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Date December 17, 2018

Subject Proposed Multi-year School Capital Funding Plan

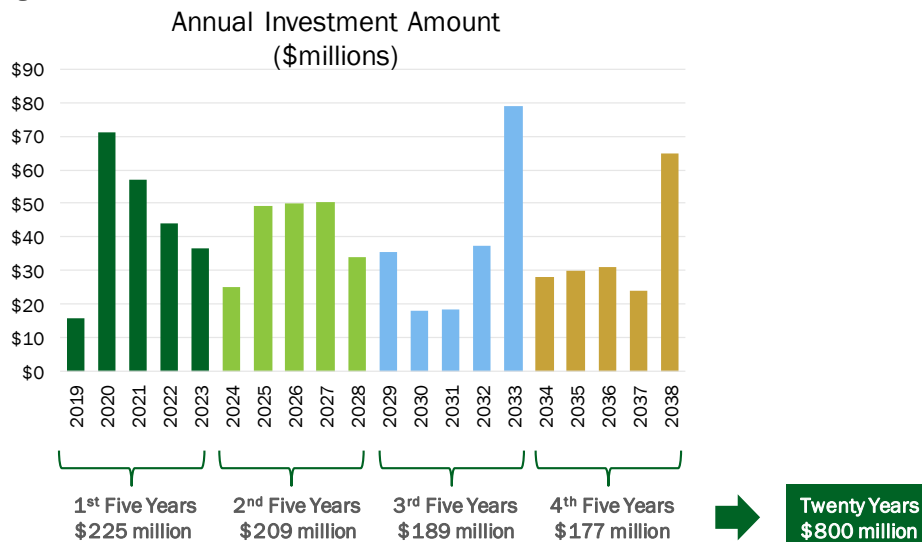
Background

The 2017 voter-approved referendum requiring the administration of Mayor Levar M. Stoney of the City of Richmond, Virginia (the “City”) to develop a fully funded plan to renovate or replace the City’s aging school buildings was approved by the General Assembly effective July 1, 2018.

The referendum tasked Mayor Stoney with the creation of a plan to modernize school facilities that did not involve raising taxes or alternatively, declare that such a plan is not feasible.

Richmond Public Schools (“RPS”) has identified the following \$800 Million of capital funding needs over 20 years (Figure 1), which serves as the basis for the Proposed Multi-year School Capital Funding Plan herein.

Figure 1



Source: Richmond Public Schools.

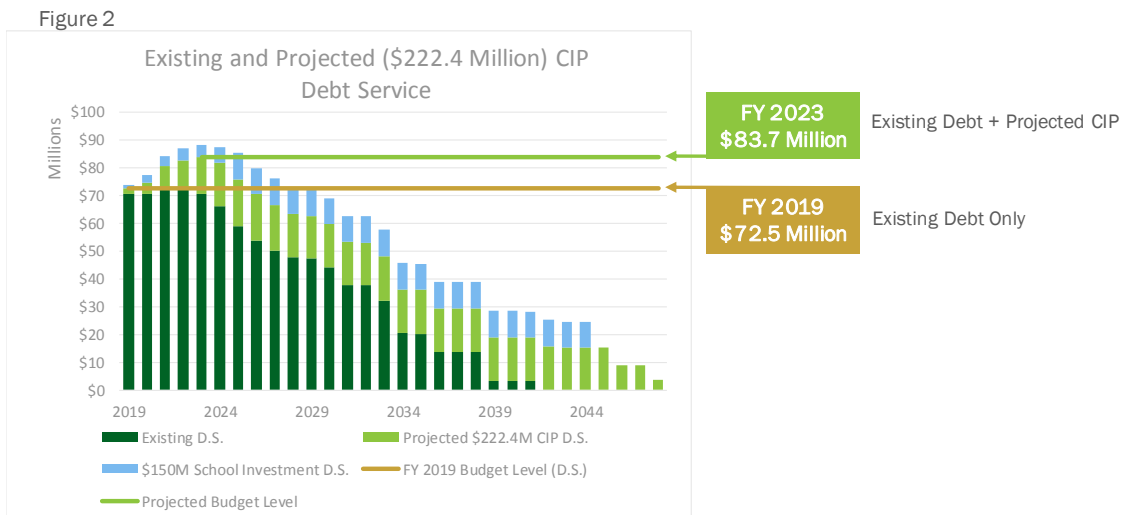
The Proposed Multi-year School Capital Funding Plan (the “Proposed School Plan”)

