



# City of Charlottesville

## Emerging Economic Trends and Financial Outlook

January 9, 2026

Vieen Leung, Director, PFM

---

PFM Group Consulting LLC

---

PFM Financial Advisors

---

[pfm.com](http://pfm.com)



## Agenda

- ◆ Regional Trends and Local Government Outlook
- ◆ FY2027 City of Charlottesville Financial Outlook
- ◆ Credit Rating Pressures
- ◆ Key Takeaway



# Regional Trends and Local Government Outlook

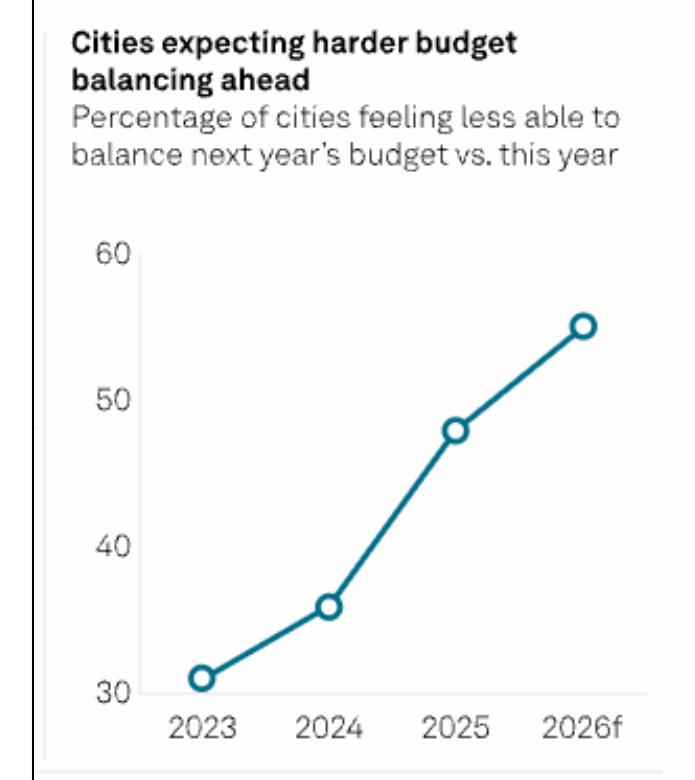


## Rating Agencies' Local Government Outlook

- With a slow-growth national economic forecast as the backdrop, LGs facing a widening structural imbalance will be unable to expand their way out of it"
- "Federal retrenchment is pushing costs to states and will create additional challenges for local governments"
- "Budgets tighten and payrolls contract as LGs downshift from pandemic-level staffing"

### Top challenges cited in 2025-2026 city budgets

- Use of one-time resources to fund services, creating structural gaps
- Public safety personnel and overtime overruns
- Rising pension and retirement liabilities
- End of federal pandemic stimulus exposes structural gaps
- Infrastructure and capital maintenance backlog
- Property tax growth constraints

