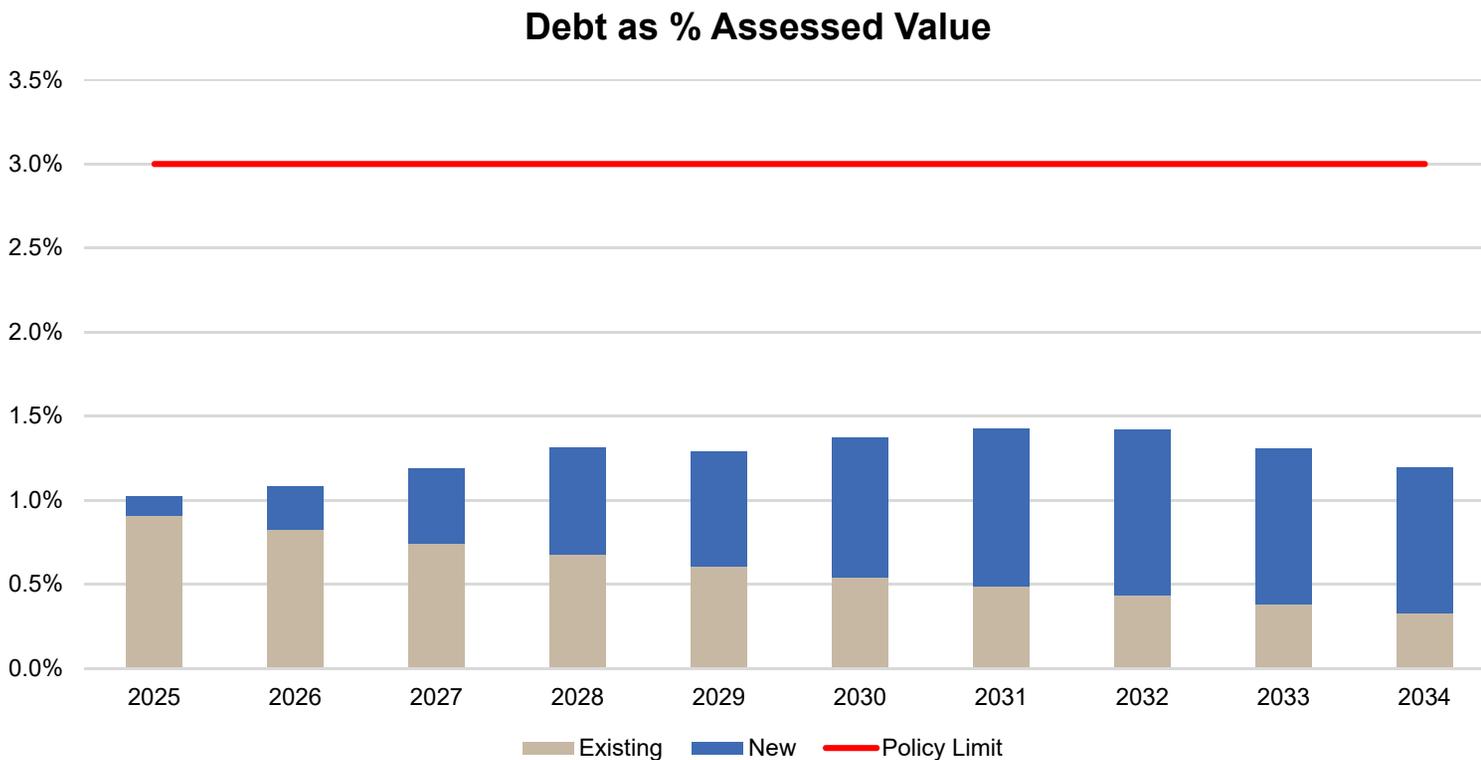
The County plans to fund \$226.1 million of capital projects over the next 6 years, \$141.2 million of which is expected to be debt financed.

Funding Source (in millions)	FY26	FY27	FY28	FY29	FY30	FY31	6-Year Total
Cash Capital - Operating Budget	\$ 5.0	\$ 5.5	\$	\$ 6.0	\$	\$ 6.5	\$ 34.5
Cash Capital - School	3.0	2.0	5.5	1.0	6.0	1.0	9.5
Debt Financed	24.4	33.2	11.6	19.3	28.2	24.5	141.2
Grant/Proffers/Other	1.6	2.8	3.8	1.5	3.2	1.4	14.3
Use of Reserve	6.4	1.1	1.5	3.6	7.6	6.4	26.6
Total Funding Sources	\$ 40.4	\$ 44.6	\$ 23.9	\$ 31.4	\$ 46.0	\$ 39.8	\$ 226.1



Projected Debt % Assessed Value

- The County is projected to remain well below its debt as % assessed value policy after factoring in its current CIP

