



City of Richmond, Virginia

Financial Condition Overview

Presented by:

Danielle Scott Parker, Director

Ashley Anyu, Senior Managing Consultant

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PFM Group Consulting LLC

3900 Westerre Parkway
Suite 300
Richmond, VA 23233

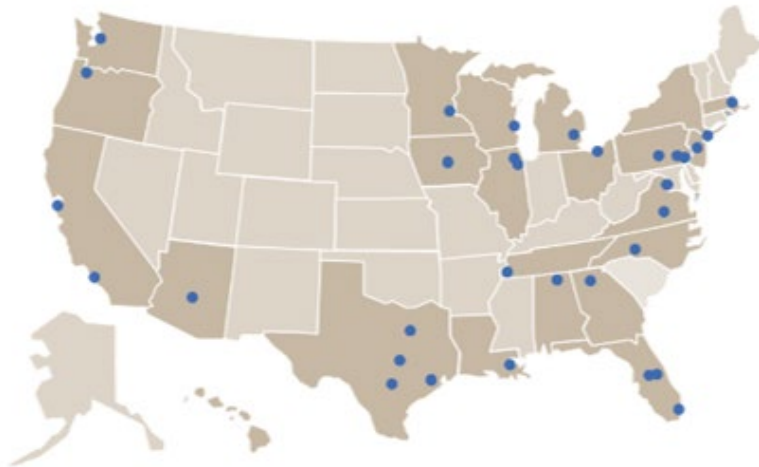
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PFM Project Team



Gordon Mann
Managing Director



Danielle Scott Parker
Director



Ashley Anyu
Senior Managing Consultant



Lauren Lowe
Managing Director



Veen Leung
Director

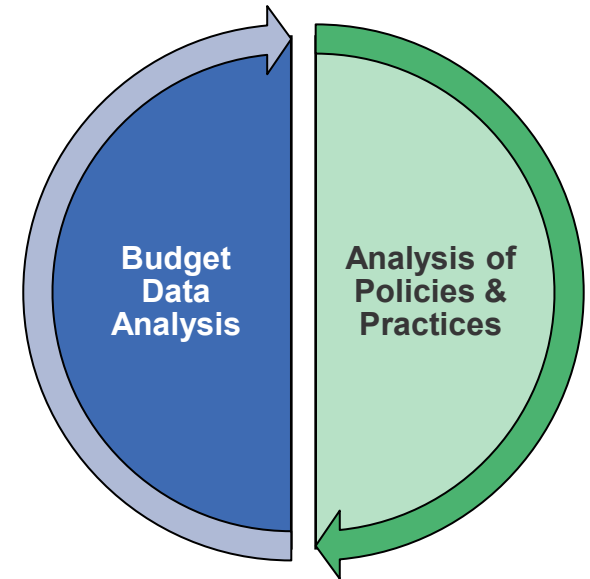


Kristy Choi
Director



Engagement Overview

- In February 2026, the City of Richmond (the “City”) engaged PFM Group Consulting LLC to analyze the City’s current financial condition and project its future performance
- This engagement is particularly timely as the City seeks to take a preventative approach to evaluate and manage budgetary pressures that have arisen in recent years. PFM also aimed to help the City clearly communicate its financial challenges – and their underlying drivers – to help inform future decisions. There are two primary components to our approach:
- **Financial Condition Assessment** to evaluate the City of Richmond’s fiscal health and long-term sustainability
 - ✓ Reviews historical financial performance, economic and demographic trends, and benchmarks against peer communities
 - ✓ Identifies strengths, highlights potential risks, and informs the multi-year projection model with insights on long-term trends
- **Multi-Year Baseline and Forecast Model**
 - ✓ *Baseline Model* shows where revenues, expenditures, and reserves are headed under existing policies (“*status quo*”)
 - ✓ *Forecast Model* factors in scenarios that test potential stressors, policy changes, and other identified initiatives (*ex: change in allocation to schools*)





Overview of City's Fiscal Health



Financial Condition SWOT Analysis

The City of Richmond faces developing structural challenges that require proactive planning and strategic prioritization to navigate growing obligations and changing economic conditions

Strengths

- ◆ Credit rating
- ◆ Diverse revenue base
- ◆ Strong local economy and employment base compared to state and national averages
- ◆ Recent investments in priority initiatives for residents (AHTF) and employees (past CBAs)

Weaknesses

- ◆ Locked-in personnel and pension obligations
- ◆ Slower revenue growth compared to expenditure obligations
- ◆ Higher level of service demands compared to county peers in the region

Opportunities

- ◆ PILOT agreement expansion
- ◆ FY2028 return to a normal assessment cycle
- ◆ Upcoming collective bargaining negotiations
- ◆ Ability for leadership to course correct financial outlook

Threats

- ◆ Rapidly rising labor costs
- ◆ Sustained economic slowdown
- ◆ Federal policy changes affecting intergovernmental aid
- ◆ Rising debt burden given planned debt issuances and capital needs



