



City of Charlottesville City Council Financial Update

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Overall Economic Forecast

Overall Themes

- Lots of News with the new Administration in the White House
- Direction of economy is currently extremely difficult to predict given new policies and potential changes to trade, regulation, and fiscal spending which can significantly impact the economic trajectory, leading to a wide range of possible outcomes
- Uncertainty encourages need for Flexibility

Nationally

- National Gross Domestic Product (GDP) growth is expected to slow
- Job growth will decelerate – Immigration policy will impact lower wage jobs
- Closely monitor how reduction in Federal Workforce impacts Virginia
- Source: Weldon Cooper Center Quarterly Report, February 2025

Virginia

- Virginia's GDP will outpace that of the Nation
- Statewide inflation will moderate and be less than recent years
- Employment growth will slow but unemployment will be lower than national average
- Source: Weldon Cooper Center Quarterly Report, February 2025



Economic News Impacting Municipalities

There are several key economic factors PFM is watching in 2025 that could have impacts on the municipal market and the economy overall.

Potential Government Shutdown

- Federal government action or inaction to address U.S. debt ceiling could lead to U.S. Federal Government shutdown in mid-March
- Absent action to resolve the debt ceiling, possible U.S. default in early June
- Would have broad impacts to municipal market and economy overall

Possible Elimination of Tax-Exemption

- The 2017 Tax Cuts and Jobs Act expires on December 31, 2025, necessitating tax reform this calendar year
- Among various potential reform options is the elimination of tax-exemption for municipal bonds
- The elimination of tax-exemption would lead to higher borrowing costs for municipal bond issuers

Other Factors

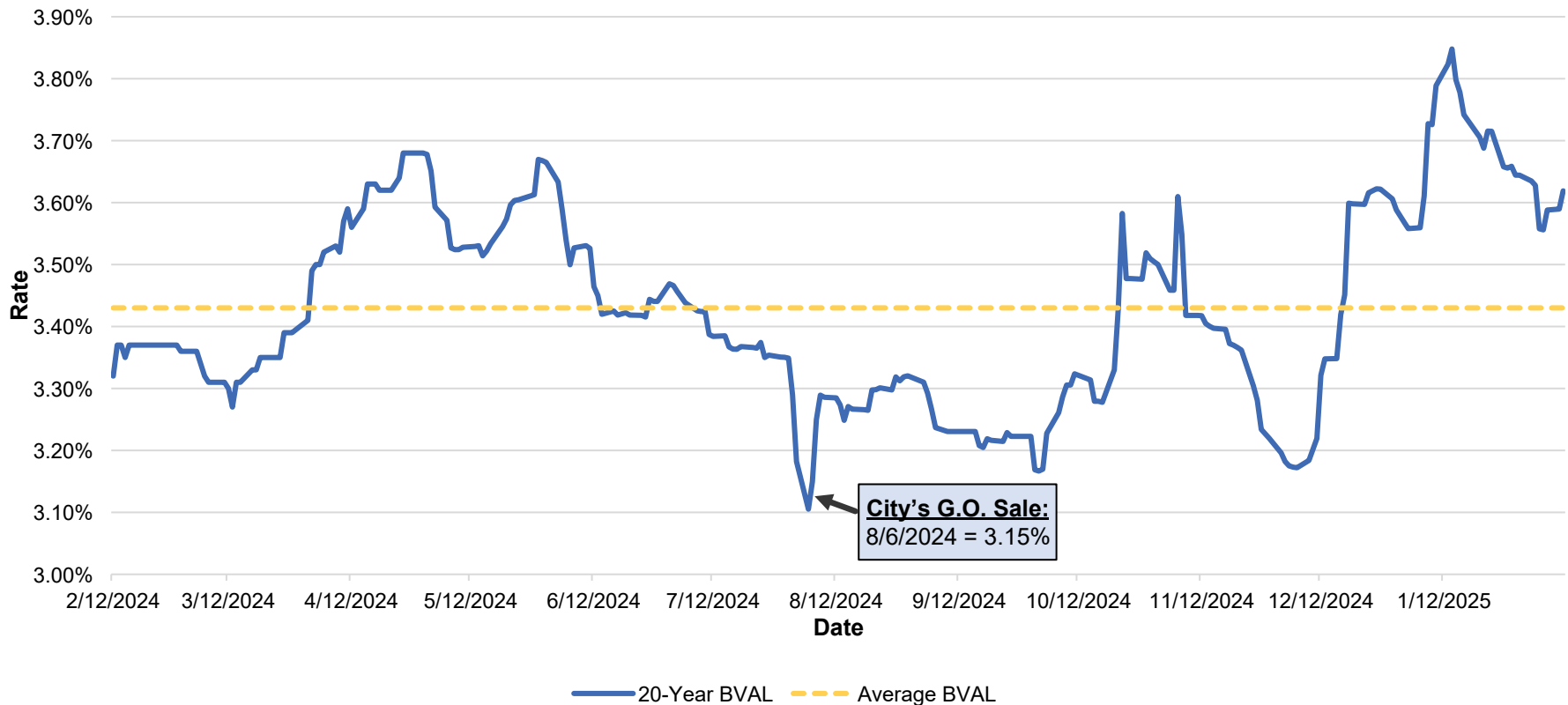
- Pending tariffs and their impact on inflation
- The Fed's reaction to economic data, reflected in their decisions to further cut or maintain interest rates
- Continued inflationary pressures and their impact on local government budgets
- As property values appreciate, concern of affordability pressures for citizens