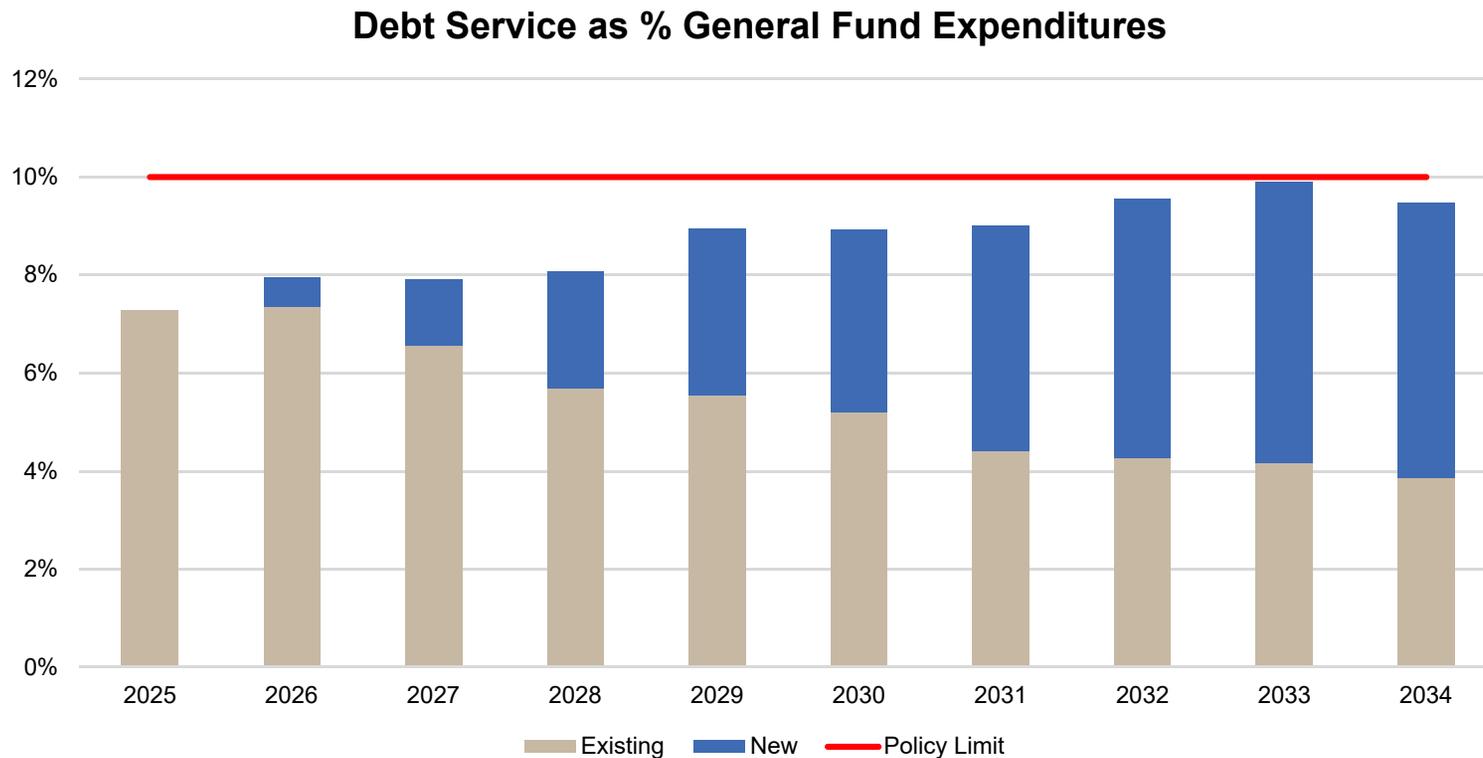


*Assumes FY24 assessed value of \$12.9 billion growing at 2% annually.
Assumes bonding amounts from slide 21 plus \$28.1 million of FY24 and FY25 CIP
debt, all issued at an interest rate of 4.5%.*



Projected Debt Service as % Budget

- The County is projected to remain below its debt service as % General Fund expenditures policy after factoring in its current CIP

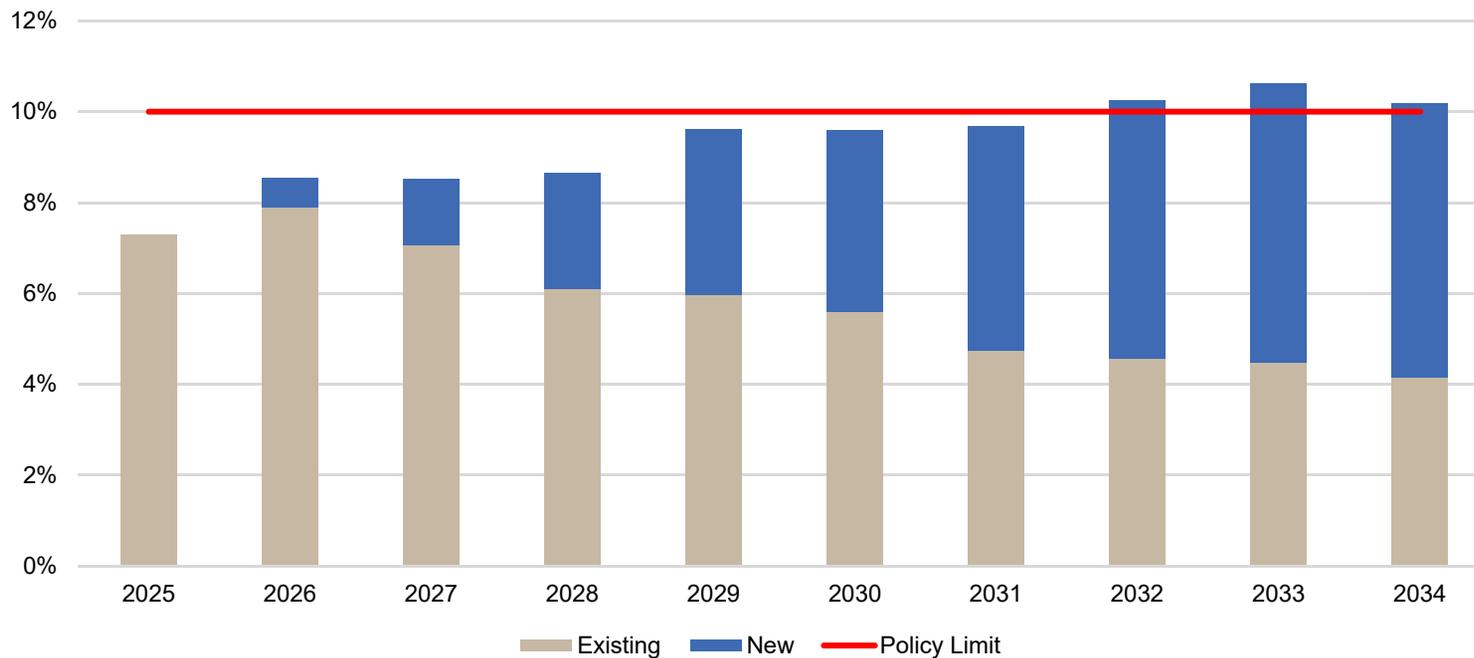




Projected Debt Service as % Budget: Economic Shock

- Assuming the same borrowing amounts contemplated on the prior slides, if there were an economic shock that necessitated a reduction in General Fund revenues, debt service as a % of General Fund Expenditures could exceed the limit
- For example, if General Fund expenditures decline 5% in FY26 and grow at 2% annually thereafter, the ratio is out of compliance from FY32 to FY34

Debt Service as % General Fund Expenditures



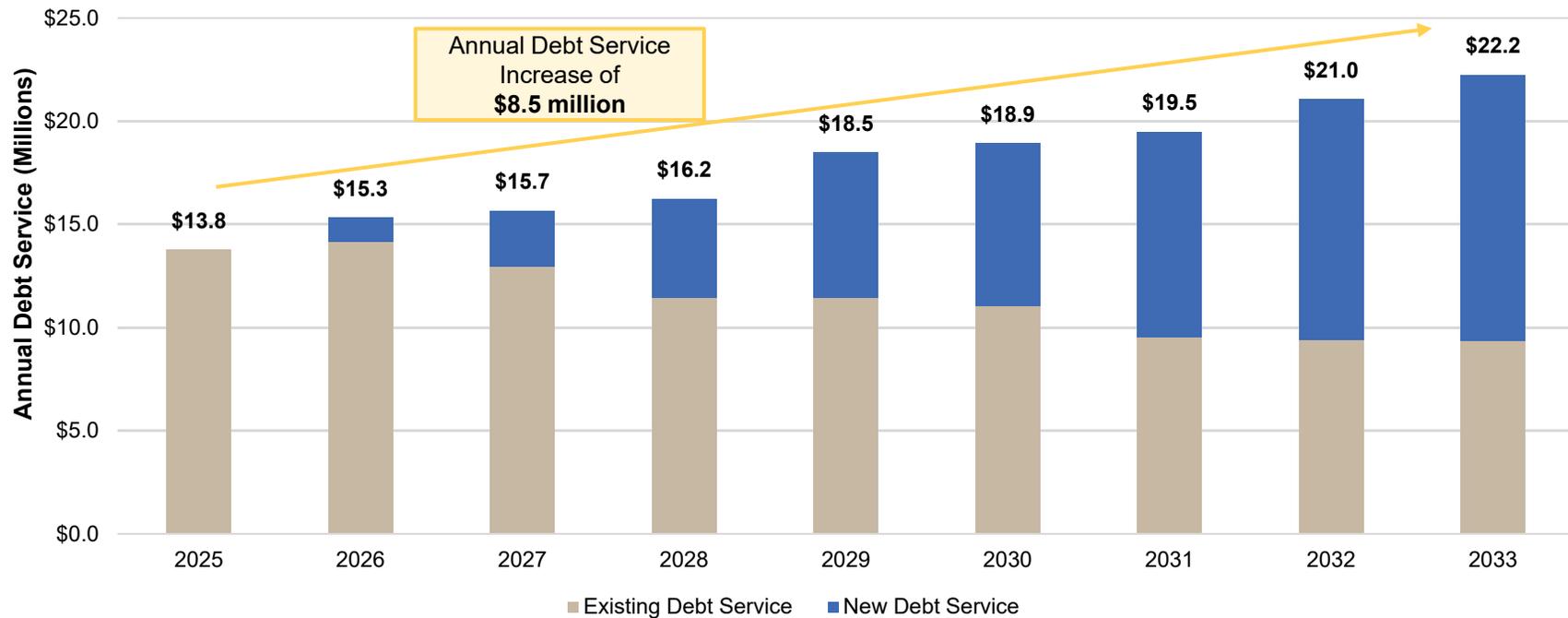
Assumes FY25 General Fund expenditures of \$189.0 with 5% decline in FY26 and 2% growth thereafter. Assumes bonding amounts from slide 21 plus \$28.1 million of FY24 and FY25 CIP debt, all issued at an interest rate of 4.5%.