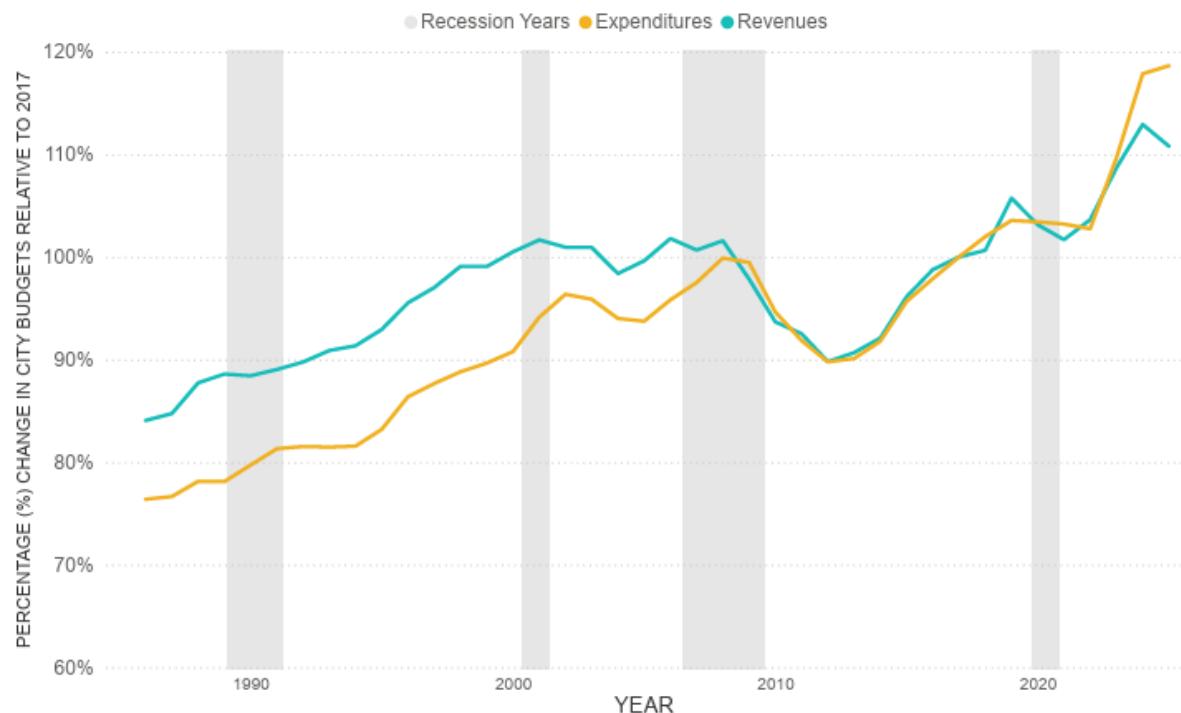




# National and Regional Outlook

## From Recovery to Restraint: Cities Post-COVID Budgetary Constraints

PERCENTAGE (%) CHANGE IN EXPENDITURES AND REVENUES YEAR TO YEAR (1986-2025)



Source: Annual Comprehensive Financial Report (ACFR) and Budget documents.

Figure Note: All dollar figures are adjusted for inflation with 2017 as base year. Lines represent variation from the base year. Refer to Appendix A to learn about the methodology used for calculating the annual changes for each category (n=213 for 2025).

Regional Strengths	Regional Challenges
Considerable fiscal strength with real estate tax making up most of the tax revenue	Continued uncertainty regarding federal government employment and shutdown
Improved commercial vacancy rates, but still lower than pre-pandemic levels	Further softening of economic and revenue growth based on FY2025 ACFRs
Overall economic uncertainty persists	Drying up of ARPA dollars