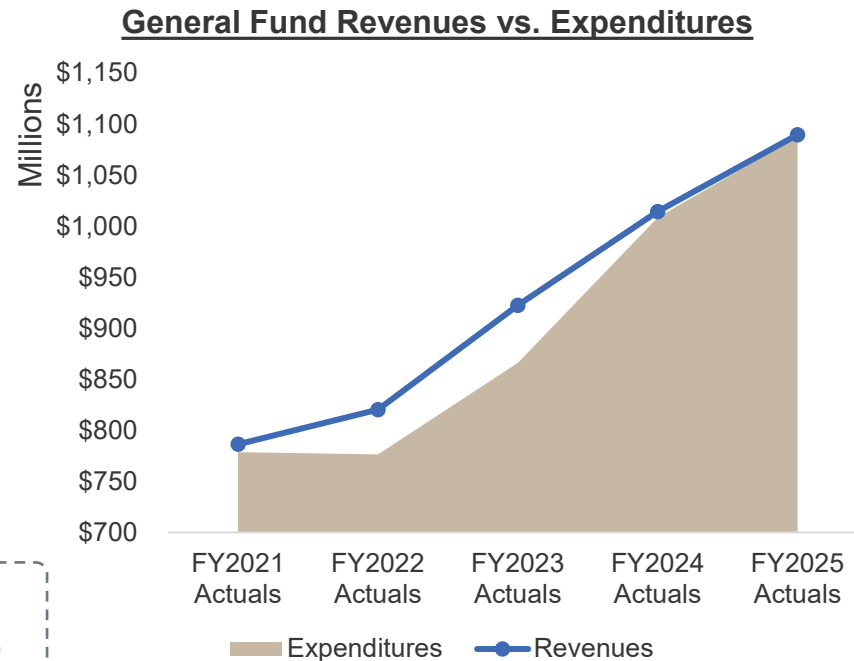
General Fund Structural Trend

Revenue Growth Outpaced by Expenditure Obligations

- Richmond experienced a strong post-Covid financial rebound, with General Fund revenues and expenditures growing from \$786 million and \$779 million, respectively, in FY2021 to just under \$1.09 billion in FY2025
- The turning point came in FY2023: as expenditure growth accelerated, the operating surplus declined sharply
- Underlying revenue growth is trending toward 3-4% annually, while expenditure obligations – collective bargaining, pensions, school costs, and debt service – are locked in at 7-9%
- Without a correction, the fund balance built on FY2022–FY2023 surpluses will face growing pressure as the gap between revenue capacity and expenditure obligations compounds

General Fund Historical Surplus (the shrinking gap)

FY21	FY22	FY23	FY24	FY25	FY26
\$7.7M	\$44.1M	\$56.3M	\$6.1M	\$1.8M	TBD



Source: City of Richmond, 2021 - 2025 Annual Comprehensive Financial Reports (ACFR)