Projected Debt Service

- Beyond debt capacity under its financial policies, the County should also consider debt affordability as it relates to impact on the tax rate
- With all of the planned CIP debt layered on, the County's annual debt service increases from an existing \$13.8 million to \$22.2 million in FY33

Existing + New General Fund Debt Service

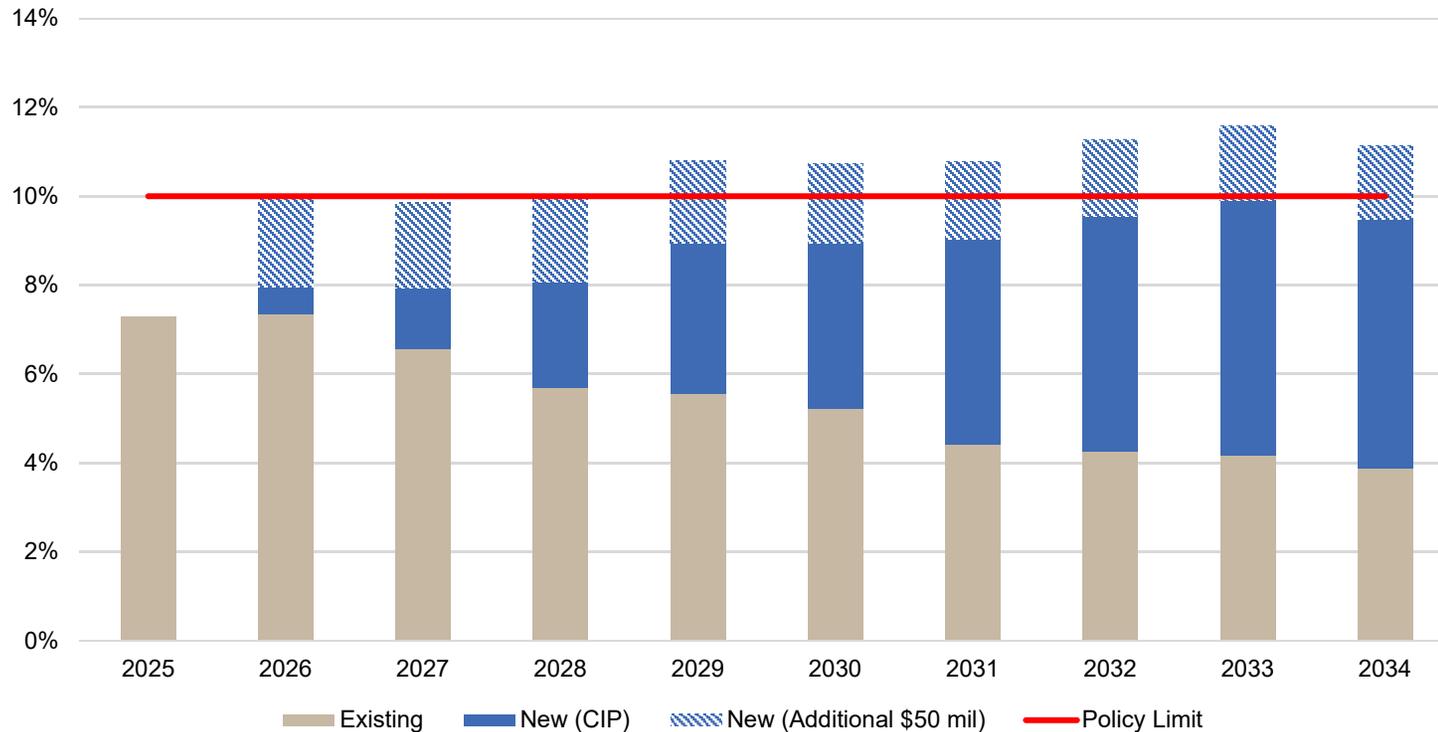




Projected Debt Service as % Budget: Increased Borrowing

- Similarly, if the County increased its borrowing above the levels contemplated in the CIP, it could exceed its debt capacity limit
- For example, if an additional \$50 million was borrowed in FY25, the ratio would be out of compliance in FY29 – FY37

