

Update on Status of Revenue Anticipation Note

City of Petersburg, Virginia



September 1, 2020



Background

- On July 21, 2020, Davenport & Company LLC, as Financial Advisor to the City of Petersburg (the “City”) delivered our presentation entitled “Financial Status Report – Focus on City Reserves”.

- Our Presentation addressed the following topics:
 - The City’s Unassigned Fund Balance (historic and most recent levels);
 - Recommended policy with respect to Fund Balance;
 - Comparative Fund Balance analysis;
 - Credit Rating/GFOA commentary; and
 - Potential Need for and Next steps with respect to undertaking a Revenue Anticipation Note (“RAN”) Borrowing in late calendar year 2020 (FY 2021).



Status Update Regarding the RAN

- On August 18, 2020, a meeting was held by City Administration and Staff to discuss the potential next steps for implementing a RAN in FY 2021.

- At the August meeting City Administration and the Department of Finance provided actual cash flows and ending cash balances information for FY 2018, FY 2019 and FY 2020. In addition, projected FY 2021 cash flows and cash balances were also provided.
 - The above cash flow information showed that the City has ended each of the past three fiscal years with cash balances that have been increasing year over year.
 - The City’s cash and Unassigned Fund Balance levels are at their strongest point in the past ten years as shown in the FY 2019 CAFR.

- Based on the cash flow information received from the City at the August meeting, we understand the following:
 - The City Administration believes that it is probable that the City will not need a RAN of \$5.5 Million (the amount borrowed in last calendar year 2019 for FY 2020);
 - The City may not even need a RAN at all in FY 2021 depending on how revenues are ultimately realized given the pandemic and/or other economic uncertainties of the current economy.



Status Update Regarding the RAN (cont)

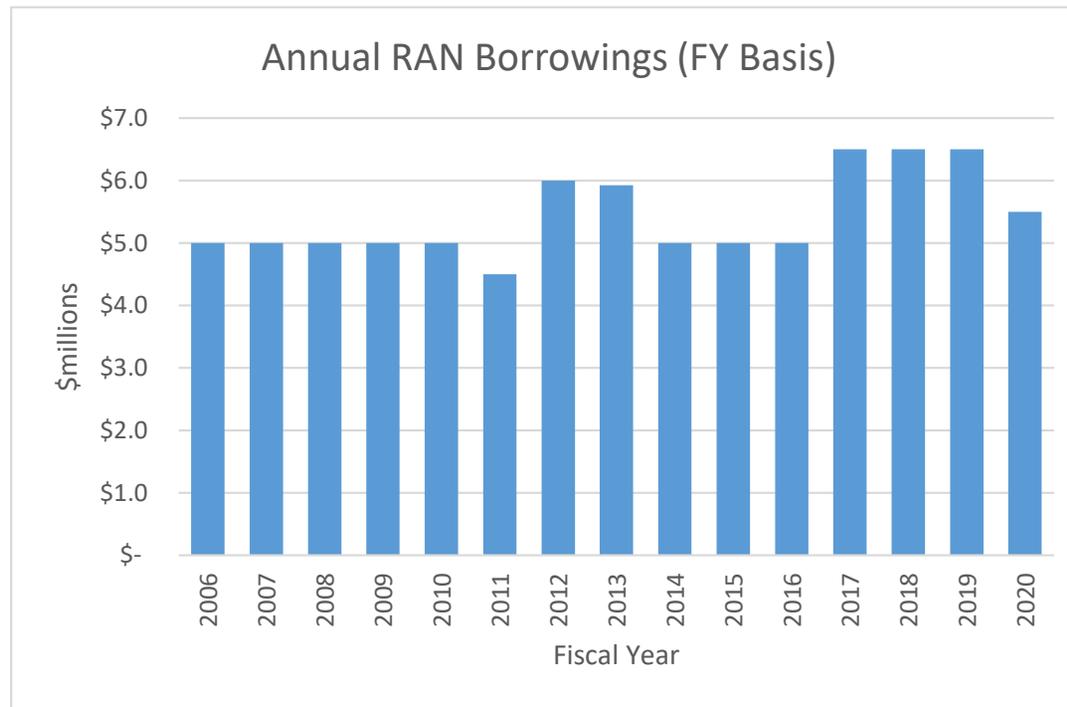
- Based on the foregoing, the City Administration believes that the RAN is not needed for FY 2021 at the current time.
 - However, City Administration will closely monitor cash balances and be ready to alert City Council to the fact that it is possible a RAN may still be necessary later this fall or early winter due to a variety of factors, which may include, but not be limited to:
 - Ongoing economic impact of the Pandemic on local revenues;
 - Deferrals of revenues (e.g. Utility Billings);
 - Cares Act funding;
 - Impact, if any, on revenues received from the Commonwealth.

- Davenport will stay in close contact with the City Administration as it monitors cash flows in the next several months.
 - If internally generated cash flows provide indication that a RAN may be necessary for FY 2021, the City can be in a position to implement a RAN within 60-90 days.



Petersburg RAN History

- Prior to the City’s recent build up of Unassigned Fund Balance and Cash in the most recent two fiscal years (e.g. FY2018 and FY2019), the City has historically used RANs to provide sufficient annual cash flow within the fiscal year.
- From FY 2006 to FY 2020, the City has borrowed upwards of \$5+ million over the July 1 to June 30 annual fiscal year time period to pay operating expenditures.





Benefits from Avoiding RAN Borrowings

- Eliminating reliance on annual RAN Borrowings enables the City to achieve real savings and benefits as follows:
 - Avoided Cost of Issuance: RANs have cost the City an average of \$290,000 per year to issue since 2016.
 - Avoided Interest Expense: RANs have cost the City an average of \$185,000 per year in annual interest expense since 2016.
 - Increased interest earnings: The City will benefit from larger operating cash balances that generate real interest income.
 - Greater fund balances: The City will benefit from larger fund balances that provide “rainy day” funds for unexpected circumstances that may arise.
 - Improved Credit Standing: Elimination of the RAN will be further evidence of the City’s improved Fund Balances and liquidity – this along with structurally balanced finances will help improve the City’s credit in the eyes of investors, potential lenders and the National Credit Rating Agencies.

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