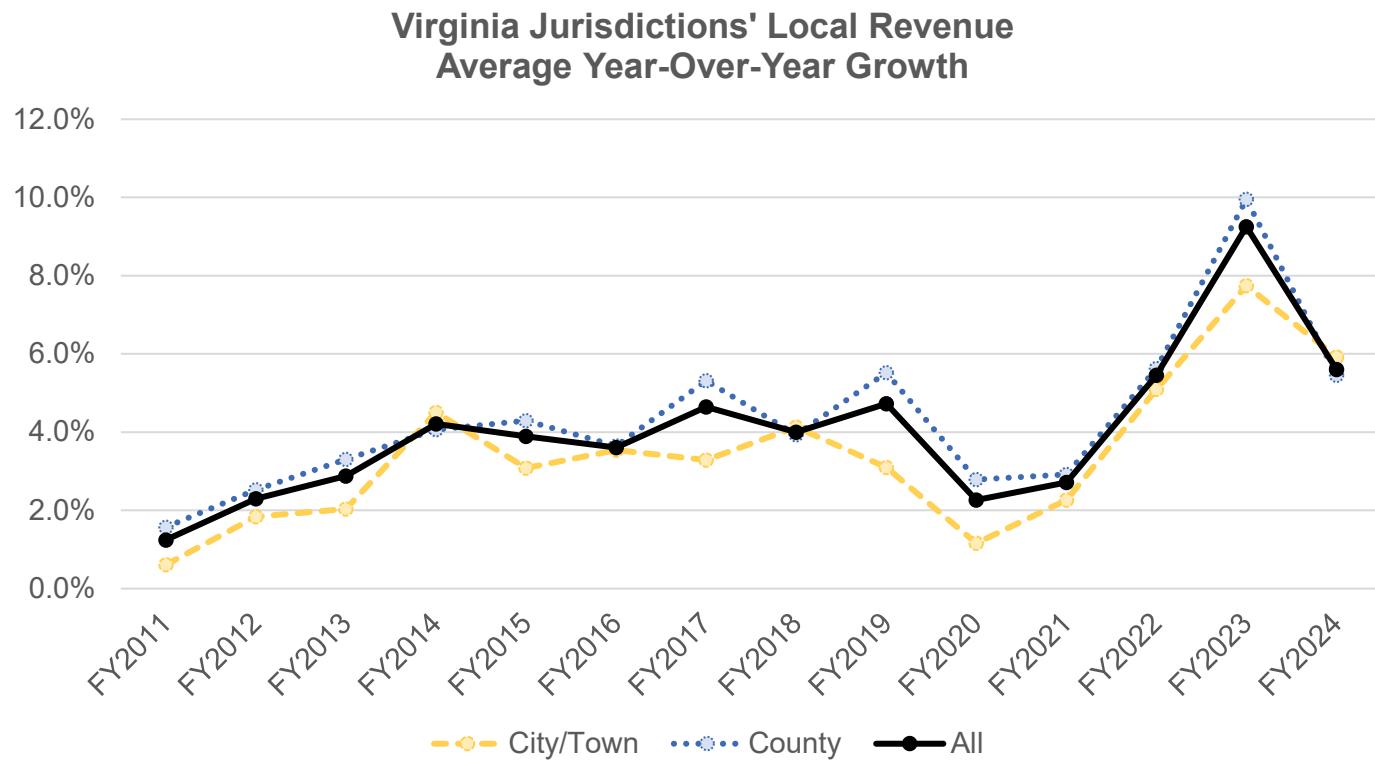
## Credit Rating Agencies Actions

- ◆ In Spring 2025, several regional entities were downgraded
  - State of Maryland
  - Prince George's County, Maryland
  - Washington, D.C.
  - Washington Metropolitan Area Transit Agency (WMATA)
- ◆ Factors that culminated in the downgrade include significant cuts to the federal workforce (D.C.), economic and financial underperformance (MD), and structural imbalance (Prince George's County)
- ◆ Northern Virginia jurisdictions' ratings were maintained due in part to
  - Significant defense-related jobs in Virginia
  - Strong property tax base and reliance (versus income tax as a main revenue source in Maryland)



## Slowing Revenue Growth Emerging in FY2024

- Across all Virginia jurisdictions, revenue growth declined in FY2024
- As shown, among Virginia counties, local revenue growth dropped from 10.0% in FY2023 to 5.6% in FY2024





## Collective Bargaining Status

- Of the eight Virginia jurisdictions (excluding school divisions) that have adopted a collective bargaining ordinance, seven have ratified public safety collective bargaining agreements, while status with civilian units varies
- The City of Portsmouth adopted a collective bargaining ordinance in November 2023 that authorized collective bargaining, but the City has not yet adopted a subsequent ordinance

	Ordinance Adoption	Police	Fire	Transit	Labor and Trades	Administrative and Technical	Professional	General Government
<b>City of Alexandria</b>	5/1/2021	7/1/203-6/30/2026	7/1/203-6/30/2026	N/A	7/1/2024-6/30/2027	Pending	Pending	N/A
<b>City of Richmond</b>	7/25/2022	7/1/2024-6/30/2027	7/1/2024-6/30/2027	N/A	7/1/2025-6/30/2028	7/1/2024-6/30/2027	7/1/2025-6/30/2028	N/A
<b>City of Charlottesville</b>	10/3/2022	7/1/2024-6/30/2026	7/1/2024-6/30/2027	7/1/2024-6/30/2027	7/1/2025-6/30/2029	Pending	Pending	N/A
<b>Arlington County</b>	7/17/2021	7/1/2023-6/30/2026	7/1/2023-6/30/2026	N/A	7/1/2024-6/30/2027	Pending	Pending	N/A
<b>Fairfax County</b>	10/19/2021	7/1/2024-6/30/2027	7/1/2024-6/30/2027	N/A	N/A	N/A	N/A	7/1/2026-6/30/2029
<b>Loudoun County</b>	12/7/2021	N/A	7/1/2024-6/30/2027	N/A	Pending	N/A	N/A	7/1/2025-6/30/2028
<b>Prince William County</b>	11/22/2022	7/1/2024-6/30/2028	7/1/2024-6/30/2028	N/A	N/A	N/A	N/A	Pending
<b>City of Portsmouth</b>	11/14/2023	Pending	Pending	Pending	Pending	Pending	Pending	Pending

