Information prepared for the Education Compact Quarterly Meeting

Presented By:

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Selena Cuffee-Glenn, CAO

Part 1

Presented By:

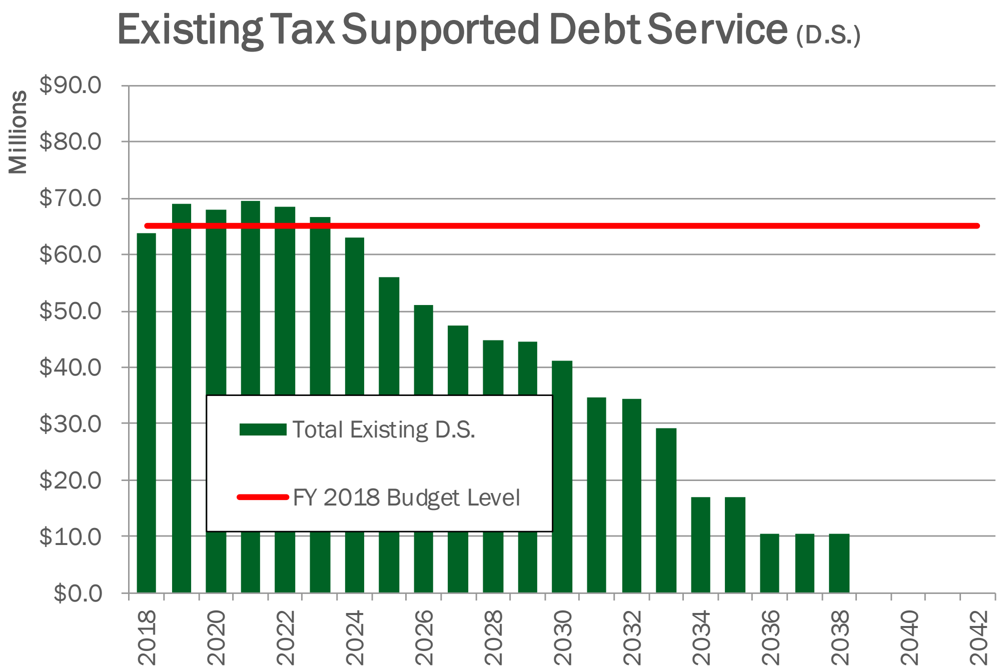
David P. Rose, **Senior VP and Manager of Public Finance,**
Davenport & Company LLC

Overview

- Address City's current debt structure.
- Outline the cash flow impact of the existing approved current 5-year CIP.
- Address Debt Capacity prior to any new school funding source.
- Introduce the Capital Acceleration Program ("CAP") for a New School Construction Program.
- Outline potential revenue sources to service the CAP.
- Demonstrate continued compliance with all Financial Policy Guidelines including Debt Capacity.

Richmond's Current Debt Picture

- **Total Existing Tax Supported Debt Service includes principal and interest on all G.O. and M.O. Bonds not paid from recurring revenue sources[(1)].**

