

INTRODUCED: January 14, 2019

A RESOLUTION No. 2019-R003

To approve the Mayor’s school buildings and infrastructure modernization plan in satisfaction of the Mayor’s obligation set forth in City Charter § 6.15:3.

Patrons – Mayor Stoney and All Members of Council

Approved as to form and legality
by the City Attorney

PUBLIC HEARING: JAN 28 2019 AT 6 P.M.

WHEREAS, section 6.15:3 of the Charter of the City of Richmond (2018), as amended, requires the Mayor to formally present to the City Council a fully funded plan to modernize the City’s K-12 educational infrastructure consistent with national standards or inform the City Council that such a plan is not feasible; and

WHEREAS, the Mayor has submitted to the City Council the plan proposed in the two-page memorandum with the subject line “Proposed Multi-year School Capital Funding Plan” and dated December 19, 2018, a copy of which is attached to this resolution, in satisfaction of the Mayor’s obligation set forth in section 6.15:3 of the Charter of the City of Richmond (2018), as amended;

AYES: 9 NOES: 0 ABSTAIN: _____

ADOPTED: JAN 28, 2019 REJECTED: _____ STRICKEN: _____

NOW, THEREFORE,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF RICHMOND:

That the Council, in accordance with section 6.15:3 of the Charter of the City of Richmond (2018), as amended, hereby approves the plan proposed in the two-page memorandum with the subject line “Proposed Multi-year School Capital Funding Plan” and dated December 19, 2018, a copy of which is attached to this resolution.



CITY OF RICHMOND
INTRACITY CORRESPONDENCE

RECEIVED
DEC 18 2018
OFFICE OF CITY ATTORNEY

O&R REQUEST

DATE: December 18, 2018

EDITION:

TO: The Honorable Members of City Council

FROM: The Honorable Mayor Levar M. Stoney

Handwritten signature and date 12/18/18

RE: Richmond Public School Capital Funding Plan

RES. No.

PURPOSE/REASON: To provide a capital funding plan for Richmond Public Schools per City Charter § 6.15:3.

RECOMMENDATION: Approval is recommended by City Administration.

BACKGROUND:

According to City Charter § 6.15:3, the mayor shall "present a fully funded plan to modernize the city's K-12 educational infrastructure consistent with national standards..." that did not involve raising taxes or alternatively, declare that such a plan is not feasible.

Richmond Public Schools has identified \$800 Million of capital funding needs over 20 years, which serves as the basis for the proposed Richmond Public School Capital Funding Plan.

The Proposed School Plan, summarized herein, successfully provides \$800 million of school capital investment over 20 years, 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. The remaining balance of school capital investment included in the Proposed School Plan is \$650 Million.

The table below outlines the funding for each 5-year interval in the 20-year Richmond Public School Capital Funding Plan.

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 with the \$150 Million School Investment funded by the dedicated 1.5% Meals Tax.
- (2) Approximately 50% of projected Debt Capacity allocated to Schools. These monies are actually available in total to the City/Richmond Public Schools at the beginning of each 5-year interval (i.e. \$200.0 Million is available in FY 2024, etc.)

See the attached report for the full Richmond Public School Capital Funding Plan.

FISCAL IMPACT / COST: \$800 million over 20 years.

FISCAL IMPLICATIONS: \$800 million over 20 years.

BUDGET AMENDMENT NECESSARY: No (will be incorporated in future budgets)

REVENUE TO CITY: None

DESIRED EFFECTIVE DATE: Upon adoption

REQUESTED INTRODUCTION DATE: January 14, 2019

CITY COUNCIL PUBLIC HEARING DATE: January 28, 2019

REQUESTED AGENDA: Consent

RECOMMENDED COUNCIL COMMITTEE: Finance and Economic Development

CONSIDERATION BY OTHER GOVERNMENTAL ENTITIES: None

AFFECTED AGENCIES: Department of Finance, Department of Budget & Strategic Planning

RELATIONSHIP TO EXISTING ORD. OR RES.:

O&R Request

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REQUIRED CHANGES TO WORK PROGRAM(S):

ATTACHMENTS: Richmond Public School Capital Funding Plan Report

STAFF: Lincoln Saunders, Chief of Staff to Mayor Levar M. Stoney



CITY OF RICHMOND

INTRACITY CORRESPONDENCE

TO: The Honorable Mayor Levar M. Stoney

THROUGH: Selena Cuffee-Glenn *SCG*
Chief Administrative Officer

THROUGH: Lenora Reid *LR*
Deputy Chief Administrative Officer, Finance & Administration

FROM: Jay A. Brown, Ph.D. *JAB*
Budget & Strategic Planning Director

DATE: December 19, 2018

RE: Proposed Multi-year School Capital Funding Plan

This memo serves as a supplemental attachment to the Resolution from Mayor Levar Stoney that provides a capital funding plan for Richmond Public Schools (RPS) per City Charter 6.15:3.