Mayor Stoney’s administration, in conjunction with Davenport & Company LLC as Financial Advisor, has developed a Multi-year School Capital Funding Plan (the “Proposed School Plan”) that accomplishes the following:

- Successfully provides \$800 Million of school capital investment over 20 years;
- Does not rely on any real estate tax increase;
- Includes \$150 Million of school capital investment funding based on the recently enacted 1.5% Meals Tax that is dedicated to Schools;
- Allows for full compliance with all of the City’s existing Debt Policy Guidelines;
- Provides significant capital funding for general non-school projects over the same 20-year time frame; and
- Relies on 2% growth in the City’s debt service budget commencing in FY 2024, a rate that is below that of historic inflation and is a fraction of the City’s recent growth in taxable real estate assessed valuation.

Approach to the Proposed School Plan

The City currently has an ongoing multi-year Capital Improvement Program (“CIP”) that is adopted each year in connection with the Annual Budget. The Proposed School Plan is structured around the City’s approved FY 2019-FY2023 CIP, which incorporates approximately \$223 Million of anticipated borrowing covering the most recently approved and previously approved CIP spending needs. Moreover, the current level of CIP spending needs will require the City to increase its annual debt service budget from approximately \$73 Million to an estimated \$84 Million by FY 2023 (Figure 2).



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The Proposed School Plan would not exacerbate the estimated debt service related to the City’s current level of CIP spending needs and includes \$150 Million of funding, which is repaid from a dedicated funding source consisting of a 1.5% Meals Tax that generates approximately \$9.1 Million at the outset (See Attachment 1 for details). The remaining balance of school capital investment included in the Proposed School Plan is \$650 Million.

How the Proposed School Plan Works

The City has historically done an excellent job in rapidly repaying its debt obligations. As a result, the City routinely exceeds one of its key Debt Policy Guideline ratios, which involves the speed at which debt is repaid. This rapid payoff of debt is one key factor in enabling the City to successfully meet the \$800 Million capital funding request from RPS.

The Proposed School Plan incorporates a dedicated funding program for school capital investment for each 5-year interval shown below. At the beginning of each 5-year interval, the City would issue interim financing (all of which is available to the RPS in year 1) to fund the planned school capital investment for the 5-year interval. Permanent Financing for the schools would be obtained once construction is complete at the end of each 5-year interval. Waiting 5 years to implement Permanent Financing allows the City to take full advantage of its rapid pay down of debt and maximize its debt capacity. Figure 3 outlines the funding for each 5-year interval in the 20-year Proposed School Plan.

Figure 3

Period	RPS Facilities Report Needs	Debt Capacity Allocated to Schools	Debt Capacity Allocated to General Fund	Total
FY 2019-2023	\$225.0	\$150.0	\$122.8	\$272.8
FY 2024-2028	209.0	200.0	200.1	400.1
FY 2029-2033	189.0	212.2	212.3	424.4
FY 2034-2038	177.0	237.8	238.5	476.3
Total	\$800.0	\$800.0	\$773.6	\$1,573.6

Amounts in \$millions.