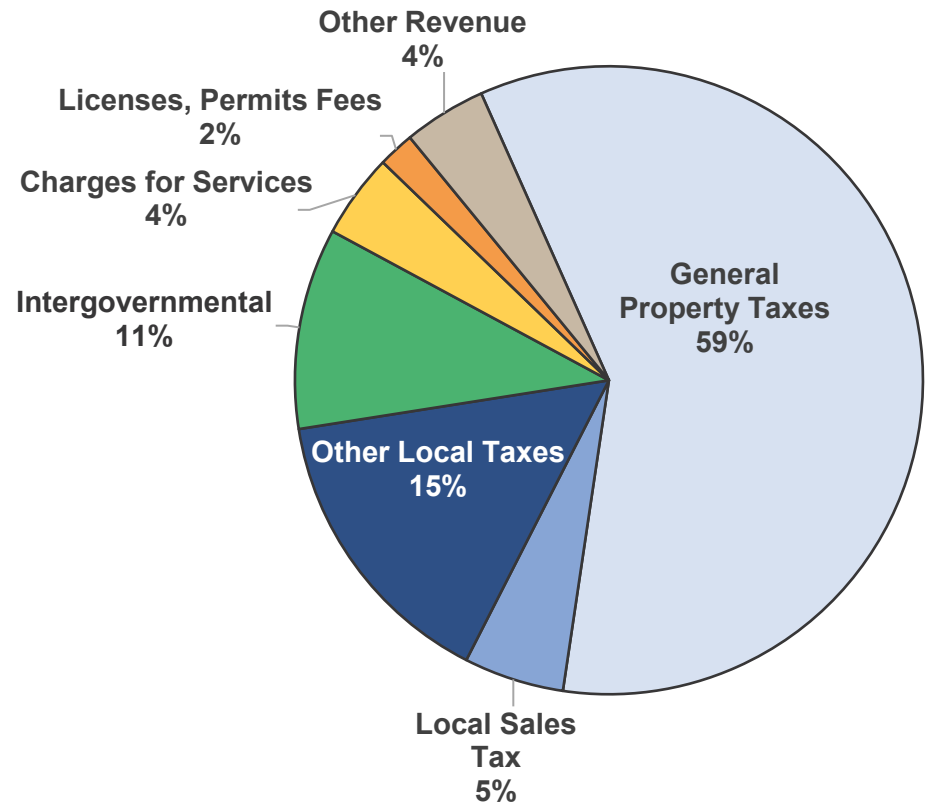
General Fund Revenues



FY2027 General Fund Revenues

- Tax revenue drives nearly three-quarters of the City's General Fund budget. With General Property Tax comprising the largest share, **the City's revenue base is highly sensitive to assessed value growth and real estate market conditions**
- Sales Tax and other local taxes are exposed to consumer sentiment and discretionary spending, risks compounded by re-accelerating inflation
- Intergovernmental revenues have declined following the expiration of one-time pandemic-era federal funding
- The remaining revenues – licenses, permits, and fees, service charges, and other miscellaneous revenues – account for just over 10% of the budget, with the largest line item being charges for sanitation waste removal (\$23.0 million)

**FY2027 General Fund Revenue Budget
(\$1.1 Billion)**

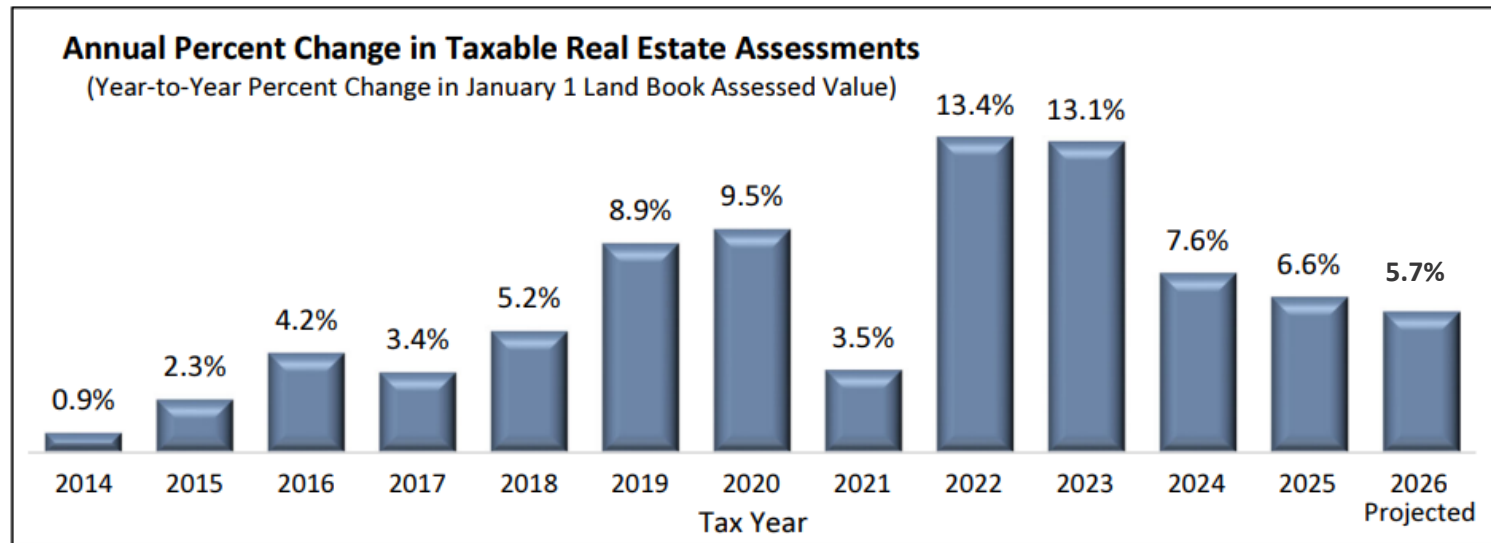


Taken together, the City has reached the limits of its organic revenue-growth capacity at the same moment expenditure pressures are accelerating



A Look at the City's Real Estate Tax Base

- ◆ **Tax base growth, as measured in assessed value, continues to decelerate**, with growth slowing to 6.6% in Tax Year (TY) 2025 and was budgeted at 5.7% in TY2026, reflecting continued strength in the housing market and new construction projects coming online but at a lower rate
- ◆ The FY2027 Budget anticipates 2.0% growth over prior year real estate tax figures, primarily attributable to the one-time assessment freeze (discussed in detail on the following slide)



- ◆ Additionally, personal property tax – representing 15% of total property tax revenue – is budgeted to decline \$14.3 million from last year's budget target, driven by vehicle value normalization following post-pandemic highs. This adds pressure to the property tax base beyond what real estate assessments alone suggest