Debt Service as % General Fund Expenditures

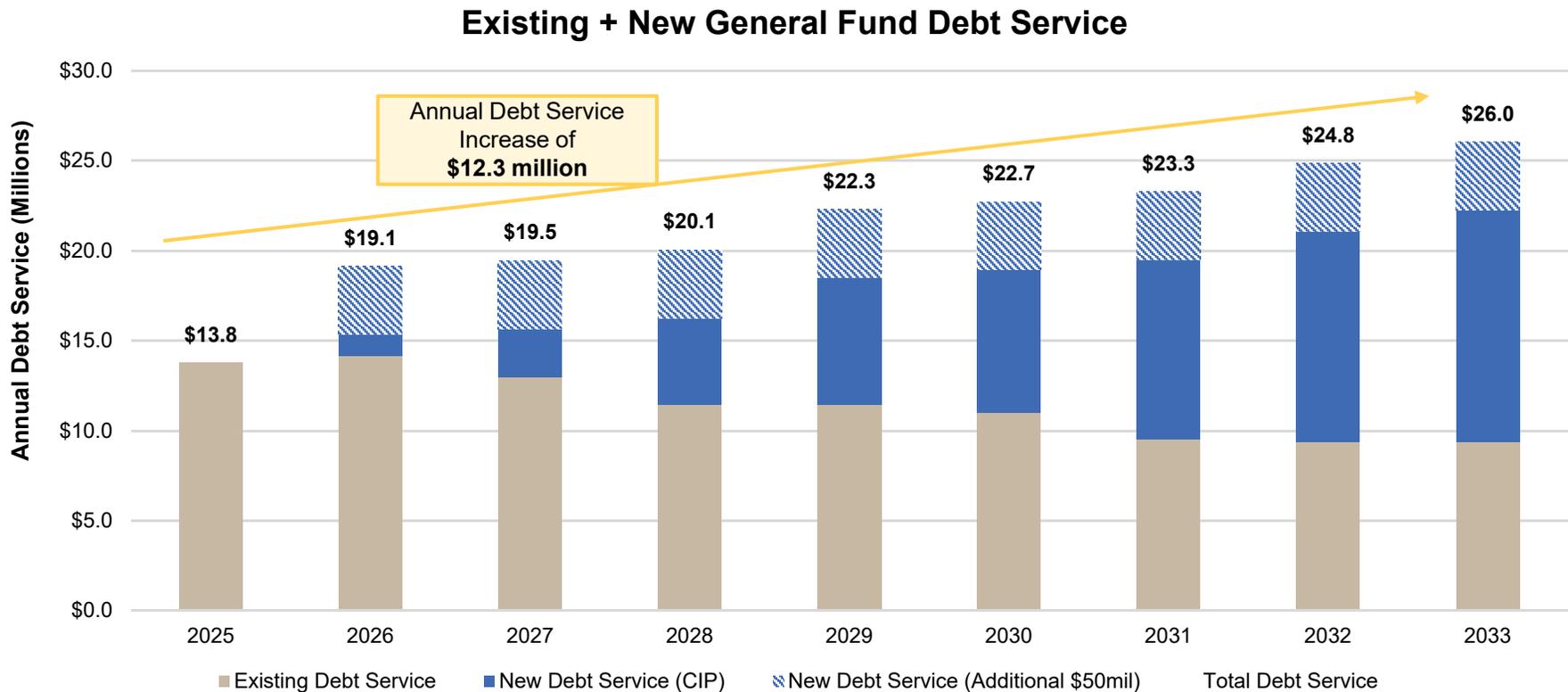


*Assumes FY25 General Fund expenditures of \$189.0 million growing at 2% annually.
Assumes bonding amounts from slide 21 plus \$28.1 million of FY24 and FY25 CIP debt plus an additional \$50 million in FY26, all issued at an interest rate of 4.5%.*



Projected Debt Service: Increased Borrowing

- Under an increased borrowing scenario, there is an even larger projected impact to the tax rate





Debt Capacity Takeaways

- The County currently has debt capacity to execute the County and School's CIP, but it is important to note that there are various unknowns that could constrain its debt capacity
- The primary ratio constraining future debt issuance is debt service as a % of General Fund expenditures
 - Debt service is a fixed costs whereas General Fund expenditures can vary based on economic conditions so the debt service as % of General Fund expenditures ratio could become more constrained if General Fund expenditures contract
- Project costs, particularly in the current inflationary environment, can come in above expected levels
- The CIP reflects only a 5-year view and does not capture any unforeseen capital expenditures or any projects outside of the planning window
- It is important to incorporate some level of cushion in capital planning, to account for these unknowns
- Debt capacity does not equal debt affordability – the County should consider budgetary impacts of borrowing (i.e. increased fixed costs and potential needed increases to the tax rate)



III. Budget Forecasting



Why We Forecast

- There are long-term challenges that must be addressed in budgeting
 - Economic forecasts
 - Tax rate pressures
 - High inflation impacting wages and capital planning
 - Demand for additional services
 - Limited resources
- These challenges must be considered not only for the current fiscal year but with a long-term review
- Forecasting is a tool that allows you to analyze “what if” scenarios and see the impact that decisions today make on the County’s future financials
- Fundamentals for forecasting:
 - Assumptions are conservative
 - Factor in cash capital contributions
 - Factor in planned issuance of debt
 - Track compliance with fund balance and debt policies



5-Year Forecast Dashboard

Forecast model tracks 6 key metrics:

1. **Operating performance:** Revenues minus expenditures
2. **Net result:** Revenues minus expenditures and transfers out for cash capital
3. **Total projected fund balance:** Projected committed, assigned, and unassigned fund balance
4. **Projected unassigned fund balance:** Projected unassigned fund balance relative to the County's policy minimum of 12% of expenditures
5. **Debt service as % expenditures:** Projected debt service ratio relative to the County's policy limit of 10% of expenditures
6. **Debt as % assessed value:** Projected debt as % assessed value ratio relative to the County's policy limit of 3%



Scenario 1: Expenditure Growth Outpaces Revenue Growth

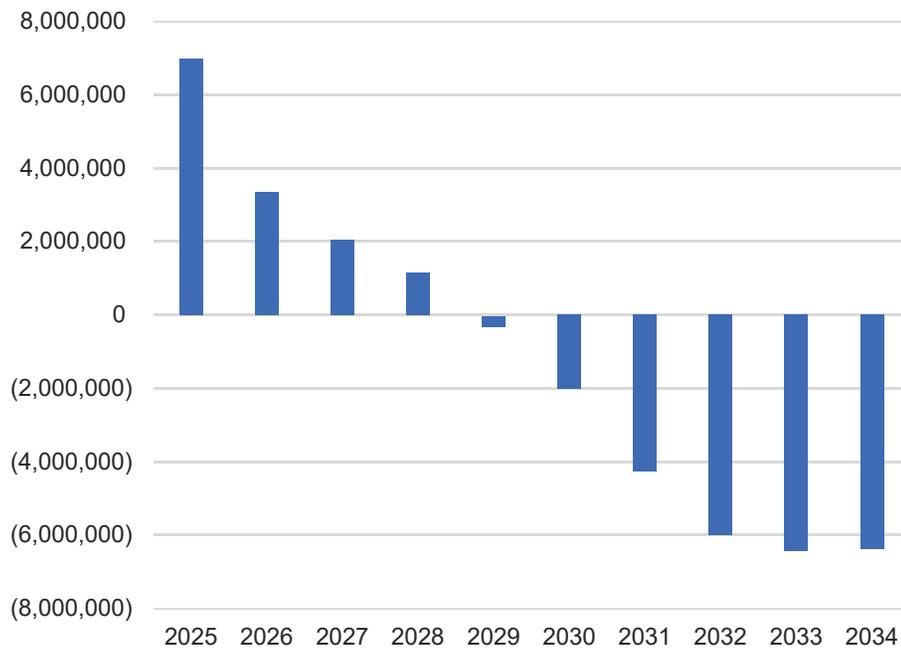
- FY25 Adopted tax rates
- 3.0% assessed value growth
- 2% growth of other local taxes
- 1% growth for permits & fees and charges for services
- 3% expenditure growth
- County / School bond issuance consistent with planned FY26 CIP
- Average \$5.8 million transfer out for Pay-Go capital funding