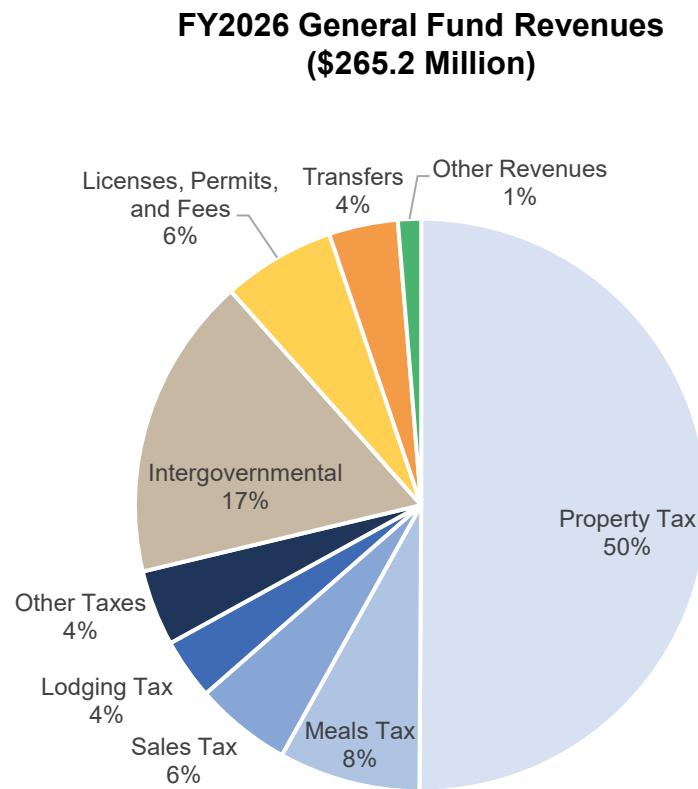


# Charlottesville's Financial Outlook



## Key Revenue Trend: Slowing Tax Base Growth

- Post pandemic, 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)
- 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 revenue was essentially flat

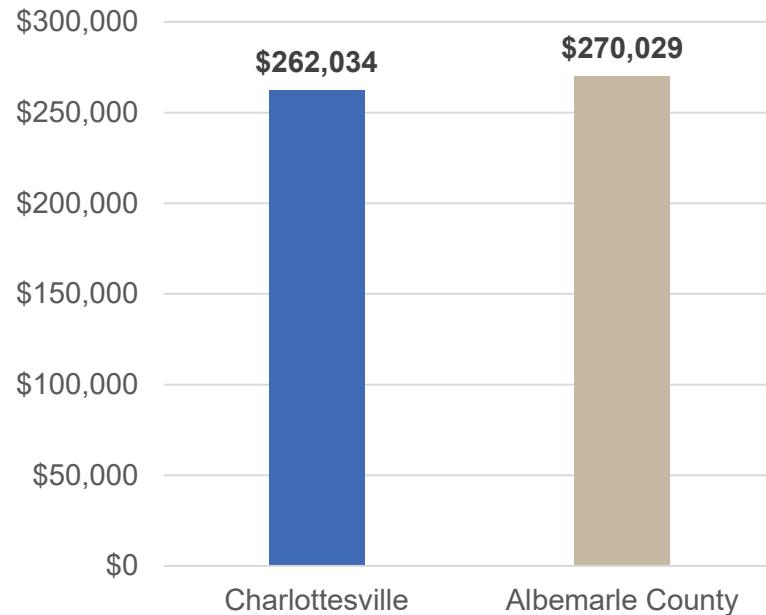




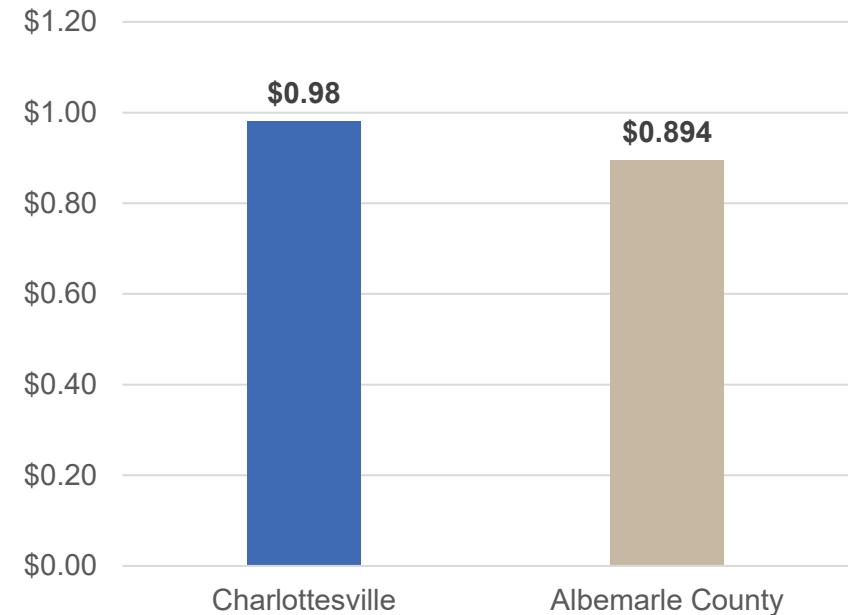
## Tax Base and Tax Burden Comparison with Albemarle County