Real Estate Tax Drives City's Financial Outlook

- Reflecting 60% of total General Fund revenue, any changes to the City's general property taxes has a significant impact on the City's ability to maintain established service levels and invest in priorities
- In May 2024, the City adopted a resolution to move the current calendar year assessment cycle to a fiscal year assessment cycle in FY2027. **This transition created a one-time assessment freeze, meaning no new assessment growth was captured this cycle.**
 - The fiscal impact is already reflected in the FY2027 Adopted Budget – real estate tax revenue is projected at \$533.3 million, which is just 2.0% over the FY2026 Budget of \$522.9 million, compared to the 6-10% growth in prior years
- Based on recent assessment growth rates, **the City foregoes an estimated \$15-20 million in FY2027** real estate tax revenue that would otherwise have been generated under a normal assessment cycle
- Beginning in FY2028, the City returns to a regular annual assessment cycle under the new fiscal year schedule, and some level of assessment-driven revenue growth is anticipated to resume
- Despite the FY2028 catch-up of assessment driven property tax revenues, **the City's growing list of commitments and rising costs of operational expenditures are likely to result in projected deficits that grow over the forecasted period**



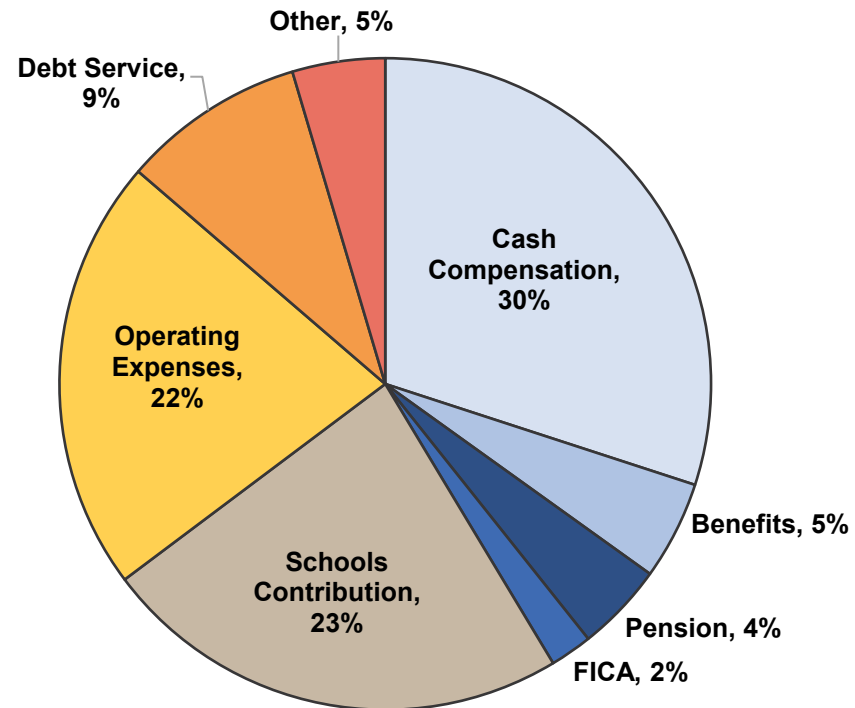
General Fund Expenditures



FY2027 General Fund Expenditures

- ◆ Personnel costs – including salaries, active employee benefits, and retiree obligations – are the City's largest expenditure driver, representing approximately 41% of the General Fund
- ◆ The City's contributions to Richmond Public Schools (RPS) is the second largest expenditure driver at 23.4%, reflecting the City's obligation to fund both the required local match for Standards of Quality (SOQ) and other expenses
- ◆ Operating expenses, debt service, and transfers to other funds account for the remaining 35%, each carrying its own growth trajectory and fiscal pressure

FY2027 General Fund Expenditure Budget (\$1.1 Billion)



