



City of Charlottesville

Financial Condition and Economic Context

August 15, 2025

Vieen Leung, Director, PFM

PFM Group Consulting LLC

PFM Financial Advisors

pfm.com



Agenda

- ◆ Economic Context
- ◆ Charlottesville's Revenue and Expenditure Trends
- ◆ Next Steps

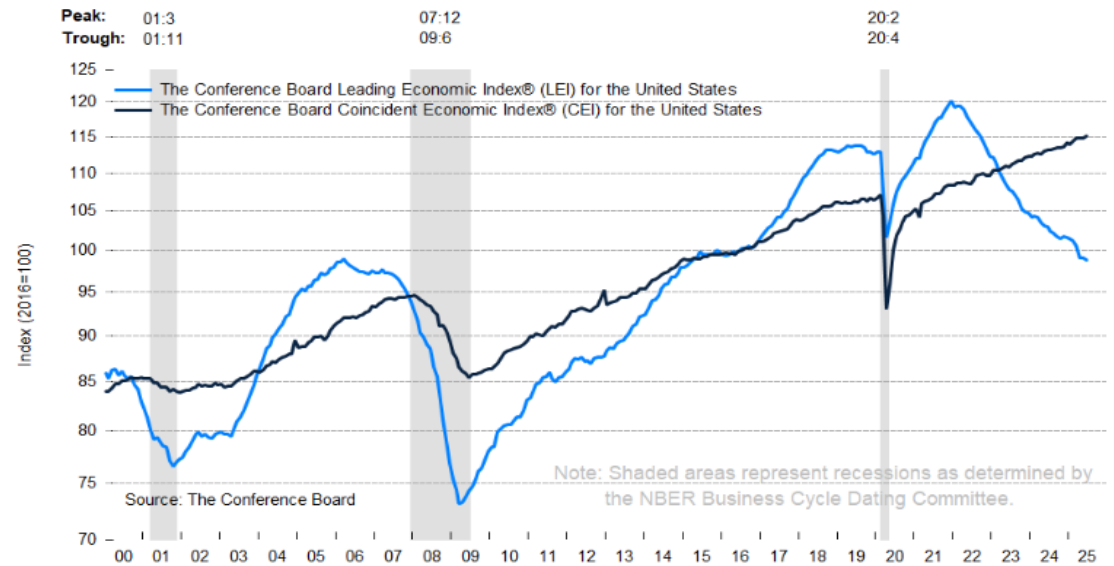


Economic Context



Recession Risks

The LEI declined by a further 0.3% in June



The LEI's weak growth rate and diffusion index over the past six months triggered the recession signal for the third consecutive month in June





re·ces·sion

/rəˈseʃ(ə)n/

noun

1. a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.

Definition of a Recession

- While the general definition (see screenshot above) of a recession is an economic decline identified by a fall in GDP for a defined period of time, the National Bureau of Economic Research (NBER) has a broader definition of a recession

*The NBER's definition emphasizes that **a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months....***

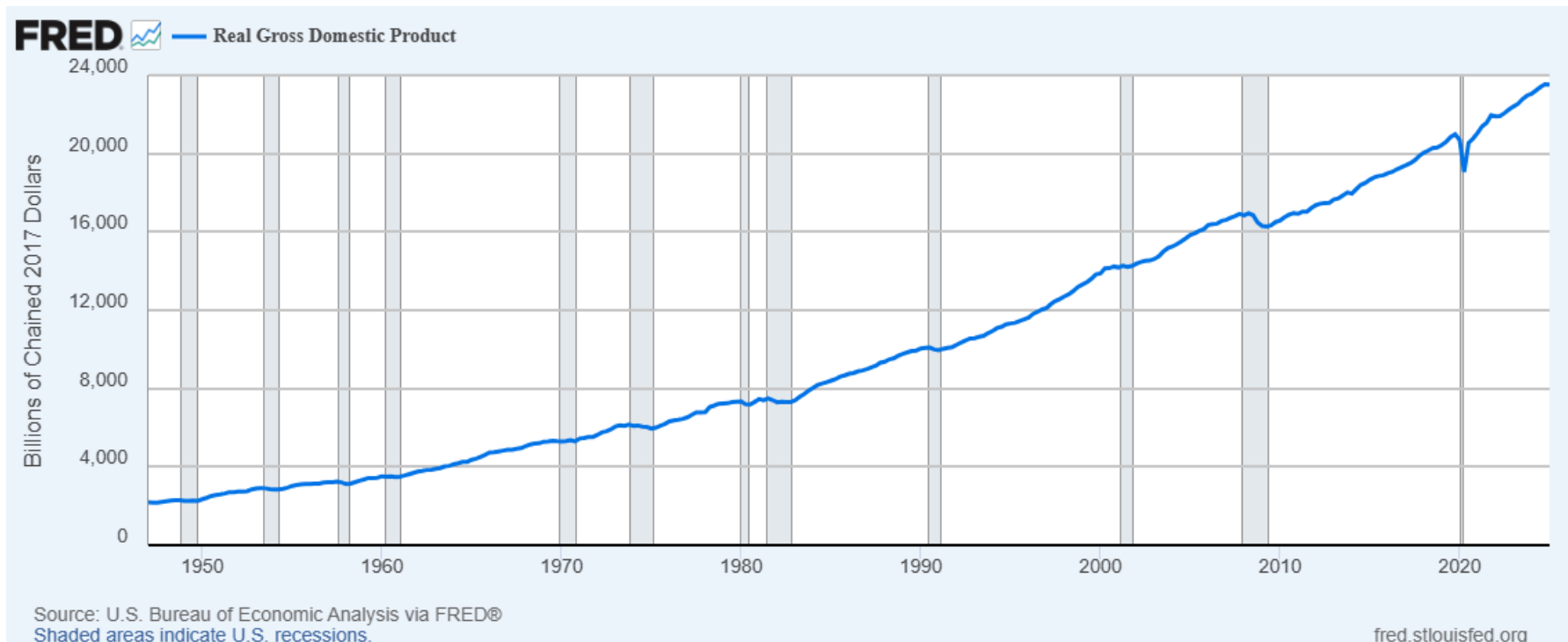
...For example, in the case of the February 2020 peak in economic activity, the committee concluded that the subsequent drop in activity had been so great and so widely diffused throughout the economy that, even if it proved to be quite brief, the downturn should be classified as a recession...

*...The determination...is **based on a range of monthly measures of aggregate real economic activity** published by the federal statistical agencies. These include real personal income less transfers, nonfarm payroll employment, employment as measured by the household survey, real personal consumption expenditures, manufacturing and trade sales adjusted for price changes, and industrial production. **There is no fixed rule** about what measures contribute information to the process or how they are weighted in our decisions. **In recent decades, the two measures we have put the most weight on are real personal income less transfers and nonfarm payroll employment.***



Impact of Recessions on Real GDP

- Although the COVID-19 recession was the shortest on record, it had the most severe economic impact, with real GDP declining by 9.2% from Q4 2019 to Q2 2020
- The City was well-positioned for both the 2008 and 2020 recessions in part because of the creation of the economic downturn reserve (2008) and the actions taken during COVID-19 (e.g., halting capital spending), in addition to its conservative budgeting practices





Historical Contractions and Expansions

- The 2020 recession was the shortest recession experienced since 1854 (2 months)
- It also came after the longest expansion period experienced since 1854 (128 months)

Last Six Expansion Phases (trough to peak)	Expansion Duration	Last Six Contraction Phases (peak to trough)	Contraction Duration
June 2009 – February 2020	128 months	February 2020 – April 2020	2 months
November 2001 – December 2007	73 months	December 2007 – June 2009	18 months
March 1991 – March 2001	120 months	March 2001 – November 2001	8 months
November 1982 – July 1990	92 months	July 1990 – March 1991	8 months
July 1980 – July 1981	12 months	July 1981 – November 1982	16 months
March 1975 – January 1980	58 months	January 1980 – July 1980	6 months
Average Since 1945 (11 Cycles)	64.2 months		10.3 months
Average Since 1854 (34 Cycles)	41.4 months		17.0 months
Range Since 1854 (34 Cycles)	10 to 128 months		2 to 65 months

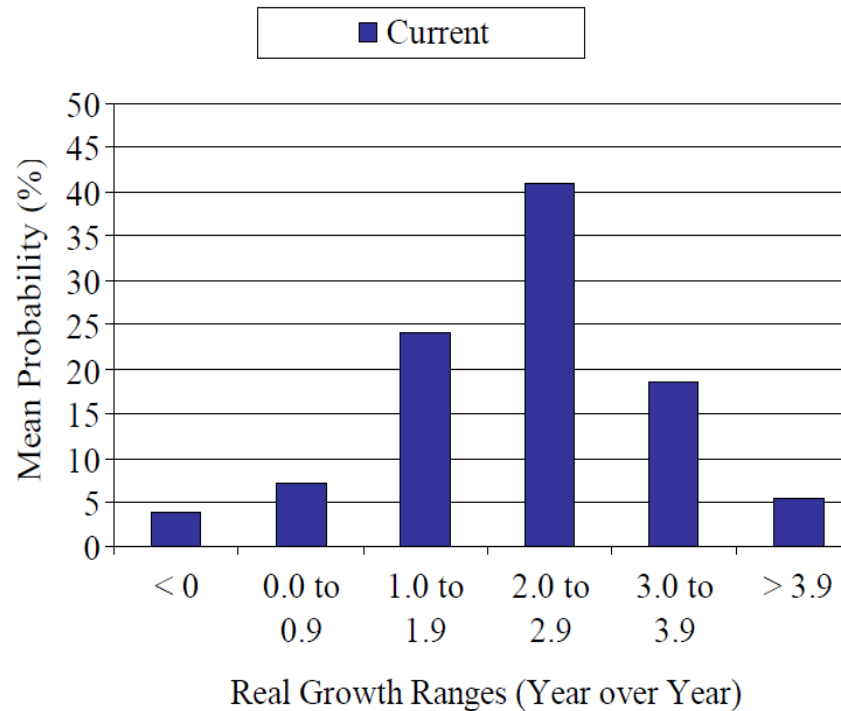


Actual vs Projected GDP Growth (2009)

- The general consensus among economists surveyed by the Federal Reserve Bank of Philadelphia in February 2008 was that GDP would grow by 2.0% to 3.0% in 2009
- The NBER announced that the US entered a recession 10 months later, on December 1, 2008, that the US entered a recession in December 2007
- GDP declined by 2.6% in 2009



