

Building a Municipal Wealth Fund for the City of Fredericksburg, VA

Abstract:

This article proposes the creation of a municipal wealth fund for the City of Fredericksburg, VA, as a potential replacement for tax revenues to operate the local government. The size of the endowment fund required to sustain the county's operations indefinitely without drawing down on the principal depends on the county's total tax revenues. According to available data, the county collects more than \$87 million in general fund revenues yearly. Suggesting that the endowment fund would need to produce at least \$87 million in income, but likely significantly more depending on investment returns and other financial considerations. The proposed model portfolio focuses on US equities, US Treasuries, US corporate bonds, and international equities to achieve the desired returns, consisting of 15% large-cap stocks, 15% mid-cap stocks, 15% small-cap stocks, 20% global stocks, 25% corporate bonds, and 10% US Treasuries. The portfolio's target allocation is reviewed bi-annually and rebalanced as needed to ensure the desired level of risk and return.

Introduction:

Local governments typically rely on tax revenues to finance their operations. However, there is an alternative approach—creating a municipal wealth fund that would function as a replacement for tax revenues. This article proposes a fund for the City of Fredericksburg, VA, to provide perpetual income without drawing down on the principal.

Endowment Fund Size:

The size of the endowment fund required to operate the local government of Fredericksburg City County continuously without drawing down on the principal depends on the county's total tax revenues. Knowing the exact amount of tax revenues is necessary to determine the precise size of the endowment fund. However, the endowment fund must substantially sustain the county's operations indefinitely. According to available data, the county collects more than \$87 million in general fund revenues yearly. Suggesting that the endowment fund would need to produce at least \$87 million in income, but likely significantly more depending on investment returns and other financial considerations.

Model Portfolio:

The proposed model portfolio focuses on US equities, US Treasuries, US corporate bonds, and international equities to achieve the desired returns, consisting of 15% large-cap stocks, 15% mid-cap stocks, 15% small-cap stocks, 20% global stocks, 25% corporate bonds, and 10% US Treasuries. The portfolio's target allocation is reviewed bi-annually and rebalanced as needed to ensure the desired level of risk and return. The model portfolio aims to produce at least \$87 million per fiscal year in income, which depends on the expected average return of the investments in the portfolio. Assuming an average return of 5.5%, the assets under management must equal approximately \$1,582,727,272.

Benefits of a Municipal Wealth Fund:

The proposed municipal wealth fund for the City of Fredericksburg, VA, would provide several benefits. Firstly, the fund would provide a stable source of income that is not dependent on fluctuations in tax revenues—ensuring that the local government can continue to operate without being affected by economic downturns or changes in the tax code. Secondly, the fund's income would help pay for infrastructure projects throughout the city alongside municipal debt offerings through an ETF, incentivizing residents to contribute to funding the city's debt by offering fractional ownership. Fractional ownership would help prevent the tragedy of the commons, where residents neglect the common good in favor of individual interests. Thirdly, the fund would allow the city to invest in long-term projects that may not be feasible with tax revenues alone. Long-term flexibility would enable the city to improve its infrastructure, invest in education, and fund other essential initiatives without burdening taxpayers.

In addition, a municipal wealth fund can boost the local economy. The creation of the fund would require hiring investment managers, accountants, and other financial professionals, which would create job opportunities for local residents. Furthermore, the investments benefiting local businesses and infrastructure projects generate economic activity, promoting an upward economic development spiral in the community.

Conclusion:

In summary, a municipal wealth fund can benefit the City of Fredericksburg, VA. A municipal wealth fund can help ensure the city's financial future by providing a stable income source, incentivizing community engagement, and promoting economic development. The proposed model portfolio, which includes a mix of US equities, US Treasuries, US corporate bonds, and international equities, can help achieve a

sustainable balance between risk and return, ensuring the fund's long-term viability. Ultimately, creating a municipal wealth fund is a proactive step towards ensuring the continued prosperity of the City of Fredericksburg, VA, and its residents.

References

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