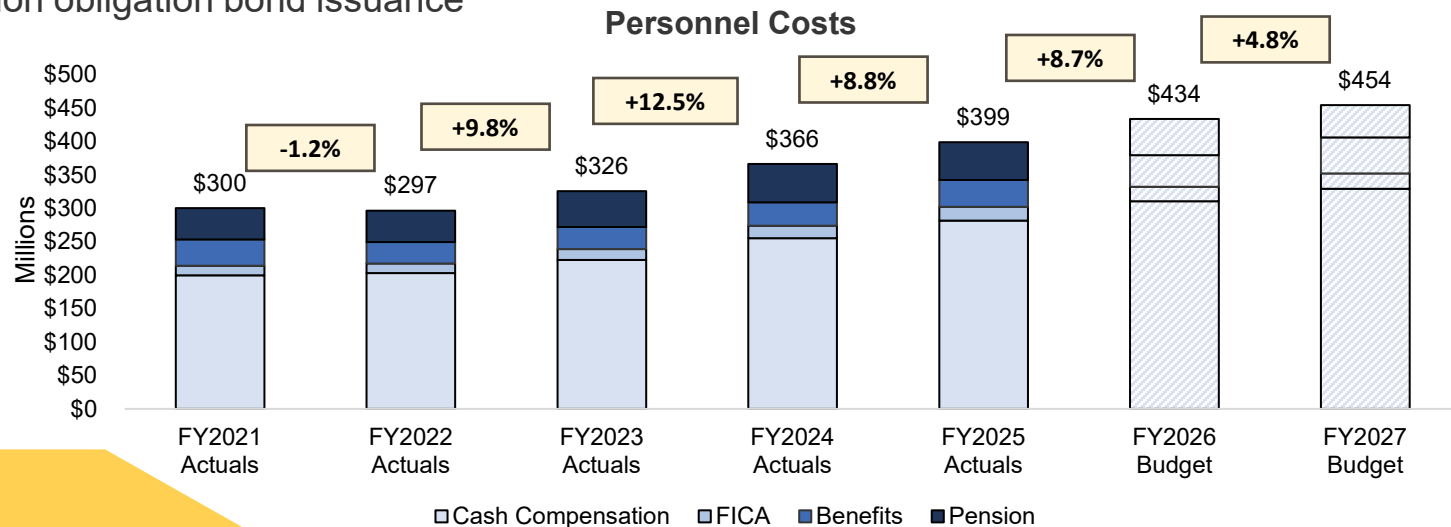
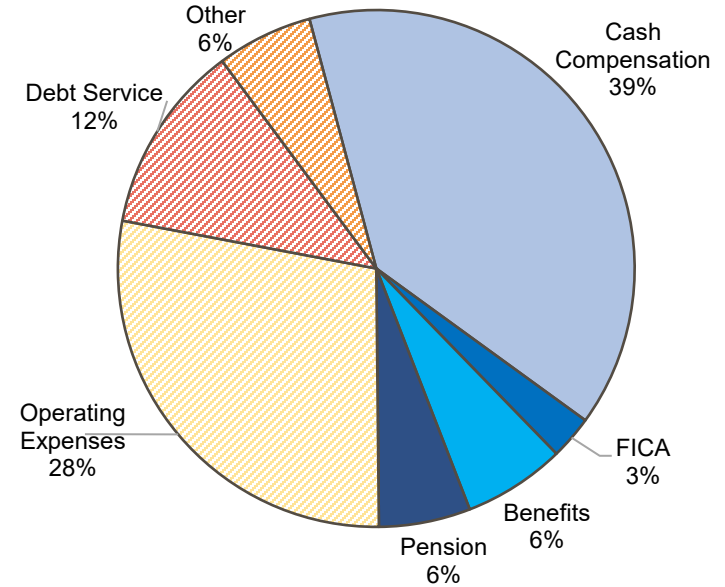
More than 60% of the General Fund is driven by personnel costs and school contributions – two categories with limited near-term flexibility, embedded growth obligations, and limited offsets on the revenue side



Personnel Costs

- Excluding the City's contributions to RPS, **personnel costs account for more than half of the City's remaining General Fund budget**
- From FY2021 to FY2025, total personnel costs grew at an annual average rate of 10%, driven primarily by wage increases and collective bargaining implementation
- The FY2027 Budget reflects a 5% increase in total personnel costs over FY2026, including a 14% increase in benefits costs, partially offset by a 11% reduction in pension expenses following the pension obligation bond issuance

FY2027 General Fund Expenditures
(Excluding Schools Contribution)





Compensation Funding Pressures

- Compensation assumptions and growth are a critical component to evaluating the City's overall fiscal health. These expenditures frequently outpace inflation and are now more constrained by CBA provisions that cover multiple years
- In the City's last round of CBAs, the three-year impact of the terms in the agreements was estimated to add \$103.6 million.
 - The City also provided a 3.25% cost of living wage increase for general employees and one-time retiree benefit in the FY2027 Budget
- Looking ahead, all five CBA terms end at the end of FY2027 and FY2028. **The outcome of current negotiations will be one of the most consequential determinants of the City's fiscal trajectory**