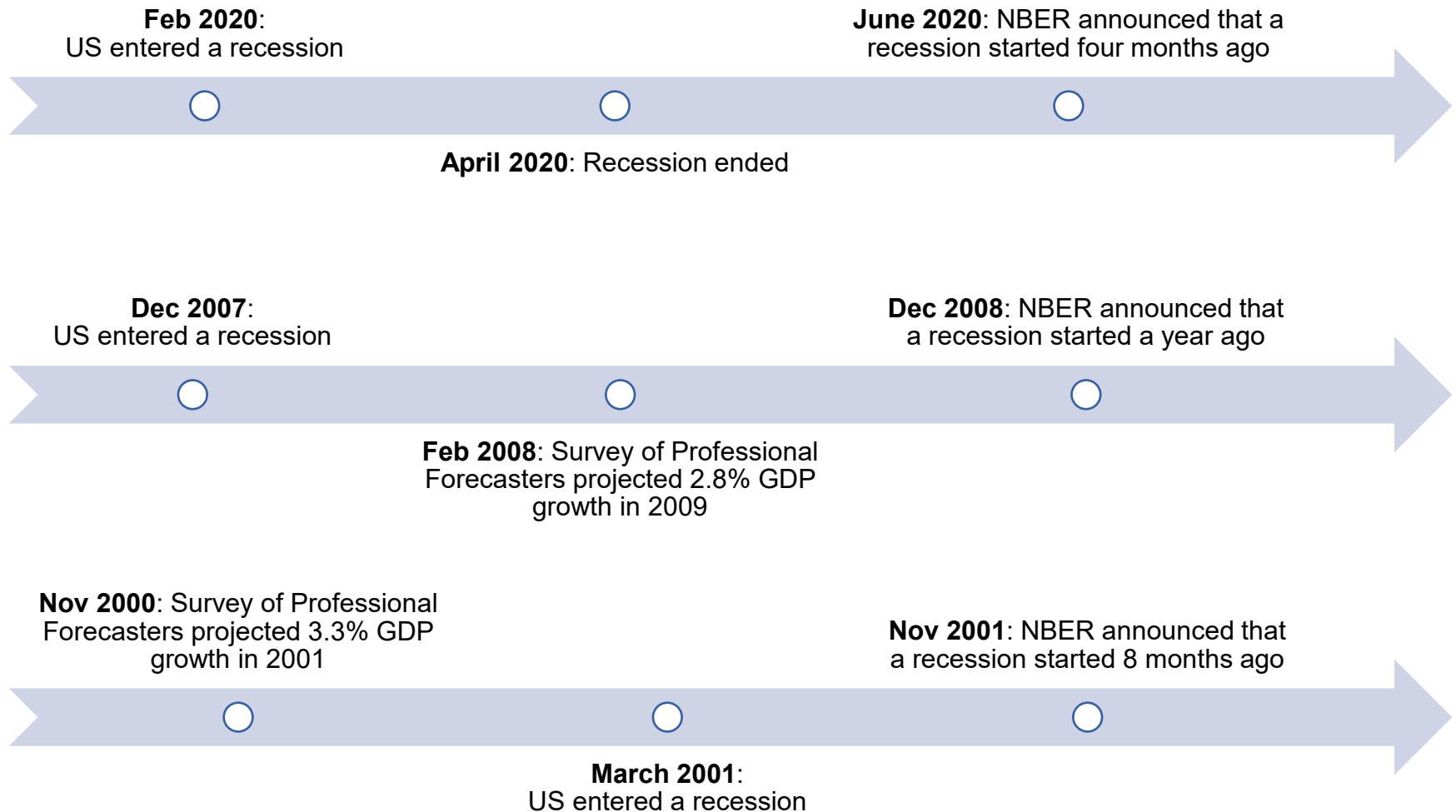
Mean Probabilities for Real GDP Growth in 2009



Actual Real GDP
Growth for 2009:
-2.6%



Last Three Recessions' Timeline





Revenue Context

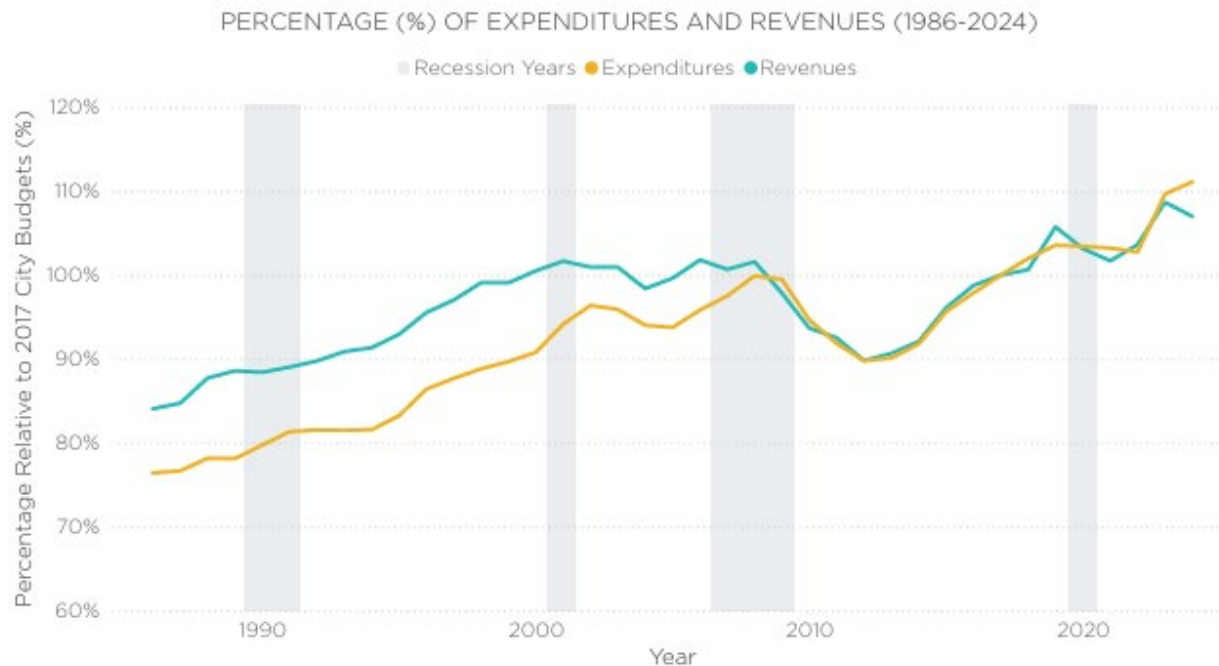


Compared to FY2022, FY2023 average spending shows a **6.7 percent** increase. FY2024 spending levels are increasing by an additional **1.3 percent** over FY2023.

Recalibrating “the Norm”

Federal aid through ARPA and BIL played a crucial role in supporting city budgets, enabling them to balance their **2023** budgets and invest in general fund programs

FIGURE 1
General Funds Increase as the Immediate Threat of the Pandemic Receded

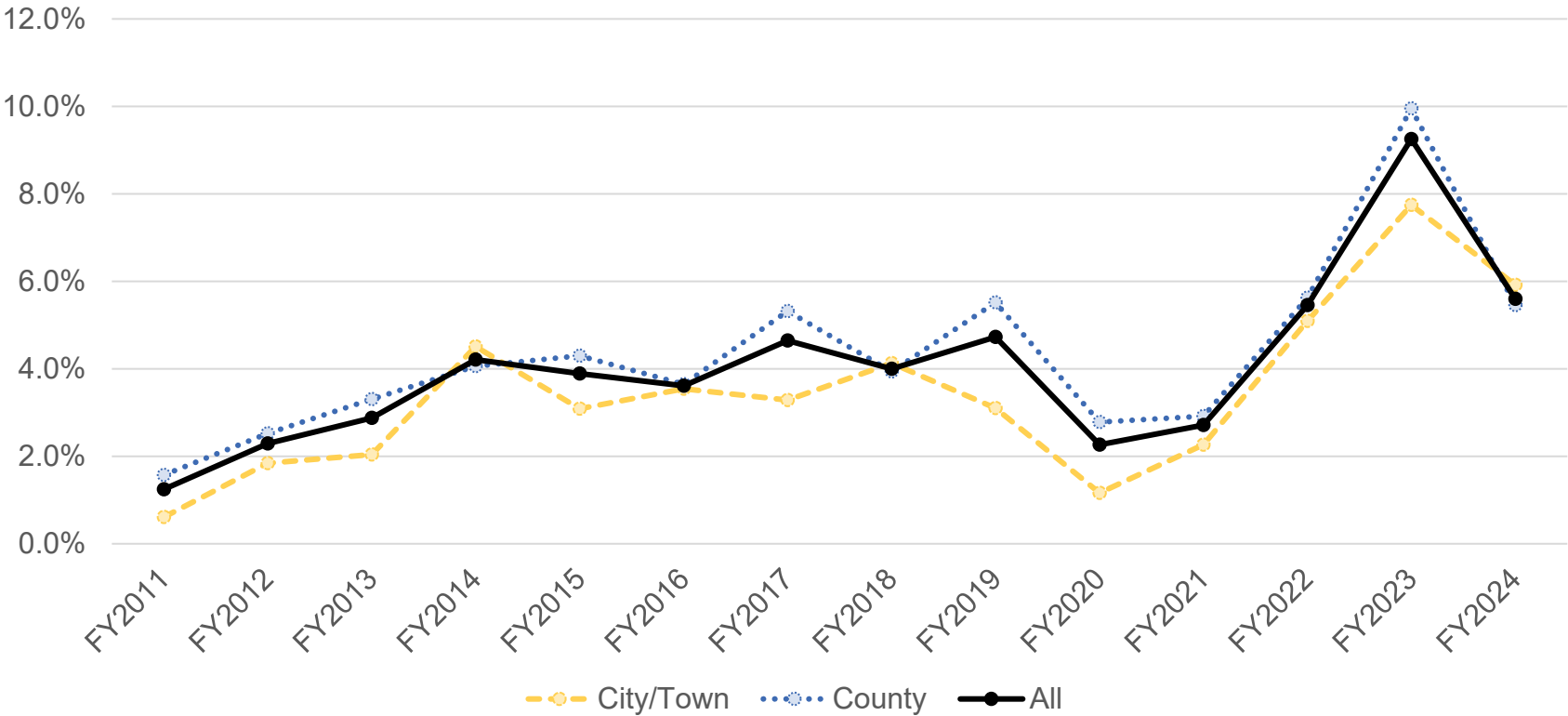


Source: NLC analysis of data from the City Fiscal Conditions Survey 2024, Annual Comprehensive Financial Reports, and Budget Financial Reports for the years 1986 to 2004 (n=213 for 2024). Recession years source²⁰
Figure Note: All calculations provided are relative to 2017 City Budgets. Statistics for 2024 are an estimate. Refer to Appendix A and B to learn about the methodology used for calculating the annual changes for each category.