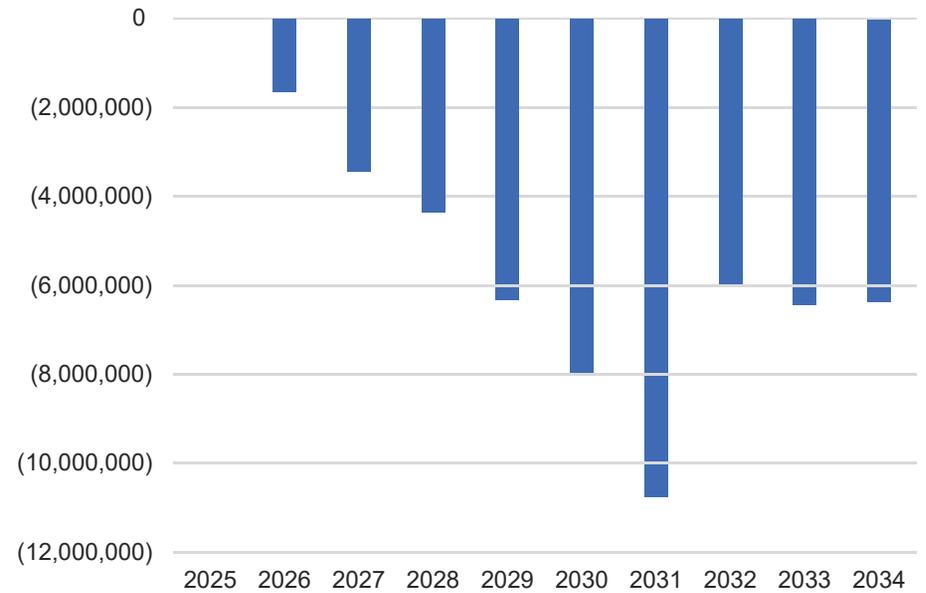
Scenario 1 Outputs

- Assuming a constant tax rate and growing expenditures, revenues fall below expenditures beginning in FY29
- After factoring in the County's ~\$5.8 million capital transfer, there is a deficit in the General Fund

Operating Performance (\$)



Net Result (\$)

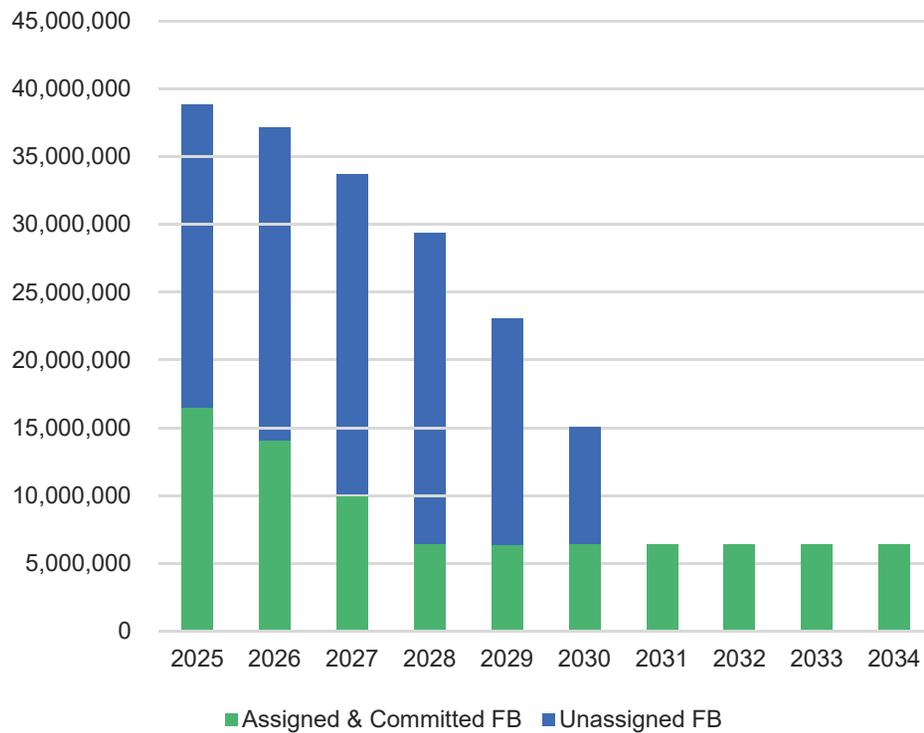




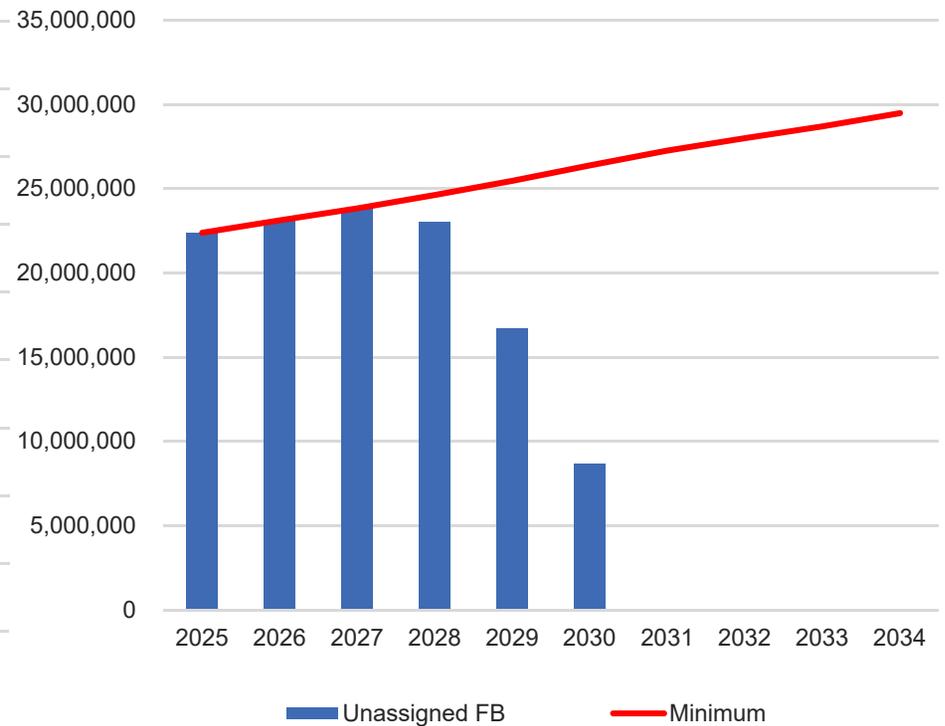
Scenario 1 Outputs

- Under Scenario 1, the County is able to maintain unassigned fund balance in compliance with its policy until FY29 because of the constant drawing down of reserves for pay-go with no surplus to replenish
- The mismatch of revenues vs. expenditures can quickly deteriorate the County's reserve levels

Total Projected Fund Balance (\$)