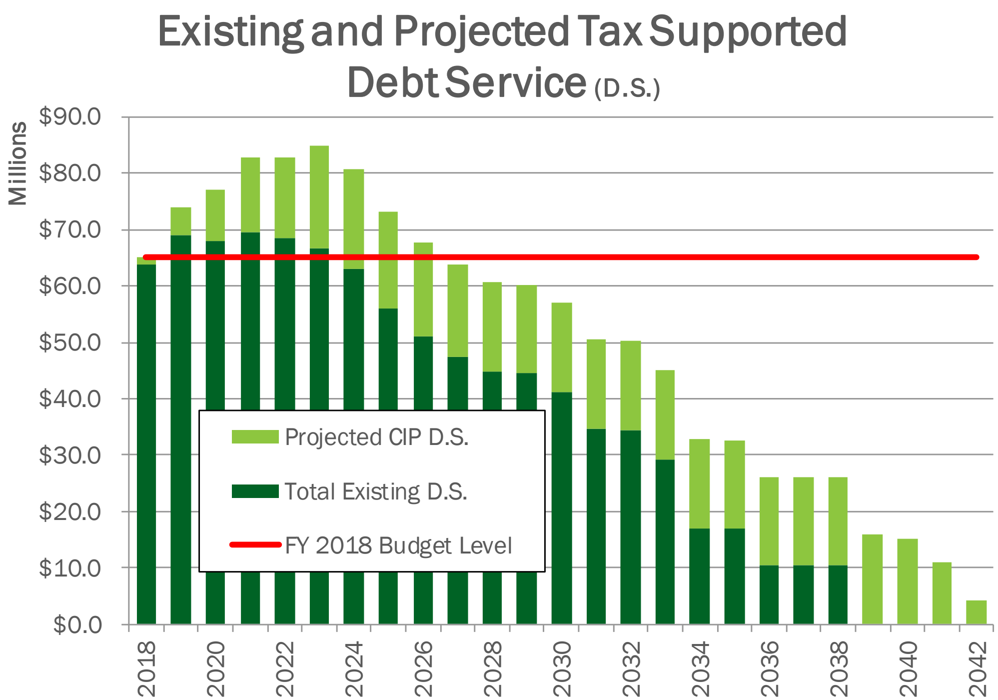


Fiscal Year	Existing Tax Supported Debt Service (D.S.) (1)
	917,586,842
2018	63,942,079
2019	69,106,078
2020	68,064,986
2021	69,588,953
2022	**68,604,575**
2023	66,781,258
2024	63,152,831
2025	56,041,410
2026	50,954,084
2027	**47,480,252**
2028	44,886,913
2029	44,457,497
2030	41,153,968
2031	**34,679,891**
2032	34,485,354
2033	29,195,859
2034	17,099,444
2035	16,850,506
2036	**10,352,806**
2037	10,356,581
2038	10,351,516
2039	0
2040	0
2041	**0**
2042	0

(1) As of 6/30/2017 with 2017B&C Bonds. Excludes Line of credit interest and G.O. Bonds related to utility and parking enterprise funds and Stone facility.

Existing & Projected Tax Supported Debt Service

- **Total Existing[1] & Projected Tax Supported Debt Service based on the City's existing $227.8 million of additional CIP related debt (Current 5-Year CIP and Previously Authorized Projects).**



Fiscal Year	Existing Tax Supported Debt Service (D.S.) (1)	Projected Tax Supported CIP D.S.	Total D.S.	Debt Service (Increase) versus FY 2018	Debt Service "Freed Up" versus FY 2018
	917,586,842	348,764,371	1,266,351,212		
2018	63,942,079	1,286,436	65,228,516	-	-
2019	69,106,078	4,851,639	73,957,717	(8,729,201)	-
2020	68,064,986	9,144,841	77,209,828	(11,981,312)	-
2021	69,588,953	13,186,422	82,775,375	(17,546,859)	-
2022	**68,604,575**	**14,100,131**	**82,704,707**	**(17,476,191)**	**-**
2023	66,781,258	18,076,851	84,858,109	(19,629,594)	-
2024	63,152,831	17,574,635	80,727,466	(15,498,950)	-
2025	56,041,410	17,137,926	73,179,336	(7,950,821)	-
2026	50,954,084	16,701,217	67,655,301	(2,426,785)	-
2027	**47,480,252**	**16,264,508**	**63,744,759**	**-**	**1,483,756**
2028	44,886,913	15,827,799	60,714,712	-	4,513,804
2029	44,457,497	15,827,799	60,285,295	-	4,943,220
2030	41,153,968	15,827,799	56,981,767	-	8,246,749
2031	**34,679,891**	**15,827,799**	**50,507,690**	**-**	**14,720,826**
2032	34,485,354	15,827,799	50,313,153	-	14,915,363
2033	29,195,859	15,827,799	45,023,658	-	20,204,858
2034	17,099,444	15,827,799	32,927,243	-	32,301,273
2035	16,850,506	15,827,799	32,678,305	-	32,550,211
2036	**10,352,806**	**15,827,799**	**26,180,605**	**-**	**39,047,911**
2037	10,356,581	15,827,799	26,184,380	-	39,044,136
2038	10,351,516	15,827,799	26,179,314	-	39,049,201
2039	0	15,827,799	15,827,799	-	49,400,717
2040	0	15,132,096	15,132,096	-	50,096,420
2041	**0**	**11,039,724**	**11,039,724**	**-**	**54,188,792**
2042	0	4,334,359	4,334,359	-	60,894,157

(1) As of 6/30/2017 with 2017B&C Bonds. Excludes Line of credit interest and G.O. Bonds related to utility and parking enterprise funds and Stone facility.

Initial Observations

- The City's current debt levels are in compliance with all adopted Financial Policy Guidelines.