Slowing Revenue Growth Already Emerging in FY2024

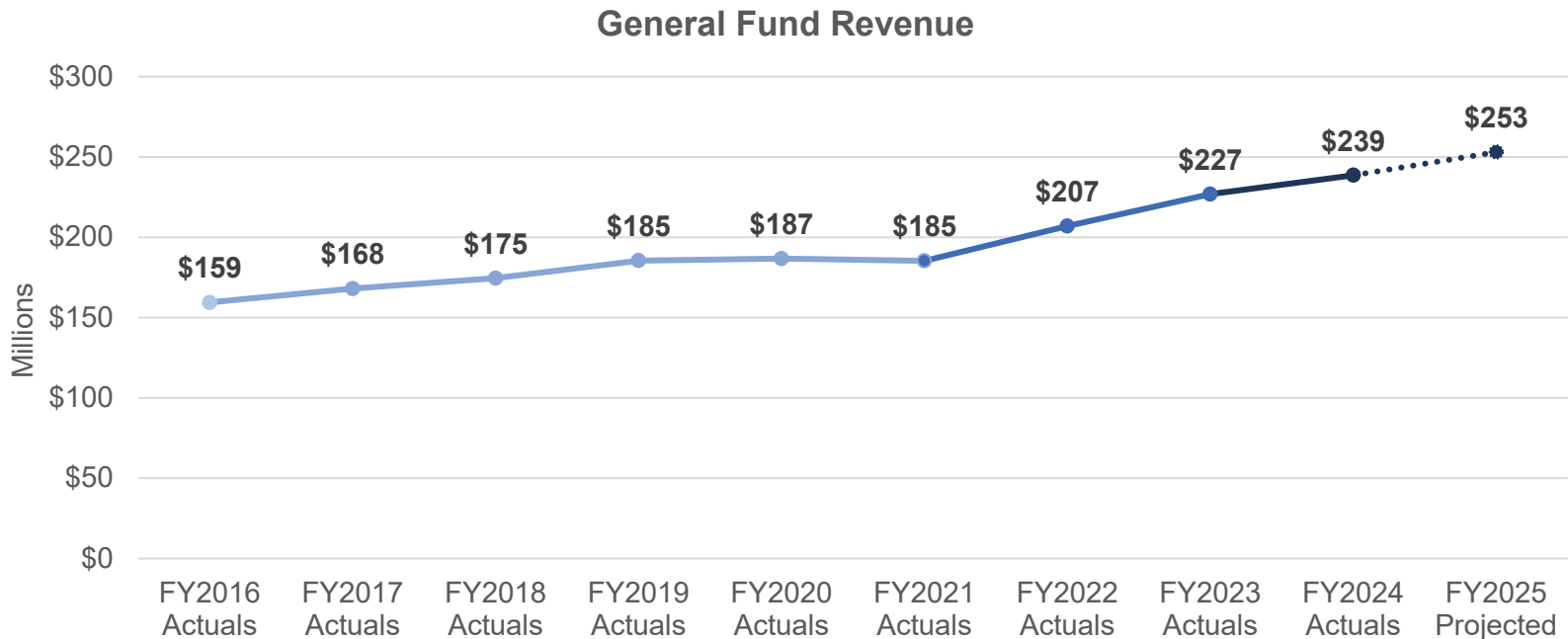
Virginia Jurisdictions' Local Revenue
Average Year-Over-Year Growth





Overall Revenue Trends and Forecasts

- From FY2016 to FY2020, the City's total General Fund revenue grew at an annual average rate of **4.0%**
- Like other municipalities around the nation, Charlottesville's revenue declined in FY2021 due to the COVID-19 pandemic. However, revenues started growing again in FY2022, reaching an annual rate of **10.8%** from FY2021 to FY2023, more than double the annual growth in the pre-COVID era
- In FY2024, revenue growth dropped to **5.3%** and FY2025 projection shows revenue growth of **6.0%**

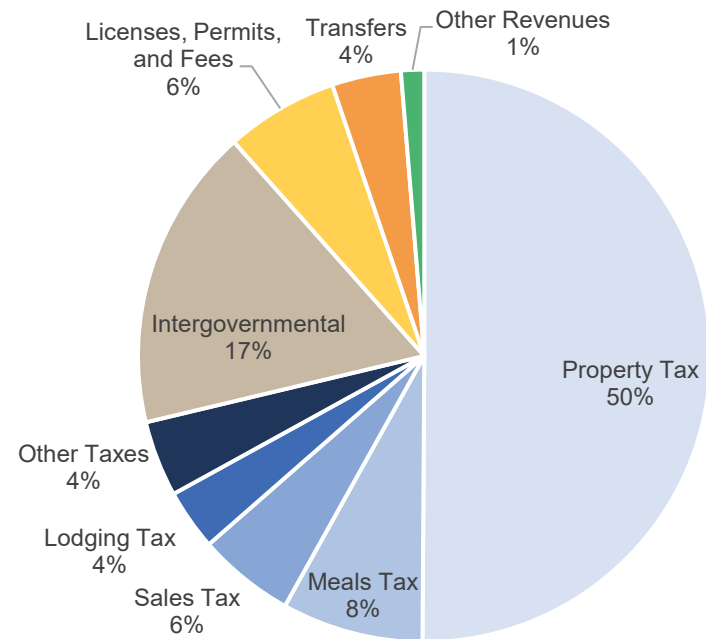




FY2026 General Fund Revenues

- Tax revenue is the City's largest revenue driver, comprising nearly three-quarters of Charlottesville's total General Fund revenues
 - The majority of the City's tax revenue is generated by property taxes, accounting for half of the City's budget
 - Non-property tax revenues account for a little over 20% of the City's total revenues
- Intergovernmental revenue is the second largest revenue source (17.2% of total General Fund revenue), the largest component of which is \$20.2 million in revenue sharing from Albemarle County
- The remaining revenues, including licenses, permits, and fees, account for a little over 10% of the total General Fund budget

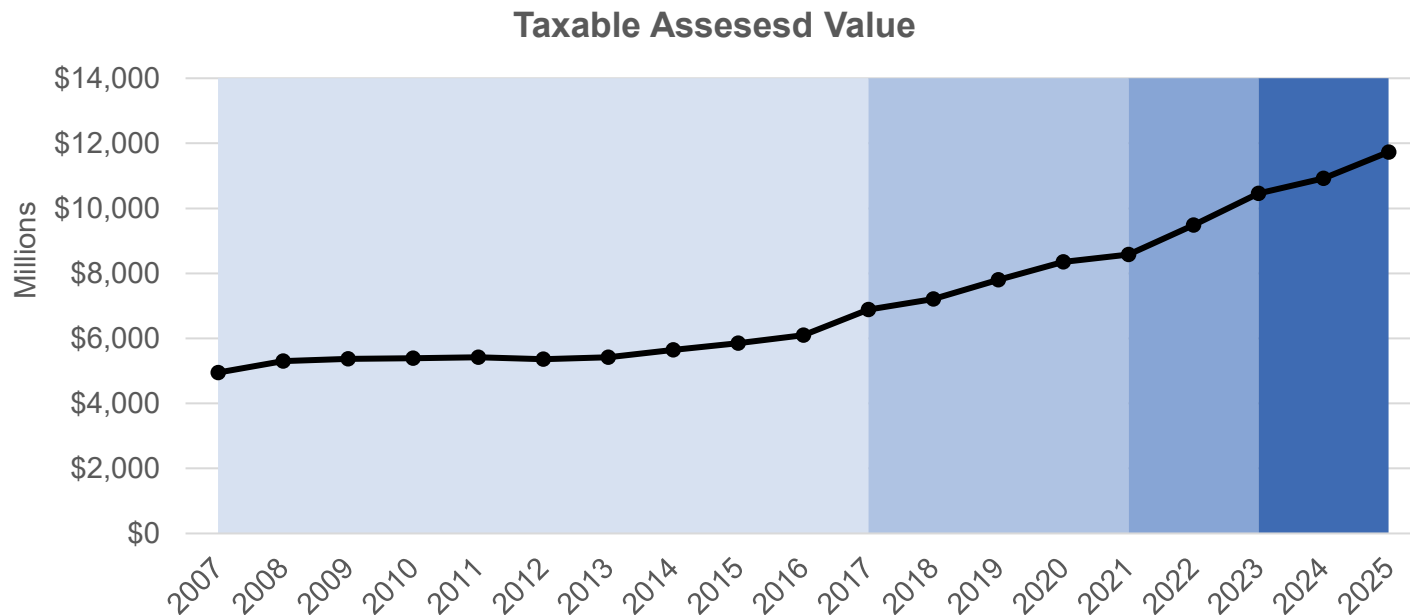
**FY2026 General Fund Revenues
(\$265.2 Million)**