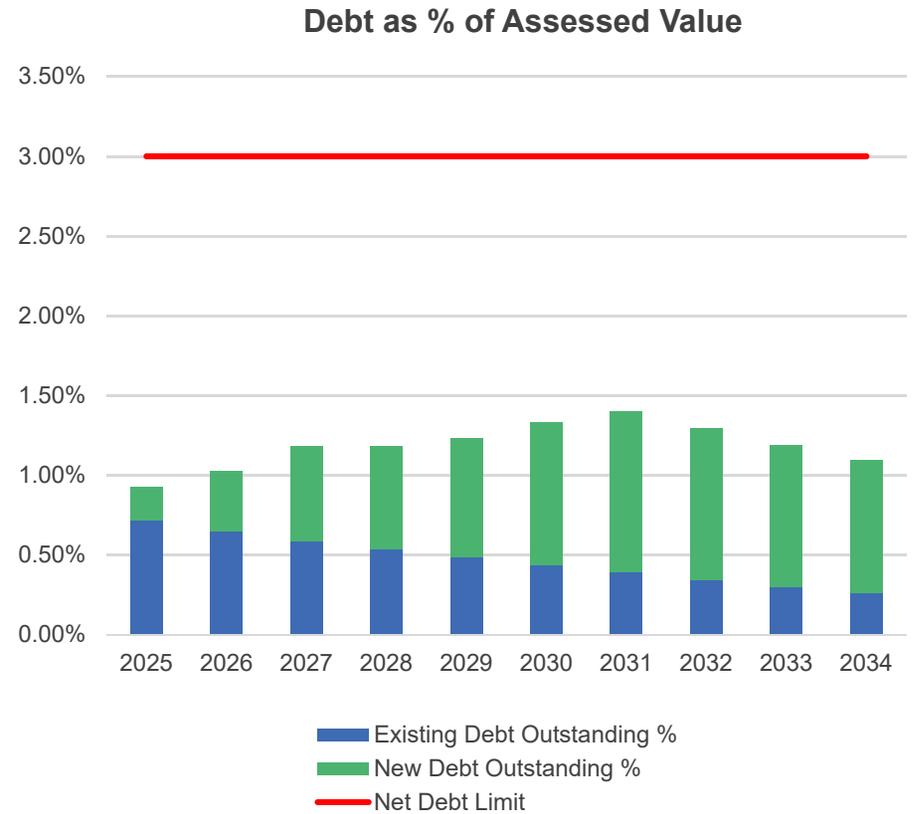
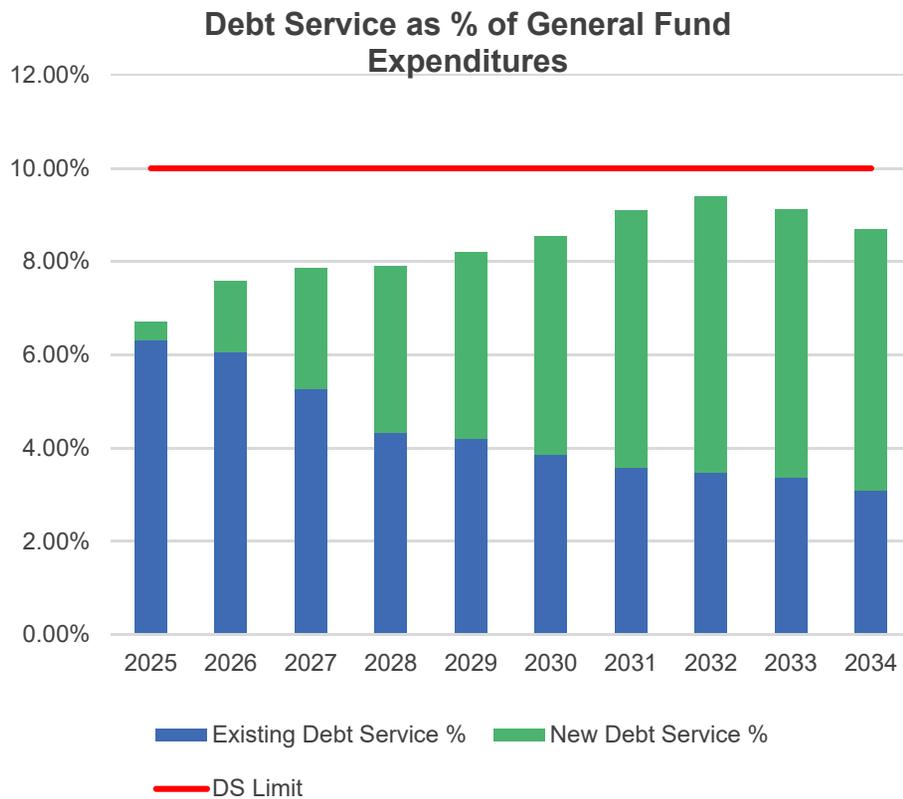
Projected Unassigned Fund Balance (\$)





Scenario 1 Outputs

- Under Scenario 1, the County is able to maintain debt levels in compliance with its policy





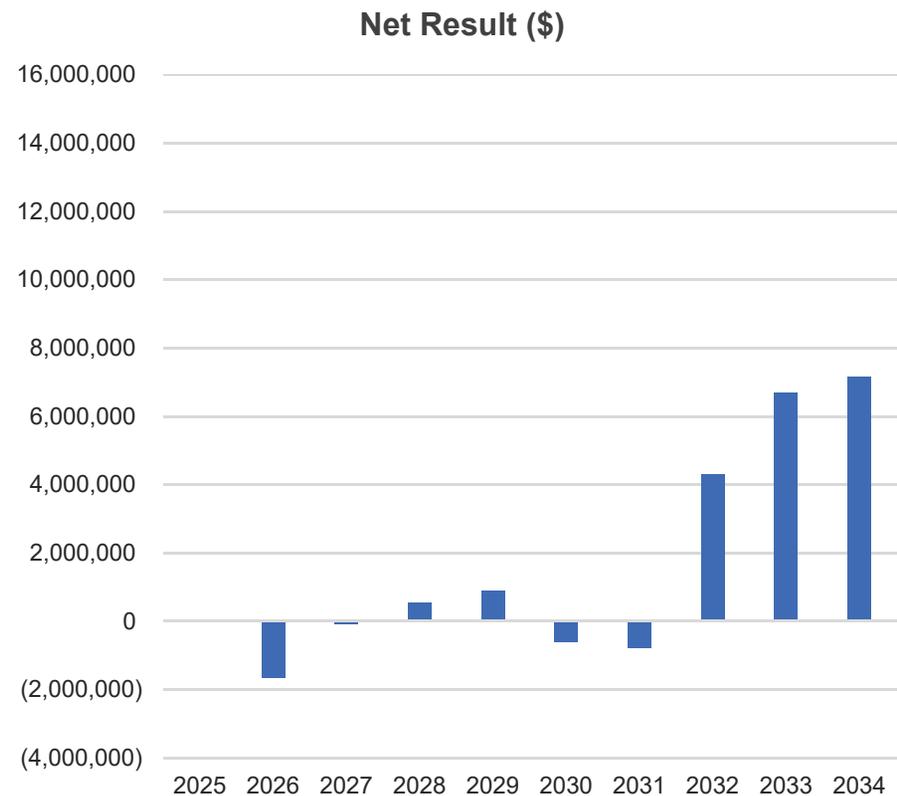
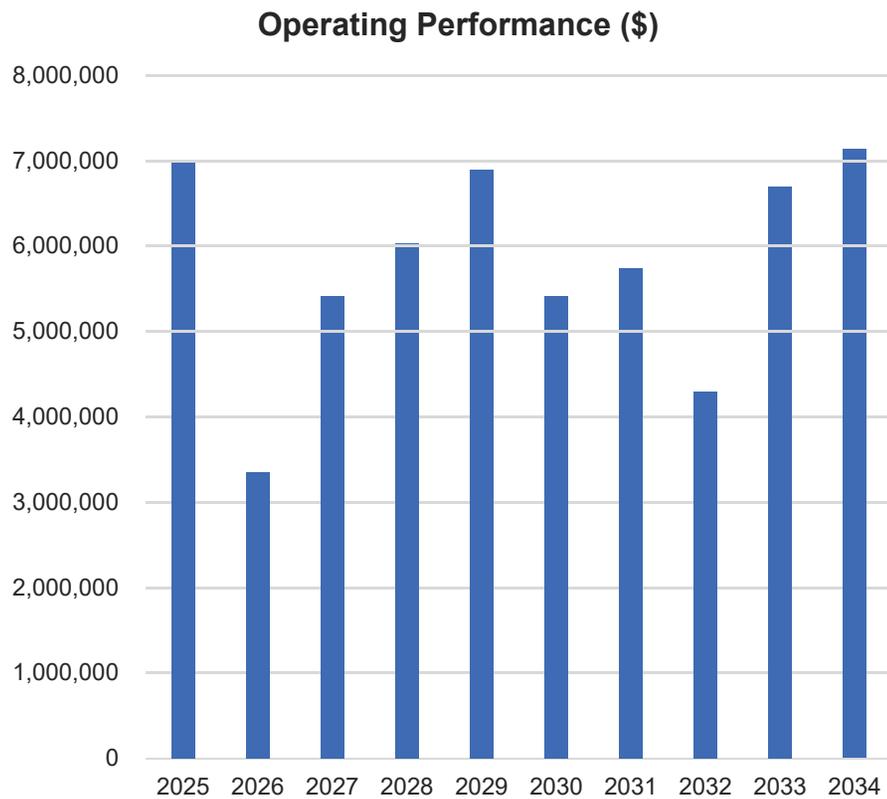
Scenario 2: Matched Revenue & Expenditure Growth

