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Presentation Prepared for the Navy Hill Commission

Credit Rating / Debt Capacity Implications of the Navy Hill Project

City of Richmond, Virginia

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Credit Rating Implications

Credit Rating Agency Perspective

- *How do the Credit Rating Agencies take into account Non-Recourse Revenue Bonds?*

  - Moody's Investors Service does not consider the proposed Non-Recourse Revenue Bonds to be a part of the long-term liability of the City or a credit negative.

  - Standard & Poor's does not consider the proposed Non-Recourse Revenue Bonds to be a part of the long-term liability of the City or a credit negative.

  - Fitch considers the proposed Non-Recourse revenue bonds to be a part of the long-term liability burden of the City.

Credit Rating Agency Perspective (cont.)

- *What happens to a local government's credit rating if an Increment Financing Area/Non-Recourse Revenue Bond project experiences financial difficulties?*

  - To the best of our knowledge, there has not been a single instance where Moody's, S&P or Fitch viewed Non-Recourse Revenue Bonds as having a negative impact on a locality's credit rating.

  - Specifically, in two similar circumstances in the Commonwealth where Non-Recourse Revenue Bonds were used in combination with Increment Financing Areas, there were no negative credit rating impacts to the local government.

    - ✓ Hampton – There was insufficient incremental revenue for the Non-Recourse Bonds for the H2O increment financing area; during the same time period the City's credit rating was upgraded to "Aa1" by Moody's and no mention of the H2O Bonds was found in the City's credit reports.

    - ✓ York County – There was insufficient incremental revenue for the Non-Recourse Bonds for the Marquis increment financing area; during the same time period the County's credit rating was upgraded to "AAA" by S&P.

Credit Rating Agency Perspective (cont.)

- *What are the Positive Credit effects of the Navy Hill Project?*
  - The Credit Rating Agencies are very positive on a unique, private investment like Navy Hill because of the following attributes, among others:
    - ✓ An underperforming and underutilized non-taxable area is turned into taxable revenue generating assets – economic development that is viewed positively by the rating agencies.
    - ✓ One of the many conditions precedent to the issuance of Non-Recourse Revenue Bonds is a minimum of $450 Million of private investment, which will immediately increase the assessed values and revenue base of the City.
    - ✓ A project such as Navy Hill increases the taxable valuation in the Increment Financing Area by approximately 25%, which is considerably more than the 2% historic growth in the area.
    - ✓ This immediate investment is the beginning of what is expected to be upwards of $1.2 Billion over a 5 to 6 year period.

Credit Rating Agency Perspective (cont.)

- ***What are the Positive Credit effects of the Navy Hill Project (cont.)?***
  - Enhancement of overall economy – The Credit Rating Agencies look at the overall big picture of a local government and evaluate its credit based on its “ability” and “willingness” to repay its obligations.
    - ✓ The impact of Navy Hill will only broaden and strengthen the City’s tax base, as well as, increase the City’s potential ability to meet its obligations.
      - Example – adding a 500+ room Convention Center Hotel will produce added jobs, meals, sales and real estate taxes and enhance activity at the Greater Richmond Convention Center.

Credit Rating Agency Perspective (cont.)

- *What are the Positive Credit effects of the Navy Hill Project (cont.)?*
  - The Project will Increase the City's Population.
    - ✓ The Credit Rating Agencies look favorably upon a local government whose "ability to pay" is enhanced by population growth.
      - In their view a larger population enhances the local government's ability to pay – this is a credit positive from their perspective.
  - The Project incorporates workforce training – This benefit is viewed positively by the Credit Rating Agencies given the City's high poverty level.

Credit Rating Agency Perspective (cont.)

- ***What are the Positive Credit effects of the Navy Hill Project (cont.)?***
  - The nature of the commitment from the Incremental Financing Area (the "IFA") is limited.
    - ✓ New Tax Revenues generated by the Project Components will go toward repayment of the Non-Recourse Revenue Bonds.
    - ✓ The City's existing tax base is protected:
      - Only incremental growth in Real Estate Tax revenues in the IFA and limited incremental parking revenues will go toward repayment of the Non-Recourse Revenue Bonds.
      - The taxable real estate that generates the incremental revenue growth in the IFA represents only 6.5% of the entire taxable area of the City.
      - All other local Tax Revenues (not related to the Project Components) generated in the IFA come to the City's General Fund.

Credit Rating Agency Perspective (cont.)