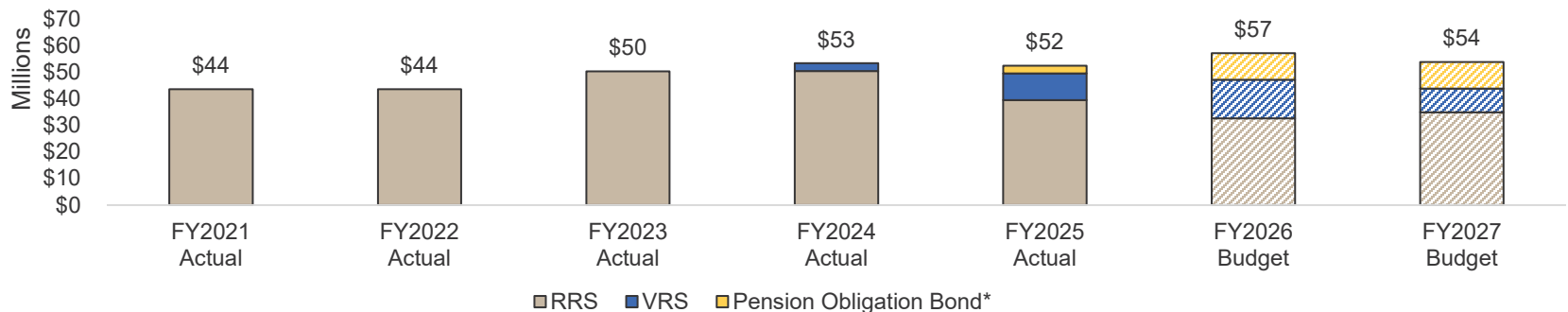
CBA Effective Dates	Employee Unit	Est. 3-year Fiscal Impact
July 1, 2024 - June 30, 2027	RCOP - Police	\$34.0 million
July 1, 2024 - June 30, 2027	IAFF - Fire	\$29.0 million
July 1, 2024 - June 30, 2027	SEIU - Administrative / Technical	\$20.0 million
July 1, 2025 - June 30, 2028	Teamsters - Labor and Trades	\$11.38 million
July 1, 2025 - June 30, 2028	SEIU - Professional	\$9.2 million
	Total All Units	\$103.58 million



Pension Obligations: Shifting, Not Shrinking

- The City faces three distinct and growing pension-related obligations that will compound over time:
 - 1. Required Annual Pension Contributions (RRS)** – The City must continue funding RRS annually. While contributions are currently projected to decline, compensation increases through collective bargaining agreements and compensation study implementation could raise future contributions if they exceed actuarial salary assumptions.
 - 2. Virginia Retirement System (VRS)** – For employees hired after January 1, 2024, the City transitioned to VRS, adding a second, growing retirement obligation
 - 3. Pension Obligation Bond (POB) Debt Service** – The FY2024 issuance of \$120 million in POBs improved the RRS funded ratio from 65% to 84.9%, but introduced approximately \$10 million in fixed annual debt service that will remain in place for roughly 20 years

Richmond Pension Plan Costs

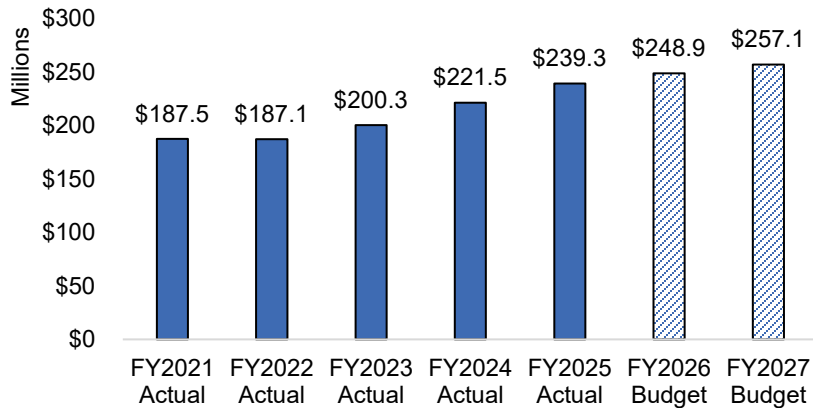


*Reflects the City's estimated annual debt service on the \$120 million pension obligation bonds issued in FY2024, paid from the Debt Service Fund



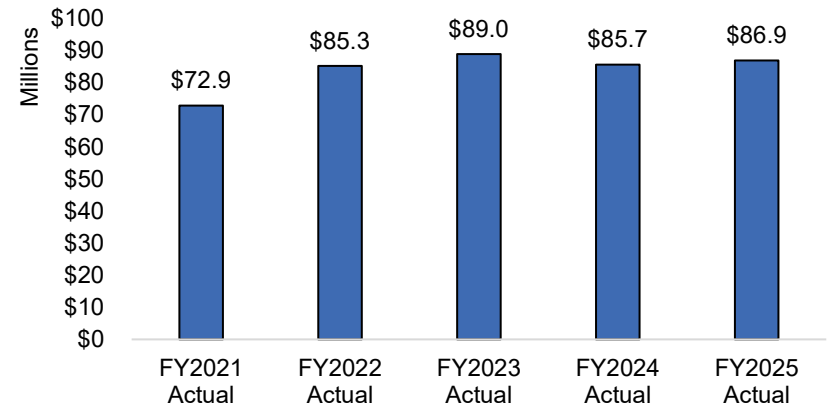
Schools Contribution and Debt Service

City Contribution to Richmond Public Schools



- The City's transfer to Richmond Public Schools is structured as a percentage of total year-over-year General Fund revenue growth. As the City's revenues increase, the transfer to schools grows proportionally, and **has grown an average of 6.3% annually since FY2021**
- Looking ahead, continued enrollment growth, compensation pressures, and a rising Local Composite Index (which determines the City's required state funding match) will sustain upward pressure on this contribution