The city's financial advisors, Davenport & Company LLC, worked with the aid of city staff to perform the fiscal analysis and funding strategy for the Proposed Multi-year School Capital Funding Plan. Richmond Public Schools identified \$800 million of capital funding needs and this plan accomplishes that request. This funding plan identified a methodology to fund RPS' \$800 million in capital funding needs over a 20 year period, whereby funding is recommended at the onset of each of the listed five-year periods. See the table below, which was extracted from Davenport's study, for additional details.

Figure 3

Period	RPS Facilities Report Needs	Debt Capacity Allocated to Schools	Debt Capacity Allocated to General Fund	Total
FY 2019-2023	\$225.0	1 \$150.0	\$122.8	\$272.8
FY 2024-2028	209.0	2 200.0	200.1	400.1
FY 2029-2033	189.0	2 212.2	212.3	424.4
FY 2034-2038	177.0	2 237.8	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

To ensure that (1) this plan is implemented, (2) both the Mayor and City Council's priority of funding public education are met, and (3) that this is a transparent process (for citizens, elected officials, and city staff) it is my intention to facilitate the execution of this plan by ensuring that the recommended funding is earmarked within future capital budgets in accordance with the Proposed Multi-year School Capital Funding Plan. Of course, the execution of this plan is contingent upon no significant changes in the plan's assumptions or changes in economic or other conditions that may arise.

Specifically, the upcoming FY2020 – FY2024 Proposed Capital Budget, which will be introduced on March 6, 2019, will include a recommendation for the second allocation of funding for Richmond Public Schools, in the amount of \$200 million in the FY2024 planned fiscal year. Note the first allocation of \$150 million was approved in FY2019. Per the funding plan, an additional allocation of \$212.2 million will be allocated in the planned FY2029 fiscal year and \$237.8 million will be allocated in the FY2034 planned fiscal year – both in subsequent capital budget requests. The combination of these recommended allocations meets Richmond Public School's \$800 million request and addresses the City Charter requirement that the Mayor shall present a fully funded plan, without raising taxes, to modernize the City's K-12 educational infrastructure consistent with national standards.

Keep in mind, per the Davenport analysis, that the City's General Fund debt service is projected to increase by 2% each year, beginning in FY2024, to cover the costs associated with this plan. This must be factored in future budgets.

Please do not hesitate to contact me should you have any questions.

To Selena Cuffee-Glenn, Chief Administrative Officer
 Lincoln Saunders, Chief of Staff
 Lenora Reid, DCAO for Finance and Administration
 John Wack, Director of Finance

From David P. Rose, Senior Vice President and Manager of Public Finance
 Roland Kooch, Jr. Senior Vice President

Date December 17, 2018

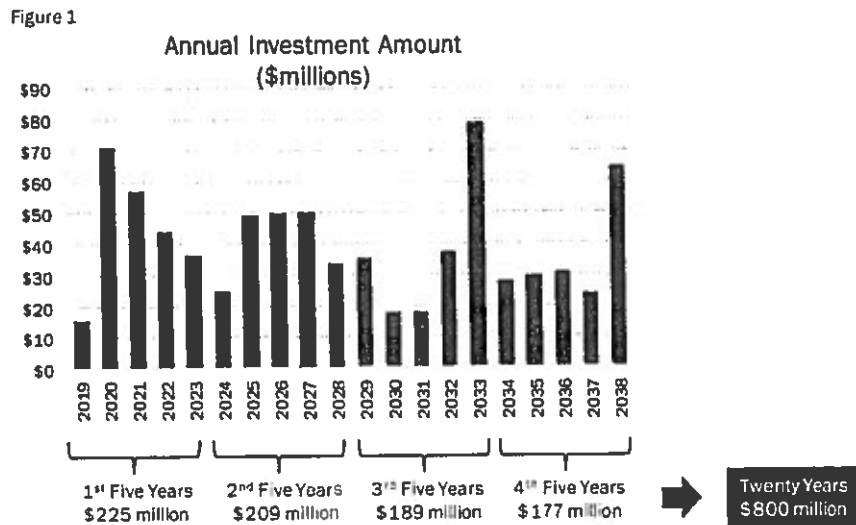
Subject Proposed Multi-year School Capital Funding Plan

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.