- 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 Per Capita Taxable Assessed Value**



**2025 Tax Rate (Per \$100 of Assessed Value)**





## 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	<b>\$69,829</b>	\$142,893	-51.1%
CY25 Real Property Tax	<b>\$0.98</b>	\$1.02	-4.1%
CY25 Personal Property Tax	<b>\$4.40</b>	\$4.36	+0.9%
CY25 Meals Tax	<b>7.0%</b>	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

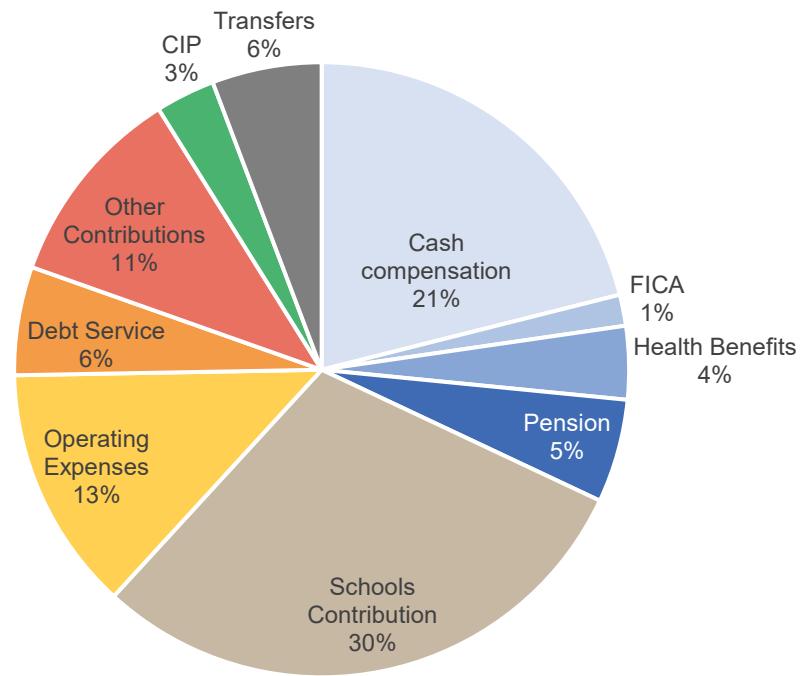
	<b>Revenue Effort (Higher Means More Effort)</b>	<b>Rank (Lower Means More Effort)</b>
<b>Charlottesville City</b>	<b>1.3485</b>	<b>13</b>
Alexandria City	1.1876	34
Fairfax City	1.1582	38
Falls Church City	1.2476	26
Manassas City	1.2890	22



## Key Expenditure Trend: Rising Costs Limits Investment Dollars

- ◆ New round of **collective bargaining agreements** will create personnel cost pressures
- ◆ Schools collective bargaining will also create pressures for schools contribution
- ◆ Inflation remains sticky and continues to drive operating and construction costs
- ◆ **Conservation and prioritization** should continue to be the strategy while revenue growth slows, economic environment remains uncertain, and recession risks remain

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





## Charlottesville's Collective Bargaining Cycle

- ◆ The City is currently negotiating contracts with Police (for the next contract) and Fire (for FY2027)
- ◆ Next year, the City will negotiate the second contract with its Fire and Transit unions
- ◆ Depending on the length of the contract negotiated, the City may have at least one contract negotiation each year that adds fiscal pressure and uncertainty
- ◆ While the first contract was primarily focused on bringing wages to competitive market rates, the second contracts will likely be more focused on cost-of-living adjustments