Real Estate Tax Base

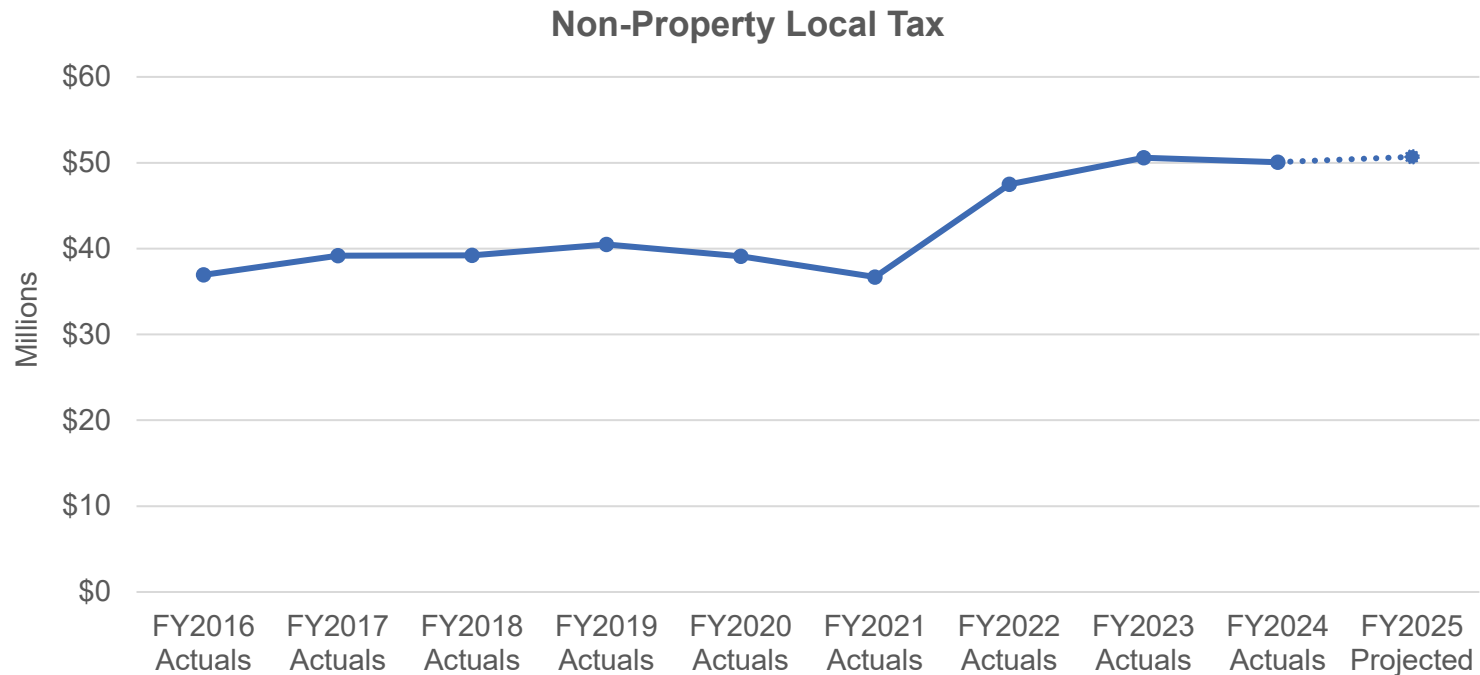
- From 2007 to 2017, the City's taxable real property assessed value grew at an annual average rate of **3.4%** during a period that included the housing crisis related to the 2008 Great Recession
- Over the next five years from 2017 to 2021, the City saw a stronger growth trend in its tax base, with taxable assessed values growing at an average rate of **5.7%**
- During the last two years, the City experienced extraordinary growth with assessed values growing by **10.5%** in 2022 and by **10.3%** in 2023
- More recently, however, the City is beginning to see its tax base growth slow (**4.4%** in 2024 and **7.4%** in 2025)





Non-Property Tax Revenue

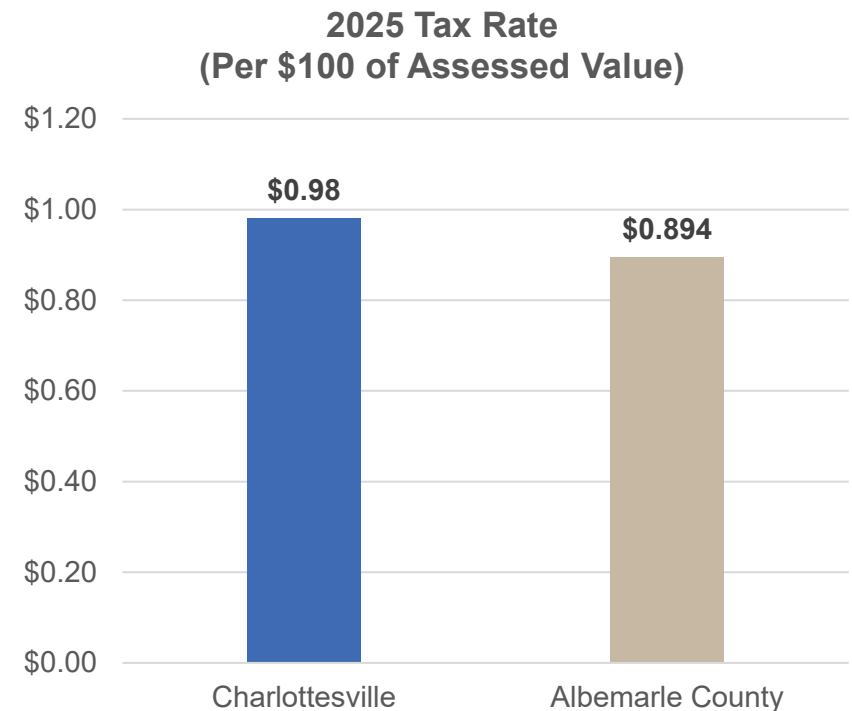
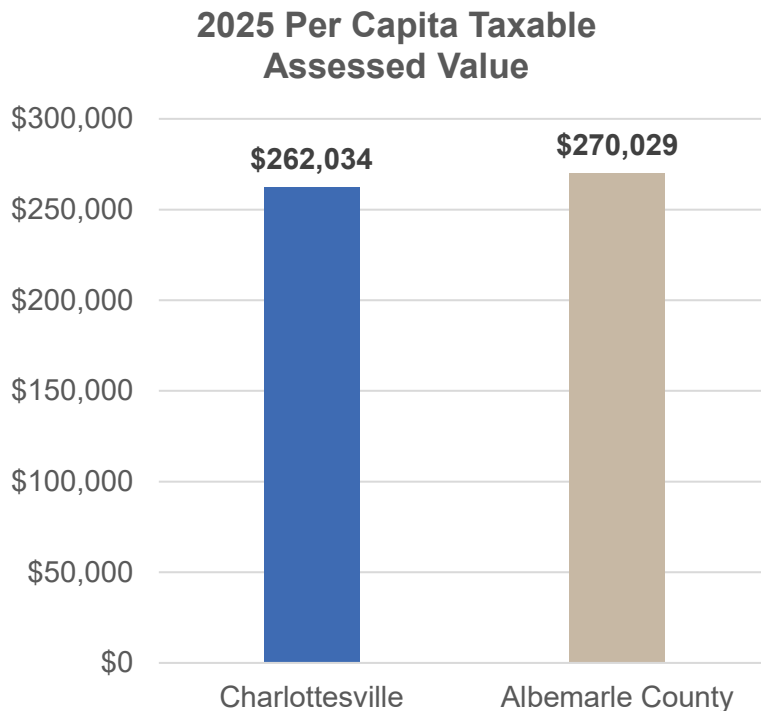
- After an extraordinary growth of over 28% in FY2022 driven by growth in sales, meals and lodging tax, non-property tax revenue growth has significantly declined
- FY2024 revenues showed a 0.9% decline, and FY2025 projection shows a growth of just 1.2% driven by declines in sales, lodging, and meals tax. These are generally considered revenues that are more sensitive to economic cycles





Tax Base and Tax Burden Comparison with Albemarle County

- Most recent data indicates that Charlottesville's per capita tax base is slightly lower than the surrounding Albemarle County
- Charlottesville also has a higher tax burden, which limits its ability to continue increasing rates while remaining competitive within the region





2025 Tax Rate Comparison

- Charlottesville's tax rates are relatively high even when compared to Northern Virginia (NOVA) jurisdictions
- The following table shows the weighted average of Northern Virginia tax rates based on population and tax rates among NOVA counties (Loudoun, Fairfax, Prince William, Arlington) and cities (Alexandria, Falls Church, Fairfax, Manassas)
 - Charlottesville's median household income is less than half of the median household income among NOVA jurisdictions
 - At the same time, its real property tax rate is only 4.1% lower
 - The City's current personal property tax rate is already higher than NOVA jurisdictions', and its meals tax is more than double the NOVA average (3.5%)

	City of Charlottesville	Northern Virginia	Variance
Median Household Income	\$69,829	\$142,893	-51.1%
CY25 Real Property Tax	\$0.98	\$1.02	-4.1%
CY25 Personal Property Tax	\$4.40	\$4.36	+0.9%
CY25 Meals Tax	7.0%	3.5%	+102.0%



Another Way to Measure Tax Burden: Revenue Effort

- The Commonwealth of Virginia Commission on Local Government (CLG) reports on the fiscal condition calculates revenue effort each year
- Revenue effort is own-source revenue collections (e.g., real estate taxes, personal property taxes, local option sales taxes) divided by revenue capacity
 - Revenue capacity measures how much tax revenue a locality could collect per person from its base if it used statewide average rates. The five factors included are: true value of real estate, true value of public service corporation real estate, registered vehicles, local option sales tax receipts, and adjusted gross income
 - In general, lower revenue effort calculations lead to lower fiscal stress
- On average, revenue effort among Virginia cities is 1.2702
- As shown, Charlottesville's revenue effort is higher than the statewide average and Northern Virginia cities

	Revenue Effort (Higher Means More Effort)	Rank (Lower Means More Effort)
Charlottesville City	1.3485	13
Alexandria City	1.1876	34
Fairfax City	1.1582	38
Falls Church City	1.2476	26
Manassas City	1.2890	22



Tax Base and Tax Burden Comparison with Statewide Averages

- In addition to having a high tax burden, Charlottesville also has a weaker tax base relative to statewide average
- The Commonwealth of Virginia Commission on Local Government (CLG) reports on the fiscal condition of Virginia's 133 cities and counties on an annual basis by calculating an index for which a higher ranking indicates greater fiscal stress based on the following metrics:
 - **Revenue capacity**, which calculates how much revenue a jurisdiction could generate if it taxed its population at statewide average rates. Charlottesville's was below the statewide average
 - **Revenue effort**, a ratio of actual tax collections by a locality to its computed revenue capacity. Charlottesville's revenue effort was above the statewide average
 - **Median household income**, which represents the level at which half of the households in a jurisdiction earn more and the other half earns less. Charlottesville's was also below the statewide average
- Again, Charlottesville's relatively high tax burden and weak tax base limits its ability to continuously increase rates while remaining competitive in the region

	Revenue Capacity	Revenue Effort	Median Household Income	Fiscal Stress Index	Fiscal Stress Level	Fiscal Stress Ranking (of 133)
Charlottesville	\$2,755	1.35	\$67,903	102.40	Above Average Fiscal Stress	34
Albemarle County	\$3,302	0.84	\$94,727	96.59	Below Average Fiscal Stress	110
Statewide Avg.	\$2,961	1.00	\$70,478	100	--	66