General Fund Transfer to Debt Service



- With reduced General Fund support for capital projects, the City has increasingly utilized bonded debt to sustain infrastructure investments – yet budgetary constraints have still contributed to a growing backlog of deferred maintenance
- The City's General Fund transfer to the Debt Service Fund remained relatively flat from FY2015 to FY2020 before growing at an average rate of 9.3% from FY2021 to FY2024.
- The FY2026 Budget Capital Improvement Plan (CIP) includes **proposed debt issuances for each year between FY2026 through FY2030, totaling \$209 million**



Affordable Housing Trust Fund – Growing Commitment

- In February 2026, the City Council adopted Ordinance 2026-045, committing 2.5% of prior year Real Estate Tax collections to the Affordable Housing Trust Fund (AHTF) beginning in FY2027 and FY2028, reflecting a policy prioritization of housing access and affordability
- During the phase-in period (FY2027-FY2028), the AHTF is funded primarily through the Capital Fund, with a smaller General Fund contribution of \$1.75 million. **Beginning in FY2029, the full 2.5% formula takes effect and transitions entirely to the General Fund**

Transfer to the Affordable Housing Trust Fund

	2027 Budget	2028 Projected	2029 Projected	2030 Projected	2031 Projected
Capital Fund	\$10,000,000	\$10,000,000	--	--	--
General Fund	\$1,752,503	\$1,752,503	\$13,749,314	\$14,574,273	\$15,448,730
Total Transfer	\$11,752,503	\$11,752,503	\$13,749,314	\$14,574,273	\$15,448,730

- Because the AHTF transfer is calculated as a percentage of Real Estate Tax revenue, **it grows automatically alongside the tax base, and is a compounding, recurring obligation with no built-in offset**
- This commitment, while aligned with the City's housing priorities, represents a structurally growing General Fund expenditure that compounds the fiscal pressure identified throughout this assessment



Baseline and FY2028 Scenario Analysis



Developing a Baseline Projection – Key Assumptions

- The five-year forecast provides a roadmap for informed decision-making around the City's long-term fiscal sustainability
- The baseline forecast is intended to show where the City's financial results are headed under existing policies and commitments, starting from the FY2027 Adopted Budget and projecting forward under status-quo policy, with **no corrective action or tax rate changes** assumed
- The table to the right details the key growth rates underlying the baseline projection and identifies several known commitments that are not included in the baseline as the cost, policy decision, and fiscal impact remain TBD

Revenues	Baseline Growth Rate
Real estate tax	4.5% growth in FY28, then 6.0% annual growth in FY29-32
Other local taxes (sales, business license, utility)	2.0% - 2.4% (at or near inflation)
State intergovernmental	2.0% (tied to salary/benefit reimb.)
Federal intergovernmental	No growth
Expenditures	Baseline Growth Rate
Salaries* - all units	No growth
EE health insurance	7.6% (historical growth)
Overtime	10.0% (historical growth)
Pension (RRS/VRS)	No growth
Operating expenses	0-2.4% growth (historical growth; inflation)
Transfer to Richmond Public Schools	Tied to GF revenue growth
Debt service	Reflects debt schedule
Known commitments not included in the projection	Projected Fiscal Impact
Real property tax deferral	TBD
Open CBA negotiations	TBD
RRS cost-of-living bonus	\$692,000 – 3.5 million

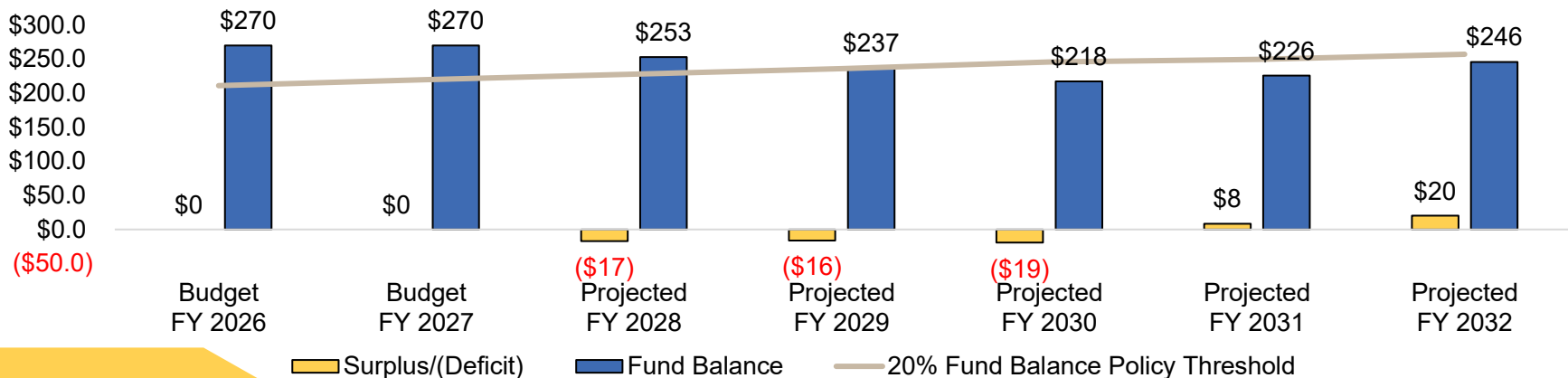
*The projection does not assume salary growth beyond current bargaining agreements which includes FY2028 salary increases of 3.25% for Teamsters and SEIU – Professionals.



