Update on Status of Revenue Anticipation Note

City of Petersburg, Virginia

September 1, 2020
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.
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.
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.
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.
The U.S. Securities and Exchange Commission (the “SEC”) has clarified that a broker, dealer or municipal securities dealer engaging in municipal advisory activities outside the scope of underwriting a particular issuance of municipal securities should be subject to municipal advisor registration. Davenport & Company LLC (“Davenport”) has registered as a municipal advisor with the SEC. As a registered municipal advisor Davenport may provide advice to a municipal entity or obligated person. An obligated person is an entity other than a municipal entity, such as a not for profit corporation, that has commenced an application or negotiation with an entity to issue municipal securities on its behalf and for which it will provide support. If and when an issuer engages Davenport to provide financial advisory or consultant services with respect to the issuance of municipal securities, Davenport is obligated to evidence such a financial advisory relationship with a written agreement.

When acting as a registered municipal advisor Davenport is a fiduciary required by federal law to act in the best interest of a municipal entity without regard to its own financial or other interests. Davenport is not a fiduciary when it acts as a registered investment advisor, when advising an obligated person, or when acting as an underwriter, though it is required to deal fairly with such persons.

This material was prepared by public finance, or other non-research personnel of Davenport. This material was not produced by a research analyst, although it may refer to a Davenport research analyst or research report. Unless otherwise indicated, these views (if any) are the author’s and may differ from those of the Davenport fixed income or research department or others in the firm. Davenport may perform or seek to perform financial advisory services for the issuers of the securities and instruments mentioned herein.

This material has been prepared for information purposes only and is not a solicitation of any offer to buy or sell any security/instrument or to participate in any trading strategy. Any such offer would be made only after a prospective participant had completed its own independent investigation of the securities, instruments or transactions and received all information it required to make its own investment decision, including, where applicable, a review of any offering circular or memorandum describing such security or instrument. That information would contain material information not contained herein and to which prospective participants are referred. This material is based on public information as of the specified date, and may be stale thereafter. We have no obligation to tell you when information herein may change. We make no representation or warranty with respect to the completeness of this material. Davenport has no obligation to continue to publish information on the securities/instruments mentioned herein. Recipients are required to comply with any legal or contractual restrictions on their purchase, holding, sale, exercise of rights or performance of obligations under any securities/instruments transaction.

The securities/instruments discussed in this material may not be suitable for all investors or issuers. Recipients should seek independent financial advice prior to making any investment decision based on this material. This material does not provide individually tailored investment advice or offer tax, regulatory, accounting or legal advice. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction. You should consider this material as only a single factor in making an investment decision.

The value of and income from investments and the cost of borrowing may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions or companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance and estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes or to simplify the presentation and/or calculation of any projections or estimates, and Davenport does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated returns or projections will be realized or that actual returns or performance results will not materially differ from those estimated herein.

This material may not be sold or redistributed without the prior written consent of Davenport.