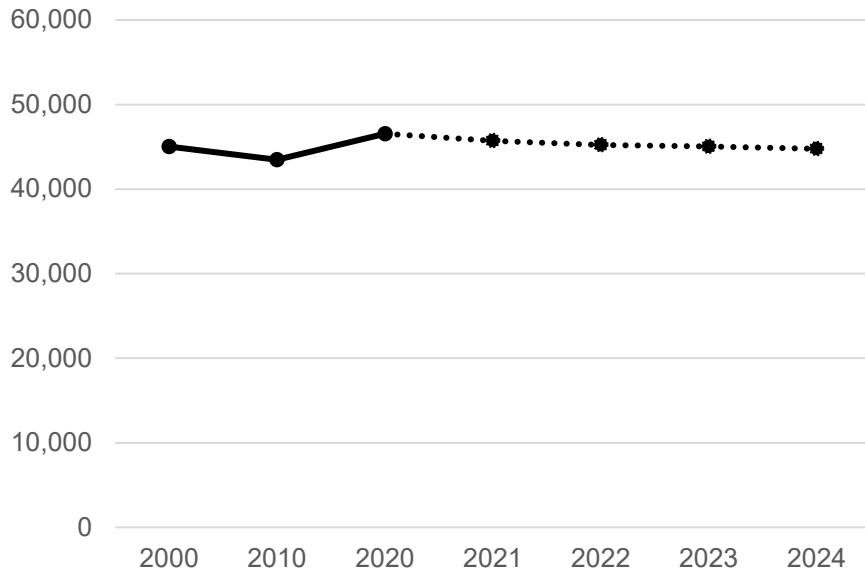




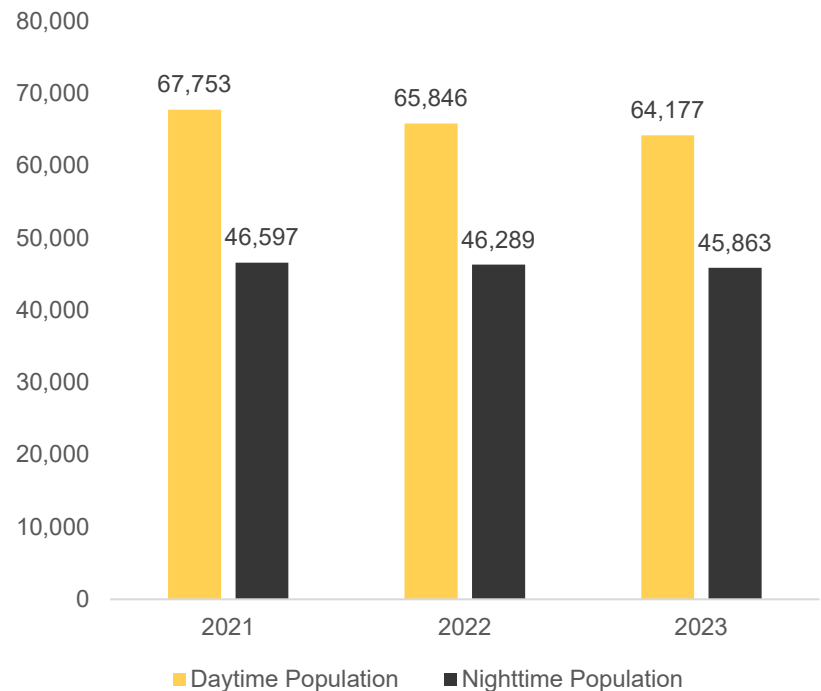
Population Trend

- Since 2020, the City's population has been flat (or even slightly declining) according to both Census population estimates (as of April 1) and the five-year American Community Survey estimates
- Charlottesville's daytime population (or commuter-adjusted population) has also decreased in recent years

**Charlottesville City Population Trend
2000 to 2024**



Daytime vs Nighttime Population



Source: Decennial Census (2000 to 2020), U.S. Census Bureau Population Estimates (2021 to 2024), Five-Year American Community Survey (ACS) Daytime Population.

Note: The Weldon Cooper Center for Public Service estimates Charlottesville's population at 51,050 in 2020, and shows flat population growth since then.



Revenue Summary

- Like many other Virginia jurisdictions, Charlottesville experienced robust revenue growth in the post-pandemic era. Taxable assessments, for example, grew by over 10% annually in 2022 and 2023
- Since FY2024, however, the City's revenue growth began to moderate
 - Taxable assessment returned to single-digit growth
 - Many non-property tax revenues (e.g., sales, lodging, and meals tax) were flat or declined
 - FY2024 and FY2025 revenue growth has considerably declined compared to the post-COVID era
- The current economic uncertainty also creates additional stress on the City's revenue picture as consumer sentiment continues to decline
- More broadly, Charlottesville's underlying economic and demographic factors also create an additional layer of potential fiscal stress
 - Population estimates published by the U.S. Census Bureau indicates that population has been gradually declining. The same trend is true for daytime (or commuter-adjusted) population
 - At the same time, the most recent 2025 assessment data indicates that Charlottesville per-capita tax base is slightly lower than the surrounding Albemarle County while its tax burden is higher



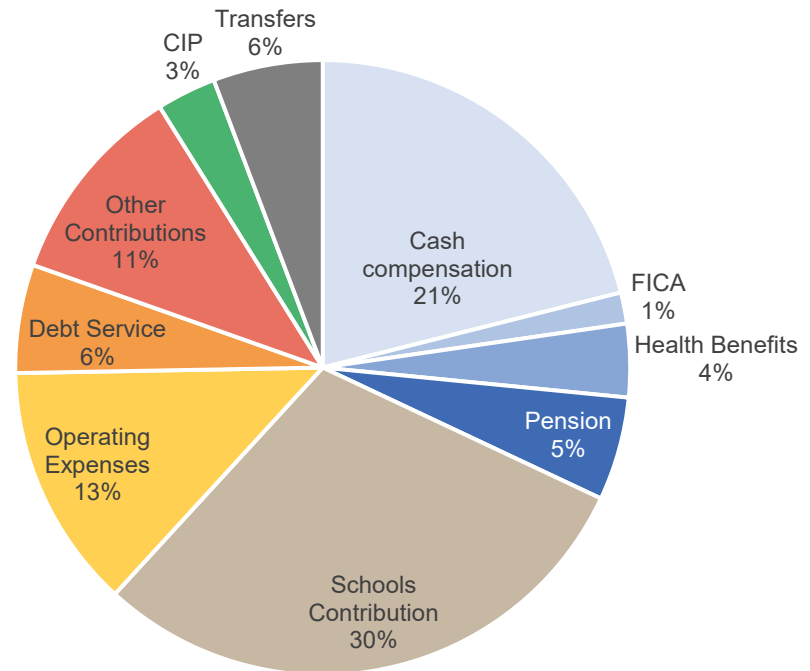
Expenditure Context



FY2025 General Fund Expenditures

- The largest expenditure driver for the General Fund is City personnel costs (including cash compensation and active employee and retiree benefits), representing more than one-third of the General Fund
- The City's contributions to Charlottesville City Schools (CCS) is the second largest expenditure driver, representing 30% of total spending
- The City allocates the remaining General Fund budget for operating expenses, debt service, capital improvements, contributions, and transfers to other funds

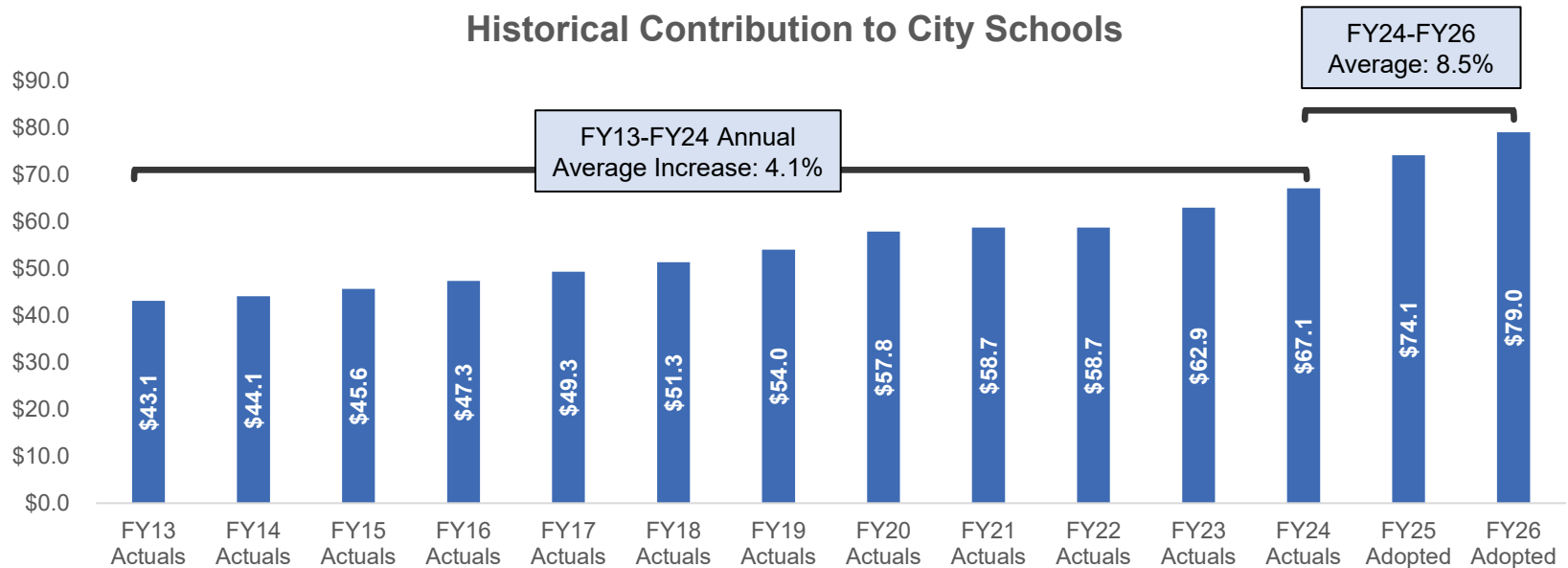
**FY2025 General Fund Expenditures
(\$265.2 Million)**