	FY2025	FY2026	FY2027	FY2028	FY2029
Police		FY25-FY26 Contract (3% Steps)			
Fire		FY25-FY27 Contract (2% Steps)	One-Yr Reopener (1.75% adj.)		
Transit	FY25-FY27 Contract (Increase Varies Year-Over-Year)				
Labor and Trades		FY26-FY29 Contract (2% Steps)			



## Schools Collective Bargaining Cycle

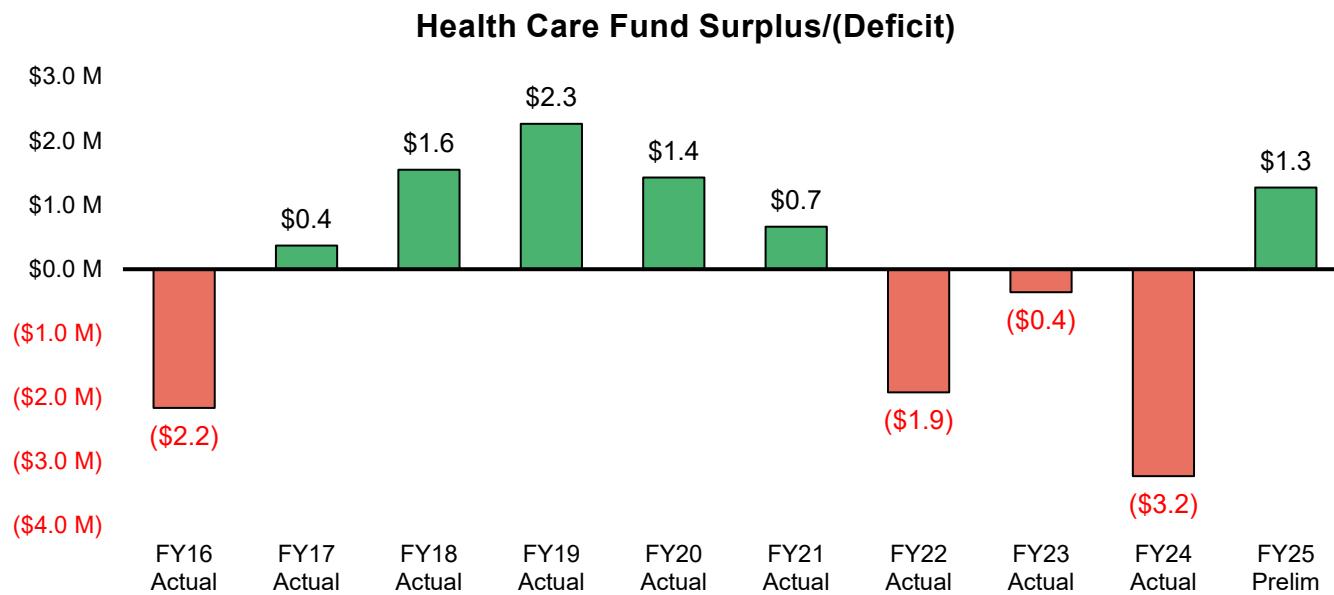
- In March 2023, the Charlottesville School Board voted to approve the Collective Bargaining Resolution
- In March 2025, the School Board approved the agreement with Licensed Personnel, which includes an annual 1.5 percent “step” increase plus a 4% pay increase, or an overall increase of 5.5% for all teachers
  - Because of how Virginia school divisions are funded, schools’ contract provisions are often subject to sufficient appropriation from the locality
  - In Fairfax County, compensation increases as required by the original contract with the Fairfax Education Union was reduced in FY2026 due to the County’s budget gap and funding availability

	FY2025	FY2026	FY2027	FY2028	FY2029
Licensed Personnel			FY26-FY28 Contract (1.5% Steps + 4% annual adj.)		
School Support Professionals				Pending Contract	



## 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, even after the surplus in FY2025
- 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