- All assumptions from Scenario 1 except revenue growth is brought more in-line with expenditures from a mix of tax rate increases and additional assumed assessed value growth in re-assessment years
 - Assume assessed value grows at 4.5% in re-assessment years (vs. 3% in non re-assessment years)
 - Real estate tax rate tax rate increases by \$0.01 in FY27 and an additional \$0.01 in FY28; tax rate remains flat FY29 thereafter



Scenario 2 Outputs

- Increasing assessed value and the tax rate results in modest surpluses before pay-go transfers and nearly breakeven operations after pay-go transfers

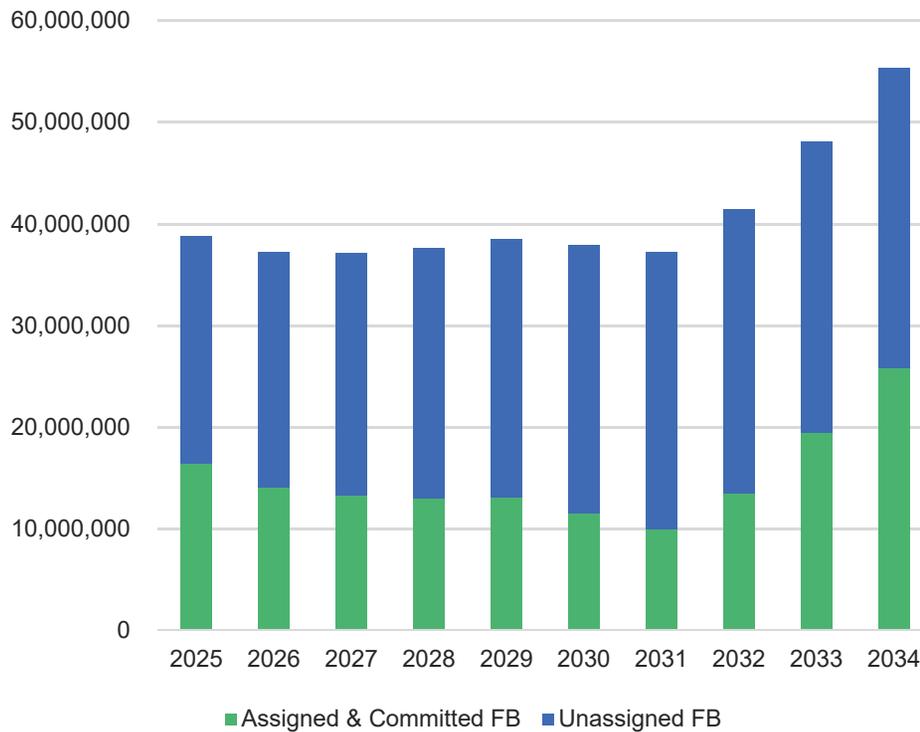




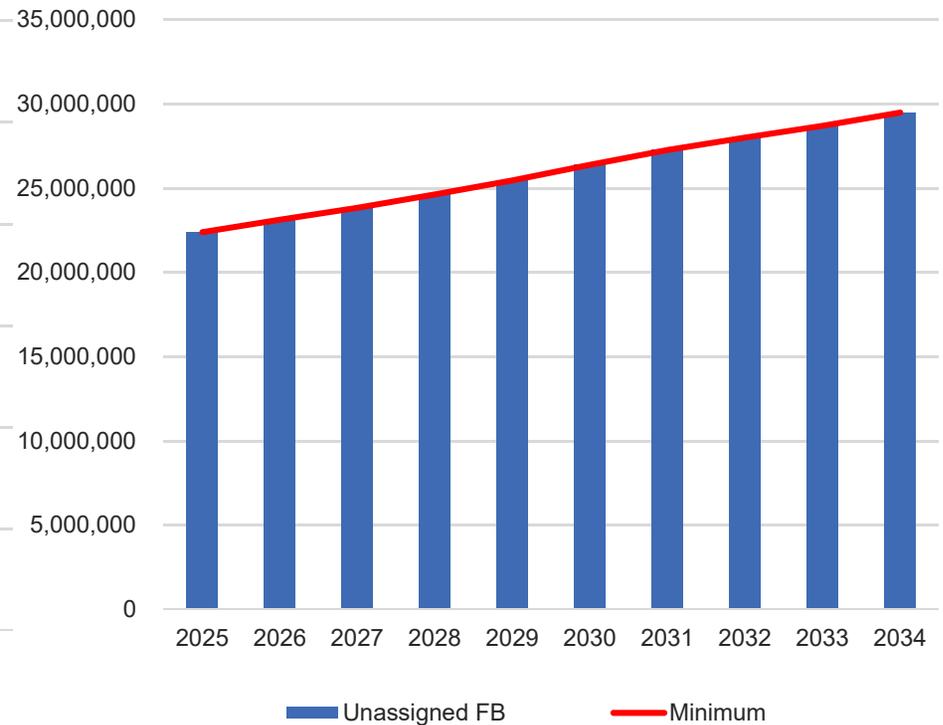
Scenario 2 Outputs

- Under Scenario 2, the County is able to maintain unassigned fund balance in compliance with its policy through the 10-year planning horizon

Total Projected Fund Balance (\$)