Schools Contribution

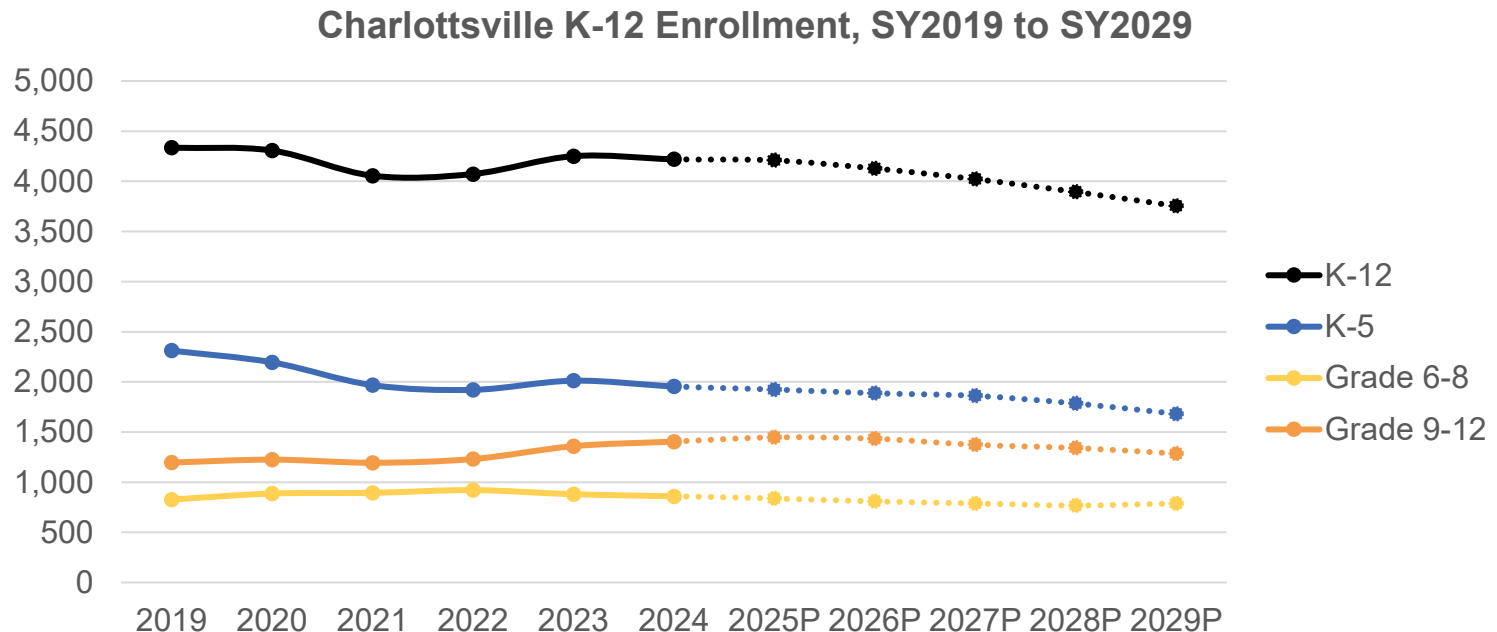
- The City in the last two years have significantly increased its growth in schools contributions
- In addition to the \$74.1 million contribution in FY2026, the City allocates additional funding for school capital improvements
 - The City's FY2026 budget dedicates \$6.0 million to address school maintenance and improvement needs
 - From FY2026 to FY2029, the Capital Improvement Plan (CIP) allocates an additional \$55 million for other school-related projects, including a \$30 million pre-K center project
- In addition to responding to changing demographics, state funding reductions, and increased capital needs, the City's future budgets will also have additional risks and uncertainty as the Charlottesville City Schools begins collective bargaining with its employees





School Enrollment Trend

- Like many Virginia School Divisions, Charlottesville's K-12 enrollment dropped after the COVID-19 pandemic.
- According to projections by the Welden Cooper Center for Public Service, Charlottesville's K-12 enrollment is projected to starting declining in School Year 2025 based on birth trends and past school enrollment

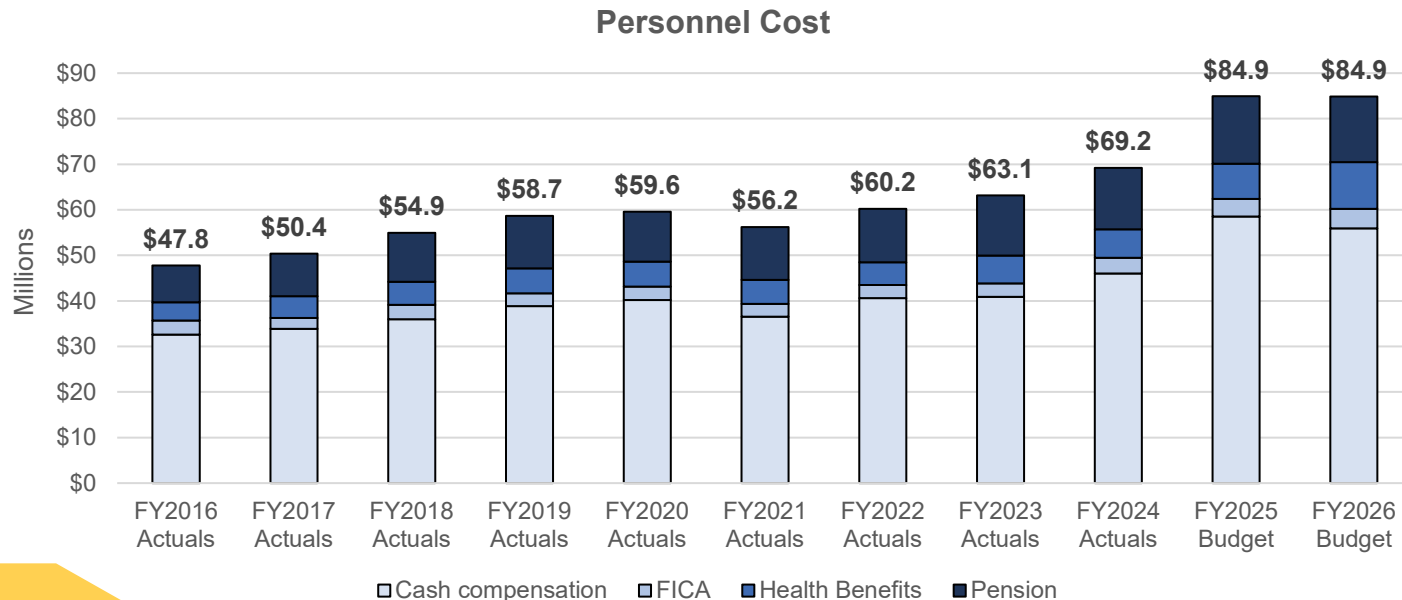


	SY2025	SY2026	SY2027	SY2028	SY2029
Projected Enrollment Change	-0.3%	-1.9%	-2.6%	-3.2%	-3.6%



Personnel Costs

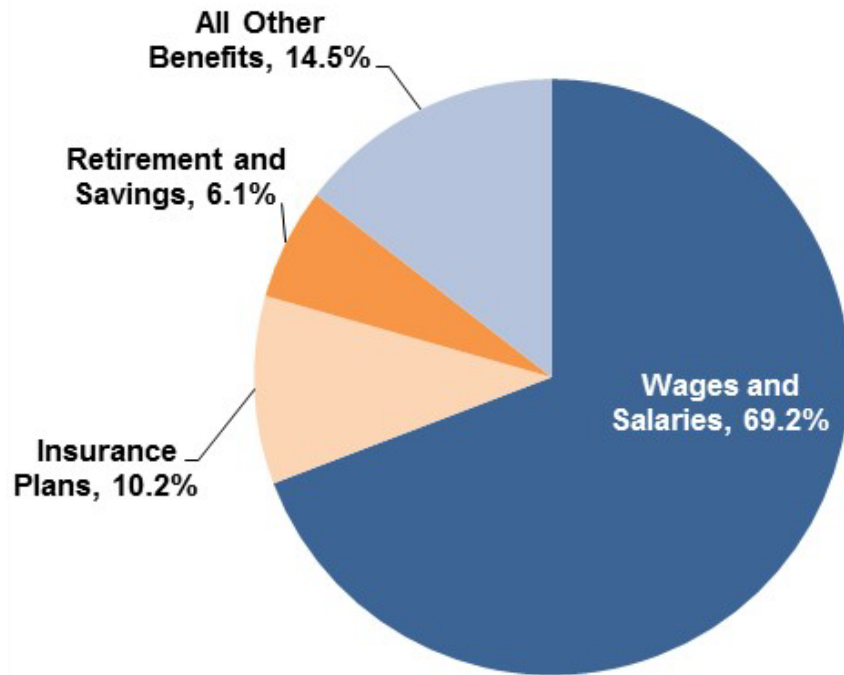
- Excluding the City's contributions to schools, almost half of the City's remaining General Fund budget is dedicated to personnel costs, including cash compensation, active employee benefits, payroll taxes, and retiree benefits
- From FY2021 to FY2024, personnel cost grew at an annual average rate of 7.2% versus 5.7% pre-COVID (from FY2016 to FY2020)
- The FY2025 budget had a significant increase in personnel cost due in part to budgeted vacancies, but the FY2026 budget maintains overall personnel cost at \$85 million
 - In other words, the City has less of a budgetary buffer in FY2026 from vacancy savings