Source: Richmond Public Schools.

DAVENPORT & COMPANY

Proposed Multi-year School Capital Funding Plan
December 17, 2018

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

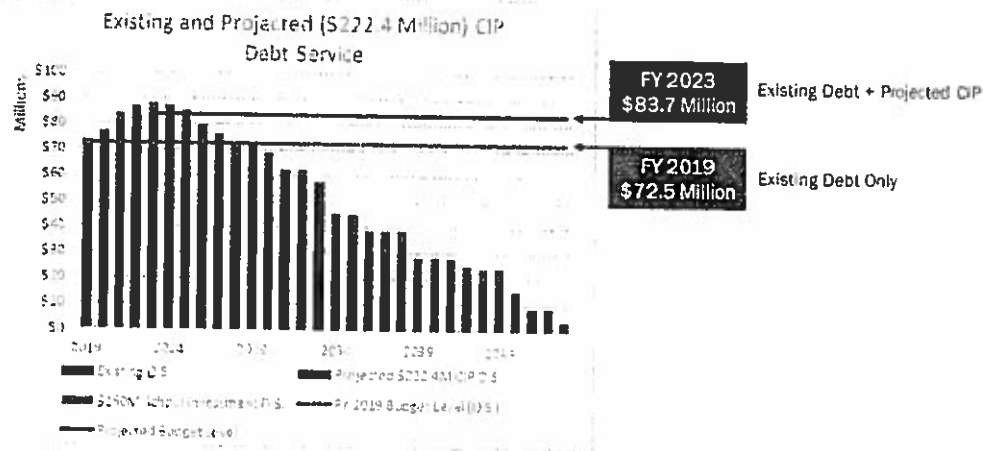
Mayor Stoney's administration, in conjunction with Davenport & Company LLC as Financial Advisor, has developed a Multi-year School Capital Funding Plan (the "Proposed School Plan") that accomplishes the following:

- 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 \$222.4 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).

Figure 2



Source: Existing Debt and CIP - Richmond Department of Finance.

DAVENPORT & COMPANY

Proposed Multi-year School Capital Funding Plan
December 17, 2018

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
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- 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

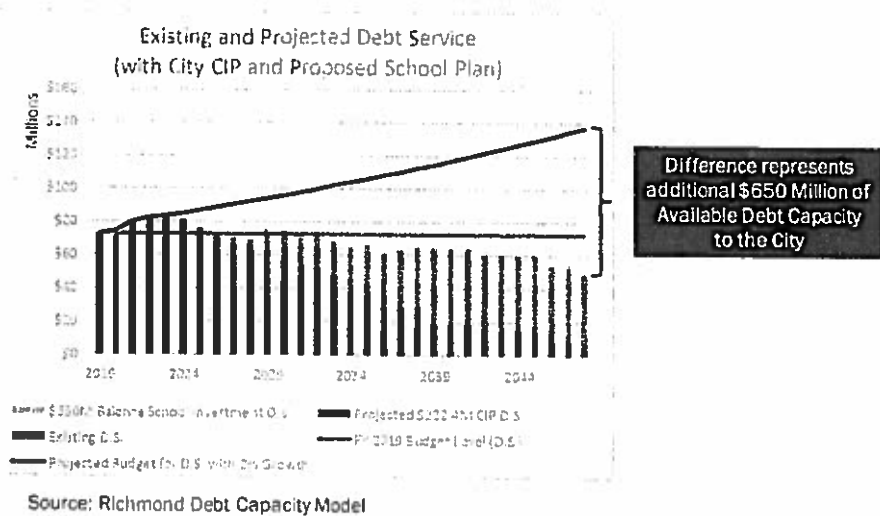
DAVENPORT & COMPANY

Proposed Multi-year School Capital Funding Plan
December 17, 2018

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



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.

DAVENPORT & COMPANY

Proposed Multi-year School Capital Funding Plan
December 17, 2018

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	--
³ 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.