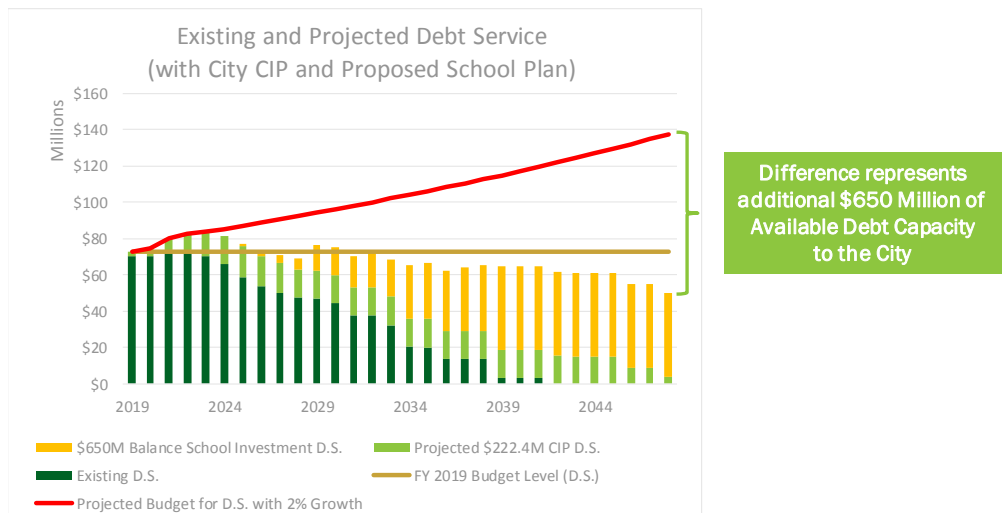
- 1 Initial funding amount completed.
- 2 Approximately 50% of projected Debt Capacity allocated to Schools. These monies are actually available in total to the City/RPS at the beginning of each 5 year interval (i.e. \$200.0 Million is available in FY 2024, etc.)

Source: Richmond Debt Capacity Model

Figure 4 shows Existing and Projected Debt Service including the City’s CIP and Proposed School Plan versus the Projected Budget for Debt Service (assuming 2% Growth). The growth in the Projected Budget for Debt Service enables the City to:

- Fully fund its \$223 Million of CIP spending needs;
- Incorporate the remaining \$650 Million of school capital investment over 20 years by allocating 50% of future debt capacity;
- Preserve the remaining 50% of future debt capacity for City’s General Fund capital investment over 20 years, which approximates \$650 Million; and
- Accomplish the above without increasing tax rates.

Figure 4



Source: Richmond Debt Capacity Model

As shown above, the Existing and Projected Debt Service, which includes the City’s CIP spending needs and the remaining \$650 Million of school capital investment in the Proposed School Plan, remains below the Projected Budget for Debt Service. Over the same time frame, the City is projected to have approximately \$650 Million of Available Debt Capacity for other city-wide needs that is both affordable and can be funded without increasing tax rates. This Available Debt Capacity is shown by the difference between the Existing and Projected Debt Service and the Projected Budget for Debt Service.

Potential Impact of the Navy Hill Redevelopment Project

Based on initial findings from the analysis performed by Hunden Strategic Partners, it is possible that the 20-year Proposed School Funding Plan could be accelerated as much as 5 years as a result of the additional tax revenues generated from a successful Navy Hill Redevelopment Project. **However, the 20-year Proposed School Funding Plan does not rely on such revenues.**

Should you have any questions please do not hesitate to contact us.

Attachment 1

Debt service related to the \$150 Million of School Capital Investment Needs that is supported by the dedicated 1.5% Meals Tax is shown below:

Fiscal Year	1 1.5% Meals Tax Revenue for Schools	Projected New Schools D.S (1)	2 Projected pay-as-you-go funding (2)
2019	\$9.1	\$1.0	\$8.1
2020	9.2	2.5	6.7
2021	9.3	3.7	5.6
2022	9.4	4.4	5.0
2023	9.5	4.5	5.0
2024	9.6	5.7	--
2025	9.7	9.4	--

Amounts in \$millions.

1. The City raised the Meals Tax an additional 1.5% commencing in FY 2019, which is to be used to fund \$150 Million of School Capital Investment Needs.
2. Unused revenues during the short-term Interim Financing period are “banked” from FY 2019 – FY 2023 and applied as equity toward the \$150 Million New School Investment.
3. Beginning in FY 2024, the dedicated meals tax revenue will be used for the long-term debt repayment.