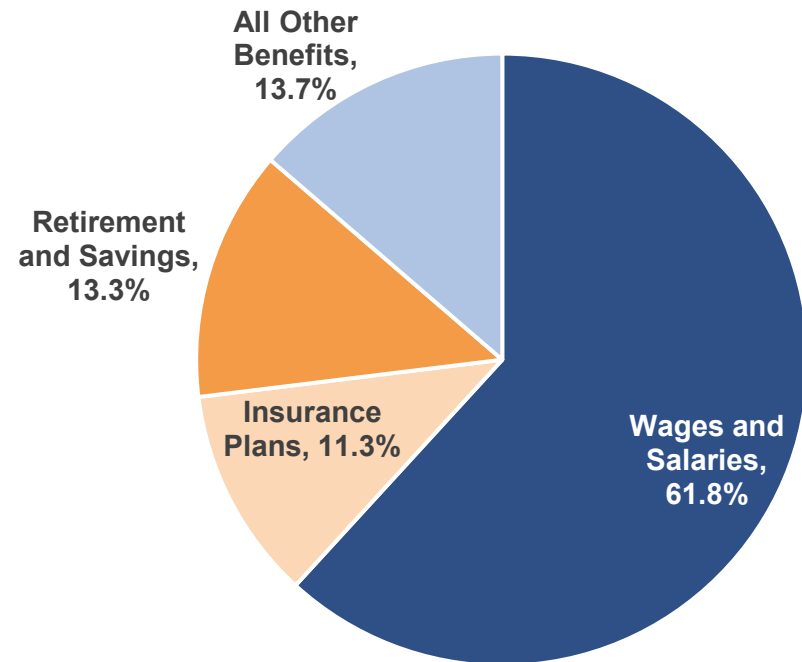


Compensation Portfolio Has Changed

State and Local: Q1-2004



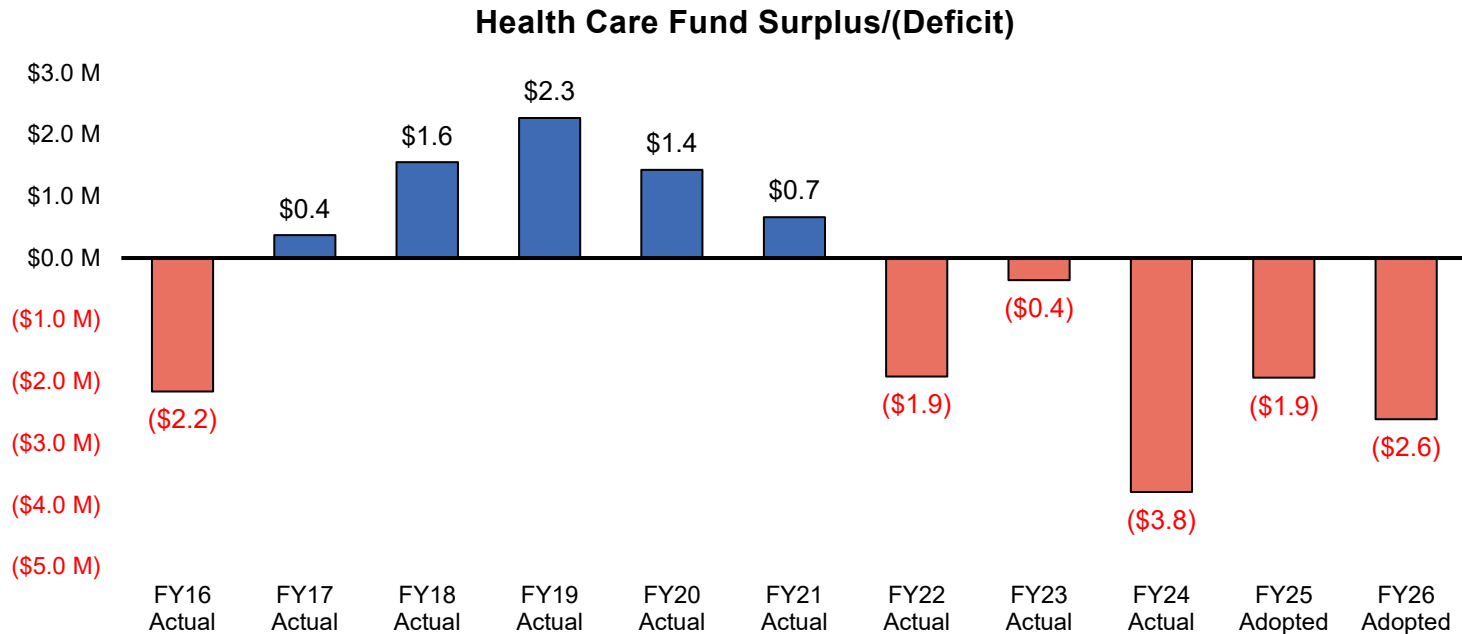
State and Local: Q4 2024





Health Care Fund Challenges

- While surpluses in the Health Care Fund prior to FY2022 allowed the City to build up its reserves and use them to mitigate funding pressures, the City's Health Care Fund now falls below the reserve target
- Moving forward, the City not only has to increase its funding given the recent steeper growth trends in claim costs, but it also needs to start replenishing the reserve, creating even more funding pressures on the General Fund

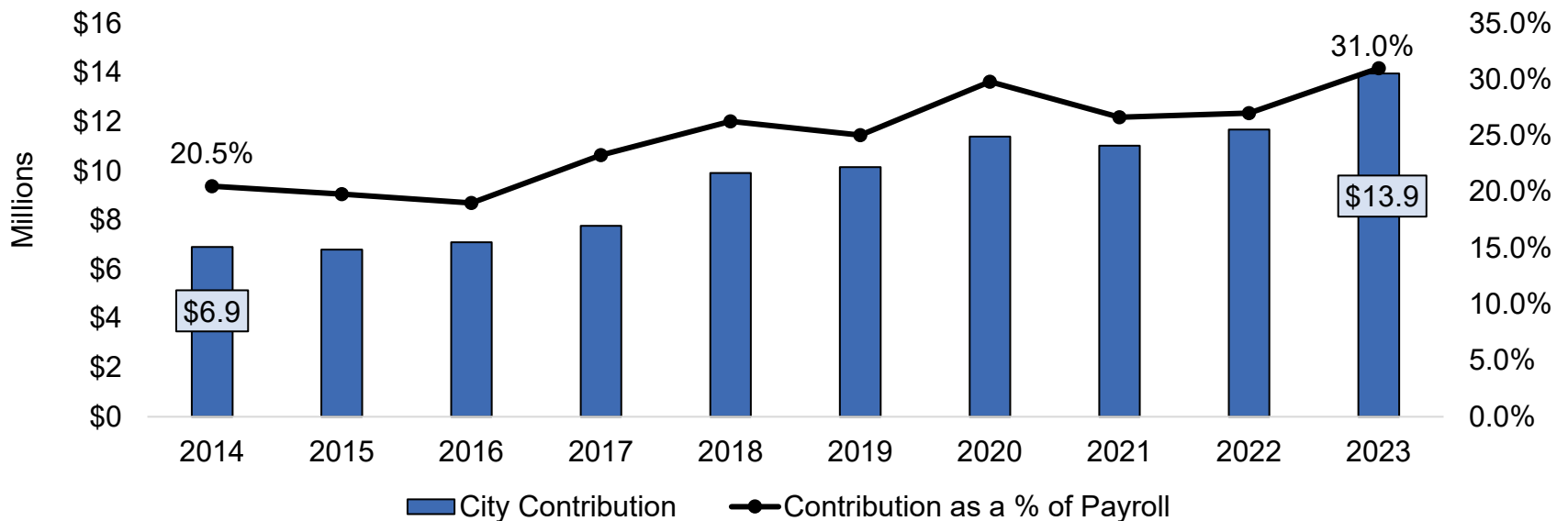




Rising Pension Costs

Employer Contributions – Annual \$ Amount and % of Payroll

- From FY2014 to FY2023, City pension contributions more than doubled (102%), growing from \$6.9 million in 2014 to \$13.9 million in 2023. In contrast, total governmental revenues only rose by 52%
- Over the same time period, City pension contributions as a percentage of payroll rose from 20.5% to 31.0% – roughly equivalent in cost to the City to a 10.5% wage increase beyond those already provided
- The City further increased its pension contribution in FY2024 to \$25.1 million as part of its plan to bolster funding level. In FY2025, the City dedicated another additional \$1.1 million for the general employee group



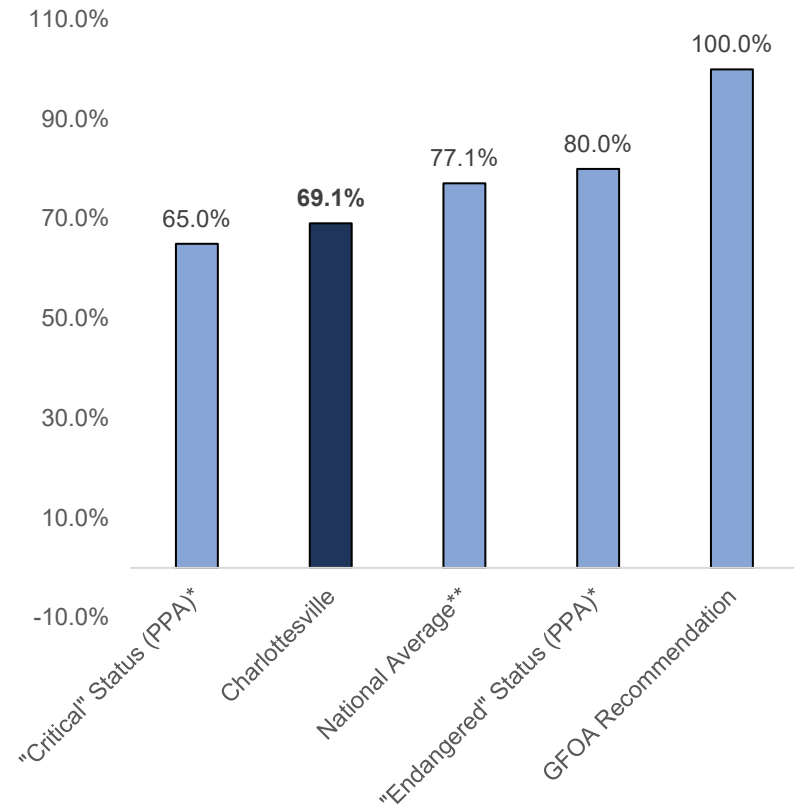


Structural Pension Pressures

Funded Ratio

- Even with this increased funding, the Retirement Plan for the City of Charlottesville has a funded ratio of just **69.1%** as of July 1, 2024
- The funded ratio is the ratio of actuarial assets to actuarial liabilities
- A funded ratio of less than 100% indicates the presence of unfunded actuarial accrued liabilities (UAAL). These unfunded liabilities must be paid down over time in addition to normal cost (actuarial value of benefits earned in a given year) – creating additional expenditure pressures
- The Retirement Plan for the City of Charlottesville's funded ratio is substantially below the **GFOA's target funded ratio of 100%**, as well as:
 - The federal government's designation for "endangered" private sector multi-employer pension plans through the Pension Protection Act (PPA)
 - The aggregate funded ratio for state and local pensions as estimated by the Center for Retirement Research at Boston College