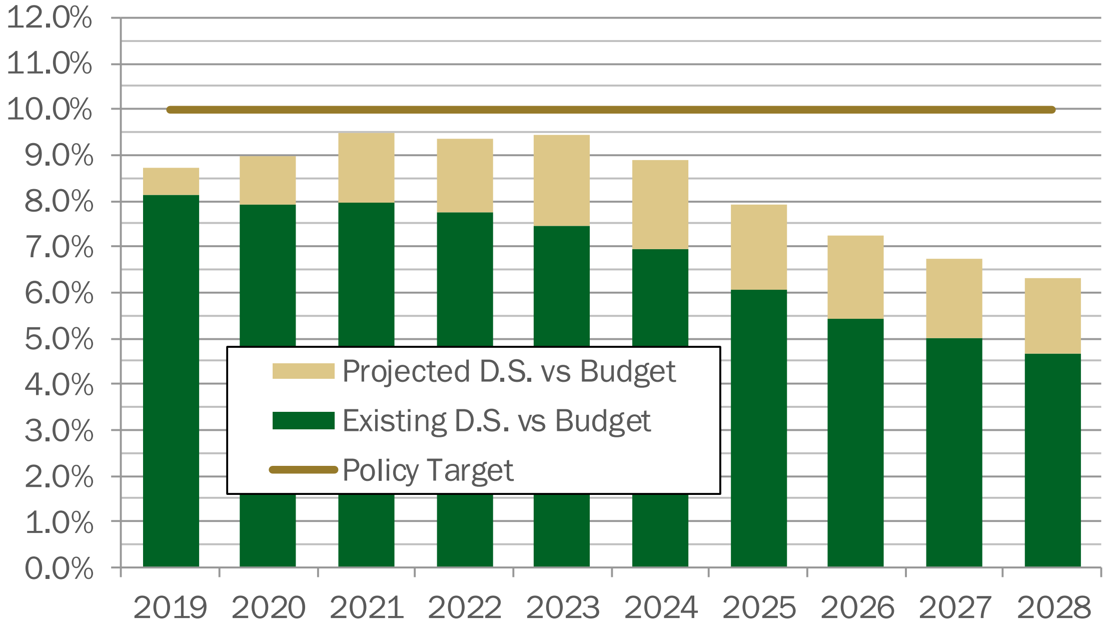
- Even with the additional $227.8 million of additional CIP related debt, the City still remains in compliance with all adopted Financial Policy Guidelines.

- The planned additional debt related to the CIP would require upwards of **$19 million** of new revenues to meet the maximum annual debt service in FY 2023.

Projected Debt Capacity for All City-wide Projects

- ***Debt Capacity*** **is the amount of debt that could be issued by the City for all City-wide Projects[1] without violating the City's Debt Management Policies.**

Total Debt Service as a % of Total Revenue



- **Next 5 years (FY 2019 - FY 2023) ≈ $66 million – This capacity will be used for City and Schools, and not available for New School Construction Program.**
- **Subsequent 5 Years (FY 2024 – FY 2028 ≈ $415 million**
- **TOTAL ≈ $481 Million**

(1) All City-wide Projects include City building and infrastructure, schools, information technology and other capital investment needs.

The Capital Acceleration Program ("CAP") for New School Construction Program

- The Capital Funding Plan ("CAP") Strategy would be in addition to the City's Existing CIP spending for FY 2018 through FY 2022 approximating $227.8 million.
- No repurposing of the Existing CIP is incorporated herein.
- Based on New Recurring Revenues[(1)] from 1.5% Meals Tax.
- The CAP Strategy maintains full compliance with all of the City's relevant Financial Policy Guidelines.
- The CAP Strategy also provides new/enhanced Pay-as-you-go funding annually. Note: the Rating Agencies like this approach.

(1) Generates $9 Million in Year 1 and grows in subsequent years.

Potential Revenue Sources Available to the City

		Sustainable	Reliable	Locality Discretion	Available	Comments
1	Meals Foods Tax	Yes	Yes	Yes	Yes	• See Page 8
2	Personal Property Tax	Yes	Yes	Yes	Yes	• 100% burden on City Residents/Businesses
3	Admissions Tax	Yes	Yes	Yes	Yes	• Too few dollars
4	Lodging (Hotel) Tax	Yes	Yes	Yes	No	• Dedicated to GRCCA Debt Repayment
5	Cigarette Tax	Yes	Yes	Yes	Yes	• Declining Source; Less reliable; Too small
6	Motor Vehicle Lic. Tax	Yes	Yes	Yes	No	• No additional capacity to adjust
7	Real Estate Tax	Yes	Yes	Yes	Yes	• 100% burden on City Residents/Businesses
8	Real Estate Tax (Growth)	Yes	Yes	Yes	Yes	• Dedicated to General Fund

Potential Revenue Sources Available to the City (Cont)

		Sustainable	Reliable	Locality Discretion	Available	Comments
9	Business License (BPOL) Tax	Yes	Yes	No	No	All are either not available; unreliable or City lacks control
10	Consumers' Utility Tax	Yes	Yes	No	No	
11	Incremental Utility PILOT	No	No	No	No	
12	State PILOT Service Charge	No	No	No	No	
13	Other PILOT Service Charge	No	No	Maybe	Maybe	
14	Surplus Property Sales	No	No	Maybe	No	