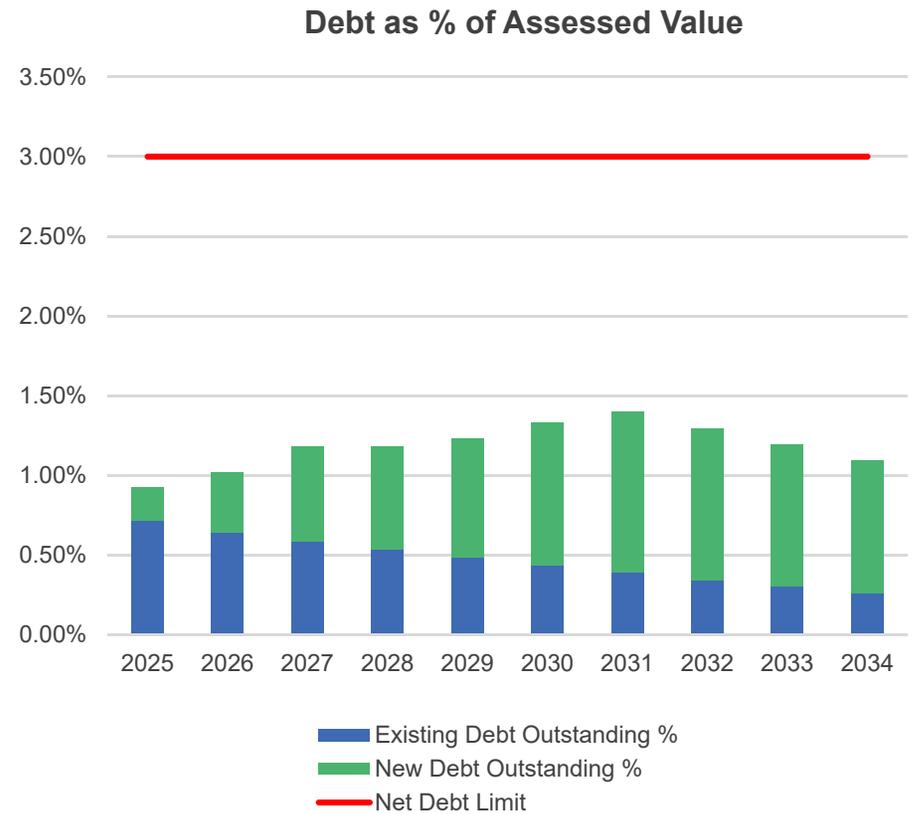
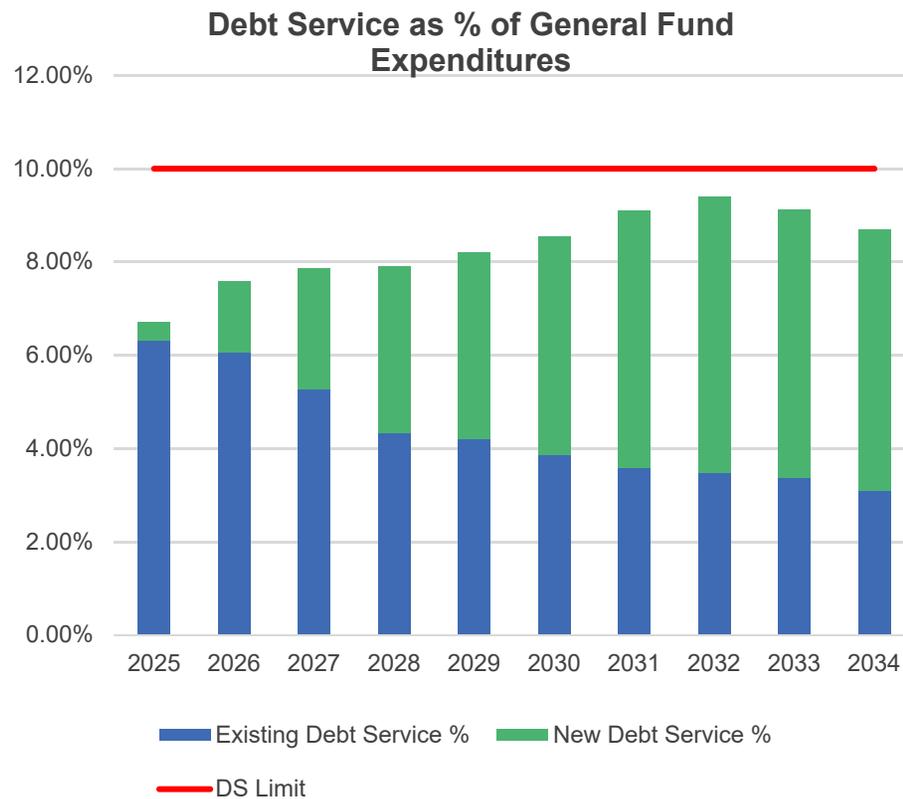
Projected Unassigned Fund Balance (\$)





Scenario 2 Outputs

- Under the Scenario 2, the County is able to maintain debt levels in compliance with its policy





Conclusions

- Updating forecast is an on-going exercise with objective of showing future impacts of current actions because assumptions will change
- Important for expenditure growth to match projected revenue growth, to sustain ongoing solvency of the County's finances
- Important to track future compliance with financial policies, which may require additional revenues, lowered expenditures, or deferring capital projects



Appendix



Peer Unassigned Fund Balance Policy Details

- 2 of the County’s peers explicitly include School Operating Budget in the denominator of their fund balance policy calculation
- 5 of the County’s peers have policies for reserves outside of unassigned fund balance

	Fund Balance Policy Denominator	Additional Reserves Beyond Unassigned
City of Chesapeake	General Fund revenues	-
City of Newport News	Actual General Fund revenues	-
City of Poquoson	Total General Fund expenditures	Fiscal stability reserve of \$1 million
City of Suffolk*	Budgeted Governmental Funds Expenditures plus budgeted expenditures in the School Operating and Food Service Funds	Budget Stabilization Fund: 2.5% of Budgeted Governmental Funds. Capital Reserve Fund: Receive a minimum of 50% of the prior year’s surplus, if any, as calculated in the prior fiscal year audit.
City of Williamsburg	Operating revenues	-
Goochland County*	Total annual adopted general fund budget of subsequent fiscal year, plus the non-local portion of the school operating fund budget; includes transfers to Schools, Debt Service, and other transfers from the General Fund	Revenue Stabilization Fund: 3% of total annual adopted general fund budget of subsequent fiscal year, plus the non-local portion of the school operating fund budget

* Includes School Operating Budget in denominator



Peer Unassigned Fund Balance Policy Details (cont.)

	Fund Balance Policy Denominator	Additional Reserves Beyond Unassigned
Hanover County	General fund budgeted revenues, net of planned draws of fund balance	-
Isle Of Wight County	Budgeted General Fund Expenditures	-
James City County	Total governmental expenditures, including County's share of School's operating expenditures	Health and Dental Cost Reserve: target 25% of annual claims or greater
York County	Budgeted General Fund expenditures	Healthcare costs reserve: target of IBNR claims plus 15% of the next year's healthcare budget

* Includes School Operating Budget in denominator