Borrowing Rates since Charlottesville's Last Bond Sale

At the time of the City's last G.O. sale in August 2024, interest rates were near their minimum levels over the past year. Since the City's bond sale, rates are up 0.57%.

20-Year Tax-Exempt Municipal Bond Rate

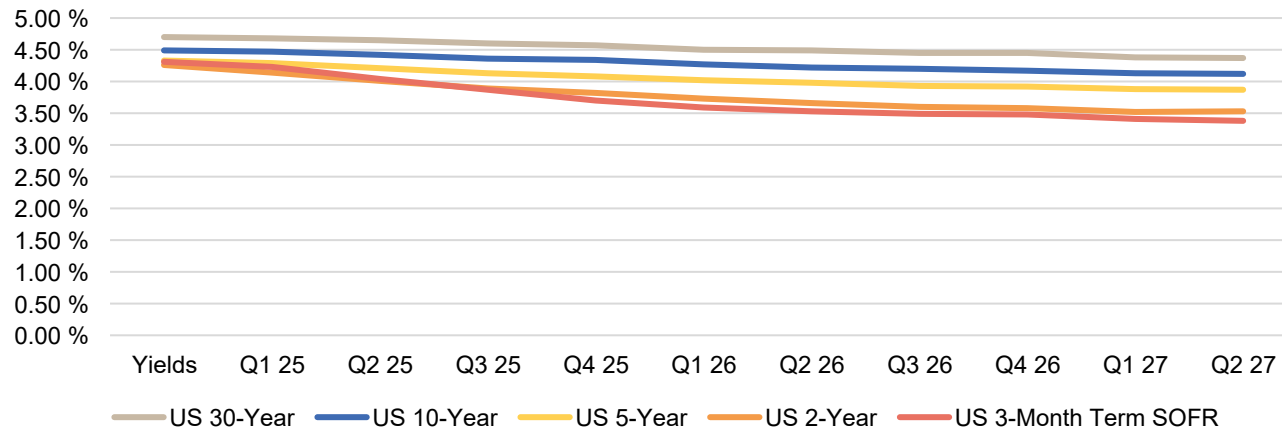




Bloomberg Forecasting Lower Interest Rates over next Two Year

In general, market participants, including Bloomberg, project both short-term and long-term interest rates to decline over the course of CY 2025. While not certain, expectations are that the Federal Reserve will cut interest rates up to 2 times this year.

Forecasted U.S. Treasury Rates



Bond Yield Forecasts as of February 11, 2025

Rate	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27
US 30-Year	4.68%	4.65%	4.60%	4.57%	4.50%	4.49%	4.45%	4.45%	4.38%
US 10-Year	4.47%	4.42%	4.36%	4.34%	4.27%	4.22%	4.20%	4.17%	4.13%
US 5-Year	4.29%	4.21%	4.13%	4.08%	4.02%	3.98%	3.93%	3.92%	3.88%
US 2-Year	4.14%	4.01%	3.89%	3.82%	3.73%	3.66%	3.60%	3.58%	3.52%
US 3-Month Term SOFR	4.23%	4.04%	3.87%	3.70%	3.59%	3.53%	3.49%	3.48%	3.41%
Fed Funds Rate - Upper Bound	4.68%	4.65%	4.60%	4.57%	4.50%	4.49%	4.45%	4.45%	4.38%
Fed Funds Rate - Lower Bound	4.47%	4.42%	4.36%	4.34%	4.27%	4.22%	4.20%	4.17%	4.13%