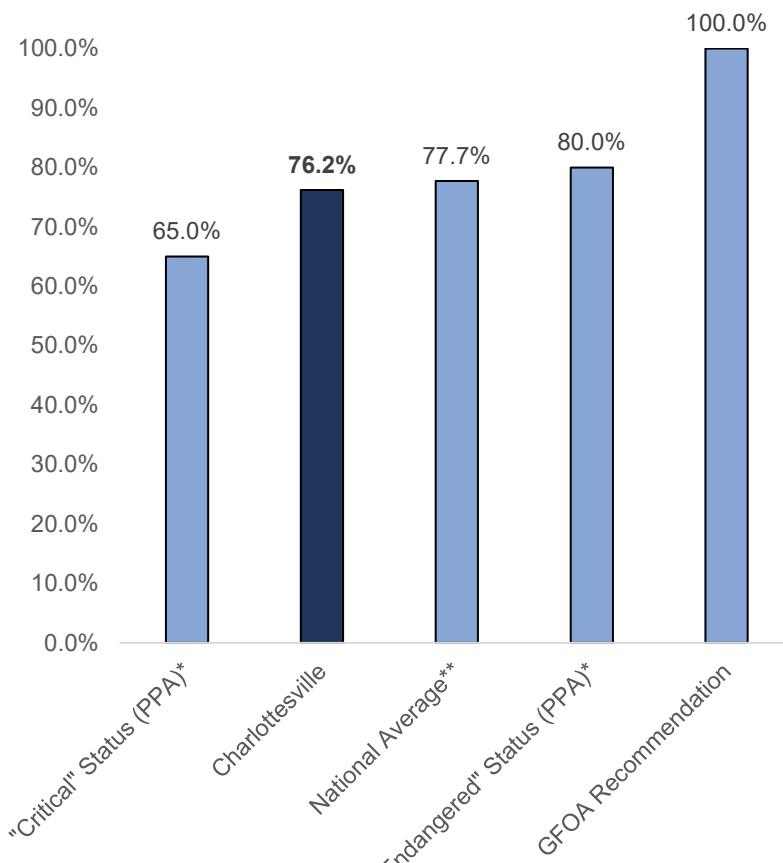


# Structural Pension Pressures

## Funded Ratio

- Even with this increased funding, the Retirement Plan for the City of Charlottesville has a funded ratio of **76.2%** as of July 1, 2025
- 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, 109<sup>th</sup> 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



## 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. In both FY2024 and FY2026, the City was able to allocate surpluses toward one-time investments, retiree contributions, and capital projects
- 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 in its General Fund budget to fund future strategic priorities, creating additional fiscal constraints given other funding pressures



# 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 FY24 S&P Scorecard

Institutional Framework Assessment	Individual Credit Profile				
	1	1.5	2	2.5	3
	1	aaa	aaa	aa+	aa
	2	aaa	aa+	aa	aa-
	3	aa+	aa	aa-	a+
	4	aa-	a+	a	a-
	5	a	a-	bbb+	bbb
6	bbb+	bbb	bbb-	bb+	bb

	FY24 Inputs	1 (Best)	2	3	4	5	6 (Worst)	Weight	FY24 Score
<b>Economy</b>								20%	1.0
Gross City/County Product (GCP) per capita as % of US GDP per capita	125%	>110%	110 – 95%	95 – 85%	85 – 75%	75 – 65%	<65%	50%	1
City/County Per Capita Personal Income (PCPI) as a percent of the U.S. PCPI	148%	>100%	100 – 90%	90 – 80%	80 – 75%	75 – 70%	<70%	50%	1
<b>Management</b>								20%	1.0
Budgeting Practices	1	Budgets are forward-looking with robust monitoring	Budgets are realistic with sufficient monitoring	Budgets are limited in scope with informal monitoring	Budgets are unrealistic and lack monitoring	-	-	35%	1
Long-term Planning	1	Robust culture of long-term planning	Some long-term planning	Informal long-term planning	No long-term planning	-	-	35%	1
Policies	1	Robust, well-defined policies with thorough reporting	Basic policies with regular reporting	Informal policies exist with little or no reporting	No policies or policies not followed	-	-	30%	1
<b>Financial Performance</b>								20%	1.0
Operating Result (%) Net Revenues / Operating Revenues (General Fund) (3-year Average)	3.2% – 4.3% (past three years)	>3%	3 – 0%	0 – (-3%)	<(3%)	-	-	20%	1
<b>Reserves and Liquidity</b>								20%	1.0
Available Reserves (%) (assigned + unassigned as % of revenues (General Fund))	27.8%	>15%	15 – 8%	8 – 4%	4 – 1%	<1%		20%	1
<b>Debt and Liability</b>								20%	3.7
Current cost for debt service & liabilities as % of governmental revenues	15.6%	<8%	8 – 14%	14 – 20%	20 – 25%	25 – 30%	>30%	50%	3
Net direct debt per capita	\$3,531	>500	500 – 1,500	1,500 – 2,500	2,500 – 3,500	3,500 – 4,500	>4,500	25%	5
Net pension liability (NPL) per capita	\$1,876	<500	500 – 1,500	1,500 – 2,500	2,500 – 3,500	3,500 – 4,500	>4,500	25%	3
Individual Credit Profile Score								1.50	
Institutional Framework								1	
Score mapping								aaa	