5-Year Baseline Projection

- The outlook shown below reflects the City's baseline starting point with the following key assumptions:
 - Maintain Real Estate Tax rate at \$1.20 mills
 - Flat growth in personnel and pension costs
- Under these assumptions, the baseline projects deficits in FY2028 through FY2030, before moderate operating surpluses in FY2031 and FY2032 as the debt service peak recedes and real estate tax compounding accelerates
- In practice, this baseline is unlikely to hold as tax rate changes are actively under consideration and labor negotiations will resume, making some level of personnel cost growth a near-certainty
- **This baseline serves as the starting point for the scenario analysis that reflects how changes to tax rates impact the 5-year fiscal outlook**

General Fund 5-Year Baseline Projection





FY2028 Scenarios – Real Estate Tax Rate Changes

- Two potential real estate tax rate reductions were analyzed and compared against the current rate (\$1.20) to reflect the fiscal impact on the General Fund operating balance (surplus/deficit) and Fund Balance reserves.
- A 1-cent reduction (1.19) drastically reduces the available surplus in the first three years of the projection.
- A 4-cent reduction (\$1.16) creates a structural deficit during that same period.

FY2028 Tax Rate Change

Projected Impact on Year-End Operating Balance

1-cent reduction:
-\$4.6 million

4-cent reduction:
-\$18.3 million

Real Estate Tax Rate Impact Scenarios – Projected General Fund Surplus / (Deficit)

Real Estate Tax Rate	FY2028 Projected	FY2029 Projected	FY2030 Projected	FY2031 Projected	FY2032 Projected
\$1.20 (current rate)	(\$17,294,377)	(\$16,164,261)	(\$19,363,785)	\$8,431,104	\$20,145,123
\$1.19 (1-cent reduction)	(\$21,877,482)	(\$21,022,352)	(\$24,513,362)	\$2,972,553	\$14,359,059
\$1.16 (4-cent reduction)	(\$35,626,796)	(\$35,596,626)	(\$39,962,092)	(\$13,403,100)	(\$2,999,134)



FY2028 Policy Options Available to Council

- The following initiatives represent policy decisions or one-time actions that were individually costed to illustrate their fiscal impact on the baseline projection
- These are not recommendations; they are presented to give decision-makers a sense of the scale of available levers on both the revenue and expenditure sides of the ledger
- Council could also consider structural limits on discretionary expenditure growth. Examples include: Capping grants to civic, service, and cultural organizations or Richmond Public Schools

	Estimated FY2028 Impact
Real Estate Tax	
Reduce RE tax rate to \$1.19	(\$4.6 million)
Reduce RE tax rate to \$1.16	(\$18.3 million)

Meals Tax	
1% roll back to 6.5%	(\$8.2 million)
0.5% roll back to 7.0%	(\$4.1 million)

Expenditures	
Enact RRS cost-of-living bonus (1.0% - 5.0 %)	\$692,000 - \$3.5 million
Address additional capital needs	\$10.0 million



Key Takeaways

The five-year forecast provides a roadmap for informed decision-making around the City's long-term fiscal sustainability

- The [slowing economy](#) is expected to dampen prospective revenue growth. The City already saw slower growth in its 2024 assessment and the move to a fiscal year assessment cycle resulted in an assessment freeze in the upcoming FY2027
- The [outcome of ongoing CBA negotiations](#) will be one of the most consequential determinants of the City's forward-looking fiscal trajectory
- The recent issuance of [pension obligation bonds will increase debt service](#) spending by \$10 million annually
- The [General Fund commitment to the AFTF increases](#) to \$13.7 million and grows with real estate tax growth
- To address deferred maintenance and adequately fund capital investment needs, City officials expect to [continue issuing new bonds to renew and replace key infrastructure](#)
- With moderated revenue growth and increased funding pressures, the City is expected to enter a period of greater fiscal constraints and a heightened need for prioritizing resources
- Additionally, new risks have emerged – federal policy swings, shifting intergovernmental funding priorities, and lingering uncertainty around trade and economic growth create a more complex and volatile revenue environment than in recent years



Q&A

Thank You!





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