- *What are the Positive Credit effects of the Navy Hill Project (cont.)?*
  - Navy Hill is a catalyst for economic development with other benefits that are incontrovertible:
    - ✓ Provides for thousands of new residents;
    - ✓ Significant new job creation;
    - ✓ Reasons for tourists and visitors to come to downtown;
    - ✓ Enhances the Greater Richmond Convention Center's ability to attract more and larger conventions;
    - ✓ Creation of a new neighborhood that connects surrounding adjacent areas;
    - ✓ New housing with a meaningful affordable housing component; and
    - ✓ Adds meaningful new taxable parcels that adds to the City's tax base.

Debt Capacity Implications

What is Debt Capacity

- *What is Debt Capacity?*
  - Debt Capacity is the amount of planned debt that could be outstanding by the City without violating the City's own self-imposed Debt Management Policies.
  - The City's Debt Management Policies have been in effect for over two decades and follow industry-wide best practices for local governments.

The City's Debt Capacity Management Policies

- *What are the City's Debt Management Policies?*
  - The City's Debt Management Policies consist of the following:
    1. Total Tax Supported Governmental Debt (G.O./M.O. Debt) shall not exceed 3.75% of Total Taxable Assessed Valuation.
    2. Total Tax Supported Governmental Debt Service shall not exceed 10% of the Total Budget (General Fund and RPS net of the City's local support).
    3. The 10-year payout of Tax Supported governmental debt shall not be less than 60%.
  - It is important to note that of the above three policies, number 2 (Total Tax Supported governmental debt service shall not exceed 10% of the Total Budget) is the most restrictive policy.

How Debt Capacity is Calculated

- *How is the City's Debt Capacity calculated?*

1st The City's Debt Capacity is governed by its most restrictive policy: Total Tax Supported Governmental Debt Service shall not exceed 10% of the Total Budget[(1)].

2nd Assuming a Total Budget of $911,000,000 then total Debt Service cannot exceed $91,000,000 (10% of the Total Budget).

3rd At the current time, the City's existing and projected indebtedness approximates $1.3 Billion[(2)] over the next five years.

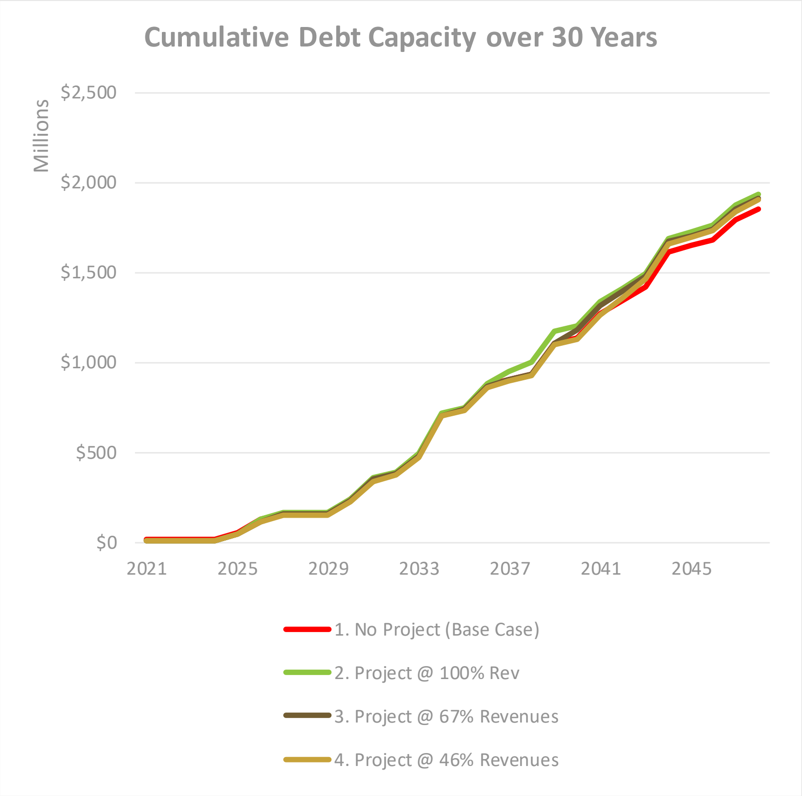
4th The City's remaining Debt Capacity over the next five years is virtually nonexistent:

  - Approximately $15 Million in total Debt Capacity over the next five years.

(1) General, non-local RPS and Street Maintenance (formerly budgeted in the General Fund).
(2) Existing and projected tax supported debt as contemplated by the City's CIP through FY 2024.