Indicated Rating	Weighted Score
Aaa	0.0 - 1.50
<b>Aa1</b>	<b>1.51 - 2.50</b>
Aa2	2.51 - 3.50
Aa3	3.51 - 4.50
A1	4.51 - 5.50

## Moody's Scorecard for Charlottesville

- Using FY24 results, PFM estimates Charlottesville's indicated score remains in the 'Aa1' category
- Between FY23 and FY24, the City's indicated score slightly worsened, due to lower fund balance and liquidity ratios

Moody's Local Government Methodology	2023 Input <sup>1</sup>	2024 Input	2024 Subfactor Category	Weight	2023 Weighted Score	2024 Weighted Score
<b>Factor 1: Economy</b>				30%		
Median Household Income as Percentage of US Median	90.2%	90.2%	A	10%	0.597	0.597
Full Value per Capita	\$279,899	\$314,210	Aaa	10%	0.105	0.089
Economic Growth	0.1%	0.2%	Aaa	10%	0.147	0.140
<b>Factor 2: Financial Performance</b>				30%		
Available Fund Balance Ratio	49.7%	37.8%	Aaa	20%	0.104	0.262
Liquidity Ratio	50.7%	38.8%	Aa	10%	0.097	0.187
<b>Factor 3: Institutional Framework</b>				10%		
Institutional Framework	Aa	Aa	Aa	10%	0.300	0.300
<b>Factor 4: Leverage</b>				30%		
Long-term Liabilities Ratio	128.8%	109.0%	Aa	20%	0.473	0.354
Fixed Cost Ratio	7.3%	7.1%	Aaa	10%	0.123	0.121
<b>Notching Factors</b>					0.0	0.0
<b>Indicated Rating</b>				100%	1.95	2.05
					Aa1	Aa1

<sup>1</sup> FY23 inputs from Moody's Annual Commentary Report, dated April 22, 2025

Sources: FY24 Annual Comprehensive Financial Report; calculations based on Moody's "US Cities and Counties Methodology," November 2, 2022.



## Considerations

Why can't we...	Rationale
Increase tax rates to fund priorities?	Revenue growth should be a tool in achieving fiscal balance, but the City must also be aware of its already-high tax burden. Overusing tax increase as a tool for revenue enhancement can potentially cause the City to lose its regional competitiveness (and create adverse impact, e.g., population decline)
Use reserves to fund priorities?	Using one-time revenue to fund recurring spending is not a sustainable fiscal strategy. That is also why the City has historically dedicated one-time surpluses to one-time needs (e.g., capital investments, one-time retiree funding)
Cut spending to fund priorities?	Spending reduction can be a tool to reallocate resources, but it can also be challenging given that so much of the budget is allocated to core local government services
Grow our tax base to fund priorities?	Tax base growth should be a key strategy for any local governments, but relying on the prospective growth to fund current spending needs today can create significant fiscal risks

*A sustainable fiscal strategy relies on multiple tools to grow revenues, curb spending growth, and invest in capital needs and strategic priorities. These three prongs must work together and adapt to changing economic conditions and investment needs.*



## Summary

- Local governments across the nation are facing headwinds from slowing economic growth and ARPA dollars winding down
- For Charlottesville, collective bargaining, health care fund challenges, and continued need to improve pension funding will add another layer of fiscal pressures
- These dynamics point to a budget that should focus on conversation and prioritization
- While rating agencies cite the City's strong management and financial operations, the City needs to have sufficient financial buffer to adapt and adjust given overall economic and federal uncertainty

### Top challenges cited in 2025-2026 city budgets

- Use of one-time resources to fund services, creating structural gaps
- Public safety personnel and overtime overruns
- Rising pension and retirement liabilities
- End of federal pandemic stimulus exposes structural gaps
- Infrastructure and capital maintenance backlog
- Property tax growth constraints