Pension Funded Ratios



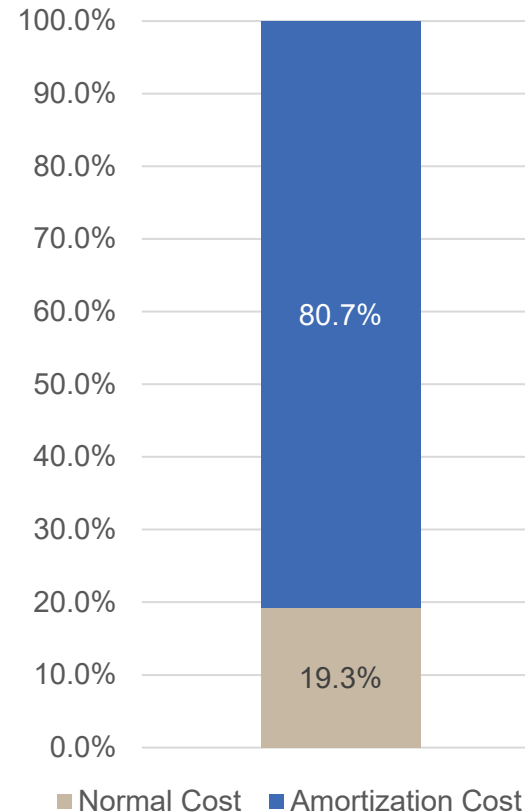
* PPA = U.S. Pension Protection Act; ** National Average from Center for Retirement Research
Sources: City of Charlottesville Actuarial Valuation (July 1, 2024); U.S. Pension Protection Act of 2006 (Public Law 109-280, 109th Congress); Center for Retirement Research at Boston College (publicplansdata.org); Government Finance Officers Association, Sustainable Funding Practices for Defined Benefits Pensions and Other Postemployment Benefits (OPEB), 1/1/2016)



Pension Funding Pressures

- Moving forward, the City will continue to see pension funding pressures due to several factors:
 - Recent adjustments to pensionable compensation as result of pay plan implementation and/or collective bargaining agreements will increase the City's normal cost portion of the City's pension contribution
 - The City's goal to increase funding levels to 80% by 2028 will require the City to continue making additional contributions beyond the actuarially determined contribution to pay down the amortization cost
 - In FY2025, the City contributed \$9.4 million more than the required contribution to improve funding levels

City Pension Contribution
As of July 2024

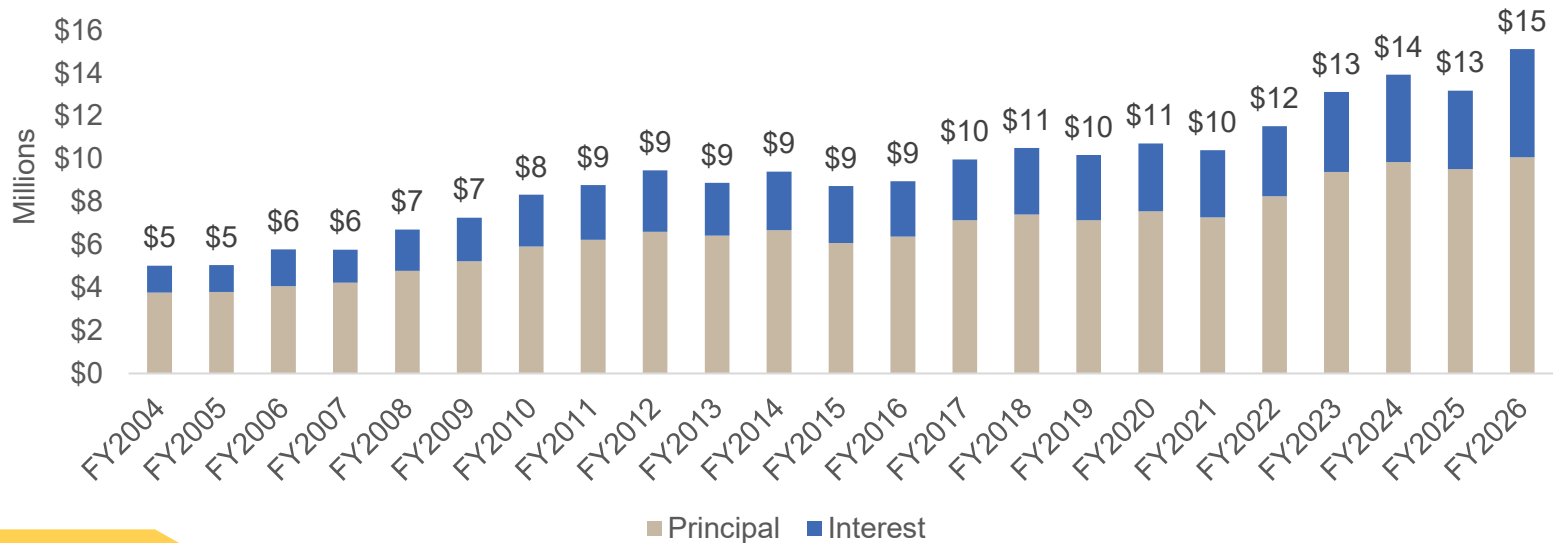




Debt Service

- The City's financial policies require that:
 - Debt service spending is capped at 10% of general fund expenditures, with a target of 9%
 - Of the 7.0% meals tax rate in FY2025, 1.0% has to be dedicated to debt service
- Over the last 20 years, debt service spending increased at an annual rate of approximately 5% and the City was able to maintain debt spending at approximately 5% to 6% of total general fund spending over the last decade
- Moving forward, the City expects debt service spending to continue to grow to meet capital needs and keep infrastructure on life cycle replacement schedules

General Fund Debt Service Spending





One-Time Revenue Winding Down

- Over the last several years, the City was able to advance its strategic priorities and make additional capital investments using the following one-time revenue sources:
 - **ARPA Dollars:** The City received \$18.0 million through the American Rescue Plan Act (ARPA) and all but \$1.6 million of the funds have already been assigned. Projects funded by ARPA include a property purchase from the Charlottesville Redevelopment and Housing Authority, grant programs for special events, and affordable housing initiatives
 - **Year-End Surplus:** The City's financial policies require that the City maintains a fund balance equivalent to 17% of General Fund expenditures, including a 14% general reserve and a 3% downturn reserve. Any additional surpluses are to be dedicated toward one-time expenses. During the FY2024 budget process, the City allocated \$15.8 million to committed capital projects included in the CIP, \$2.3 million toward new capital projects, and \$2.7 million toward personnel costs such as new sign-on bonuses for police officers, parks and recreation staffing, and unfunded retiree cost-of-living adjustments¹
- Even though the City followed the best practice of allocating these non-recurring revenues toward one-time investments, the anticipated loss of these one-time revenues mean that the City will have to create room its General Fund budget to fund future strategic priorities, creating additional fiscal constraints given other funding pressures



Expenditure Summary

- ◆ The City's spending growth are driven primarily by three factors:
 - **Personnel costs** – driven by headcount, cash compensation, and benefits
 - **Schools contributions** – driven by enrollment trends, demographic factors, and state funding
 - **Capital improvement** – driven by infrastructure maintenance needs, new constructions, and schools CIP
- ◆ The City has had to manage the growth of these expenditure drivers despite moving to step plans for police and fire (and having adopted a collective bargaining ordinance), improving pension funding level, meeting schools' expenditure and capital needs, and contributing to City strategic priorities (e.g., affordable housing)
- ◆ While the City had the benefit of surpluses (from robust revenue growth) and ARPA dollars, those one-time funding will start winding down
- ◆ Setting aside the uncertainty of the current economic environment, the City will have to continue funding increases set forth in the collective bargaining agreements, meet school funding needs, address its healthcare and pension funding shortfalls, and invest in strategic goals
- ◆ The next five years from a fiscal standpoint will have to be focused on **conservation and prioritization**



Moving Forward



Rating Agency Comments

“The rating reflect Charlottesville’s demonstrated ability to make budgetary adjustments toward maintaining balance, supported by growing economy and longstanding financial management policies.”

“The city has a history of maintaining robust financial operations, leading to the maintenance of very strong reserves and cash balances, while pay-as-you-go cash funding covers a substantial portion of capital needs.”

“The city’s financial position will remain strong and stable, supported by conservative budgetary management.”

“The city continues to see strong economic growth due both to the appreciation in existing property valuations, particularly residential, and steady building permit activity.”

“Low fixed costs that will likely rise over the next few years due to increased capital investment and as the city works to fund its retirement liabilities.”

“As the city undertakes school infrastructure projects over the next several years, debt ratios could weaken.”

“Although unlikely, we could take a negative rating action should Charlottesville operate with persistent budgetary imbalances requiring the city to draw reserves without a credible plan to replenish.”



Charlottesville's Fiscal Strengths and Risks

Strengths	Risks
Real property tax is the main revenue driver with a relatively stable tax base...	...but almost 20% of the City's revenue (e.g., meals tax, sales tax, lodging tax) are more sensitive to economic cycles and can decline in a recession
A portion of the City's revenue comes from the state and federal governments...	...but these revenues are, to some extent, subject to revenue performance and funding availability
Revenue has been growing since the COVID-19 pandemic...	...but population has been flattening/declining, and recent assessments and revenue trend indicate a slowing tax base growth
The City has been able to maintain personnel cost at less than one-third of total expenditure...	...but the City's pension fund is still not fully funded, and the Health Care Fund is still at risk
The City made significant strides in improving the City's compensation package through collective bargaining and the implementation of the classification and compensation study...	...but those improvements also resulted in significant costs and the City will need to continuously fund agreed-upon increases, even in an economic downturn



Next Steps

1. **Stress-test the General Fund** by developing best- and worst-case scenario and projections
 - Close monitoring of building permit pipeline and assessable base growth
 - Close monitoring of revenues that are economically sensitive
 - Continued understanding of federal government landscape and impact trickled down to the state and local government levels
2. **Establish spending parameters** for major spending categories
 - For schools contribution, an understanding of how enrollment, collective bargaining, state funding formula, and other factors impact overall contribution
 - For personnel cost, a focus on collective bargaining impact, vacancy savings, and benefits spending
 - For debt service, a clear understanding of capital dollars used for ongoing maintenance versus new infrastructure
 - For strategic city contributions, a vision of how spending ultimately ties to the City's strategic goals and priorities
 - For capital improvements, a prioritization process built-in to the CIP