Impact of Navy Hill Project on Debt Capacity

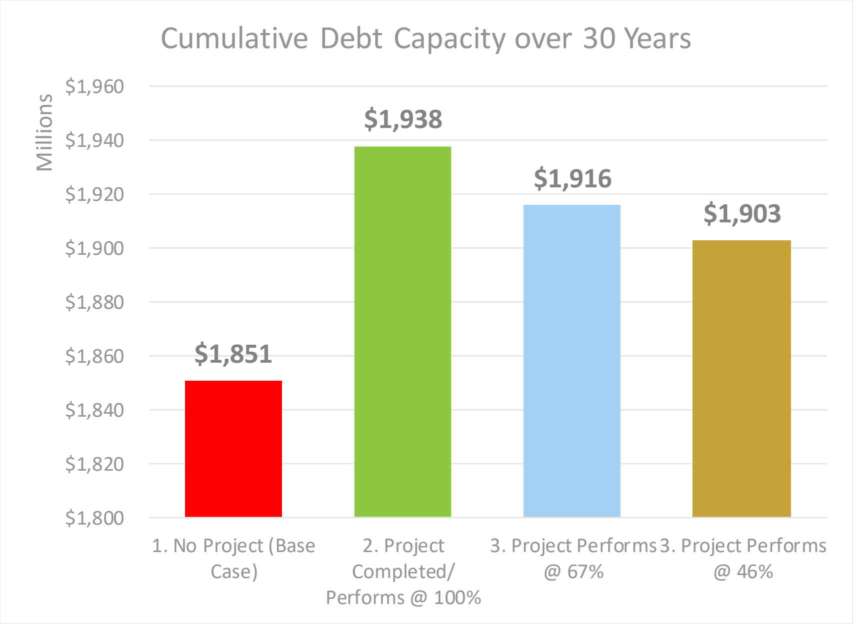
- *What is the impact of the Navy Hill Project on the City's Debt Capacity?*
  - The impact on the City's Debt Capacity over the next 30 years is virtually nonexistent irrespective of how the Project performs as shown below:



Note:
1. (1) Based on projected cash flow impact of Scenario 26-A.
2. (2) Incorporates bond financing through FY 2024 related to the City's anticipated City-wide CIP Spending totaling $310 Million, School Investment Program Phase 1 totaling $150 Million.
3. (3) Incorporates bond financing FY 2025-2029 related to the City's School Investment Program Phase 2 totaling $200 Million.
4. (4) Long-term planning growth rates of 2% for revenues and taxable assessed valuation.

Impact of Navy Hill Project on Debt Capacity (cont.)

- Under virtually every scenario with the Project, the impact on the City's Debt Capacity is better than that of the Do-Nothing/No Project scenario.
- The total cumulative amount of Debt Capacity over 30 years is shown below.



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(3) Incorporates bond financing FY 2025-2029 related to the City's School Investment Program Phase 2 totaling $200 Million.
(4) Long-term planning growth rates of 2% for revenues and taxable assessed valuation.

Impact of Navy Hill Project on Debt Capacity (cont.)

- The City's amount of Debt Capacity available in each year is shown in the table below:

Fiscal Year	1. No Project (Base Case)	2. Project @ 100% Rev	3. Project @ 67% Revenues	4. Project @ 46% Revenues
2021				
2022	15,030,000	7,710,000	7,785,000	7,835,000
2023				
2024				
2025	37,495,000	38,715,000	34,400,000	34,295,000
2026	73,415,000	79,300,000	71,965,000	71,890,000
2027	35,195,000	38,690,000	41,705,000	33,130,000
2028	0	0	0	0
2029	0	0	0	0
2030	76,700,000	77,415,000	76,975,000	75,810,000
2031	115,585,000	116,155,000	115,765,000	116,980,000
2032	30,870,000	31,500,000	31,095,000	33,560,000
2033	100,705,000	101,390,000	100,980,000	100,720,000
2034	225,655,000	226,395,000	225,970,000	225,695,000
2035	31,535,000	32,435,000	31,965,000	31,670,000
2036	130,645,000	131,525,000	131,065,000	130,770,000
2037	35,385,000	68,310,000	35,865,000	35,570,000
2038	29,385,000	50,260,000	29,930,000	29,620,000
2039	170,605,000	172,580,000	171,225,000	170,900,000
2040	31,830,000	34,050,000	70,795,000	32,210,000
2041	129,270,000	131,405,000	141,835,000	129,685,000
2042	75,035,000	77,245,000	76,885,000	99,330,000
2043	78,935,000	81,245,000	80,865,000	106,260,000
2044	191,745,000	194,140,000	193,760,000	192,405,000
2045	34,525,000	37,210,000	36,755,000	36,465,000
2046	35,200,000	37,810,000	37,405,000	37,150,000
2047	105,885,000	108,600,000	108,190,000	107,930,000
2048	60,780,000	63,610,000	63,190,000	62,920,000
Total	**1,851,410,000**	**1,937,695,000**	**1,916,370,000**	**1,902,800,000**

Total that can be borrowed over the 1st four years.

Amount that can be borrowed in a given year.

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