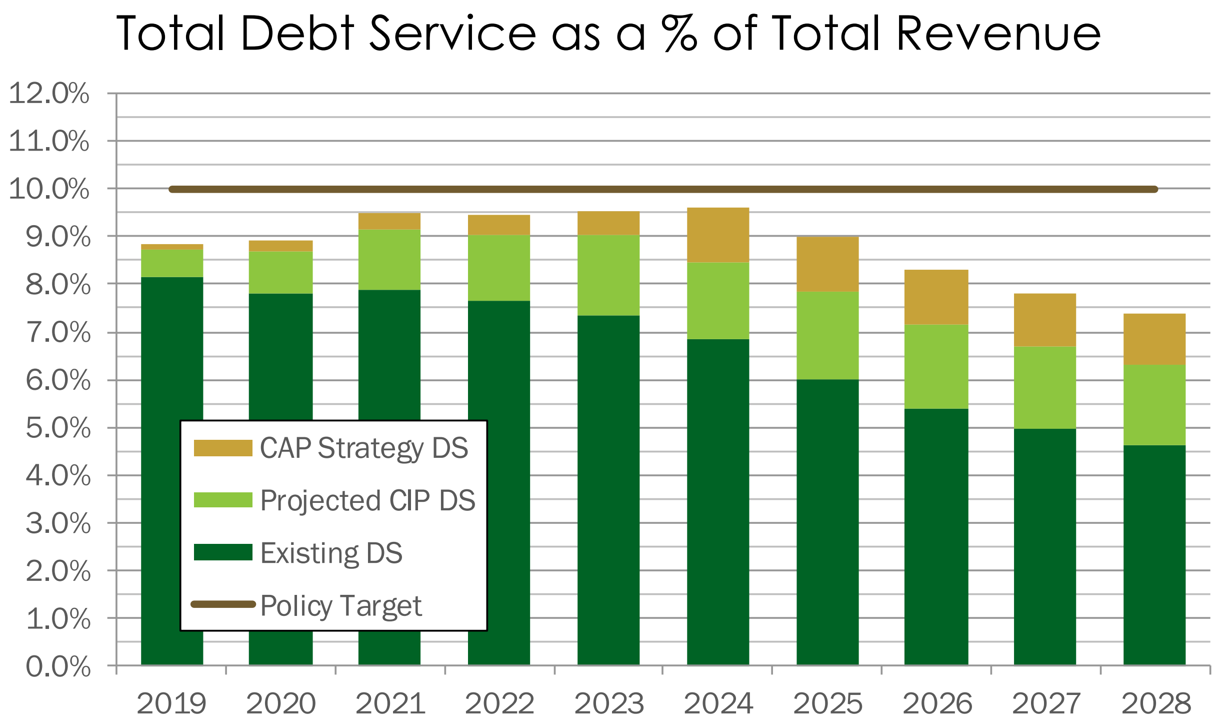
What is Generated for Schools by the CAP?

- The impact of the CAP Strategy is shown below:

	Years 1-5 FY 2019 - FY 2023	Years 6-10 FY 2024 - FY 2028	Ten Years Total
BEFORE CAP - Potential Funding			
Current Capacity	$66	$415	$481
AFTER CAP - Potential Funding			
CAP Strategy	**$150**	**NA**	**$150**
Current Capacity	$66	$342	$408
Total Capacity	$216	$342	$558

- **$66 Million will be used for City and Schools Projects.**
- **$150 Million will be available for New School Construction Program (New and Renovated Schools).**

Revised Debt Capacity with CAP



- **As shown in the Graph above, with both the CAP and Projected CIP Debt Service combined, the City remains in compliance with this policy.**

Complete Transparency of the 1.5% Meals Tax and CAP Program

- Per City Ordinance, a “Special Reserve Fund” will be created for the CAP New School Construction Program.

- As part of the City’s Financial Policy Guidelines, a Policy specifically governing the use of these funds will be created and monitored on a regular basis.

- The annual audited Financial Statements will incorporate a separate fund balance line item ensuring complete transparency.

Summary

- Current debt structure of the City's existing 5-year CIP requires upwards of $19 million of additional revenues.
- Prior to the CAP, the City has approximately $66 million of Debt Capacity in the next 5 years, which is needed for City and Schools Projects and is not available for the New School Construction Program.
- With the CAP, the City has an additional $150 million of Debt Capacity in the next 5 years.
- The dedicated 1.5% Meals Tax will serve as a reliable, sustainable, locally driven and available revenue source to satisfy the $150 million.

Part 2

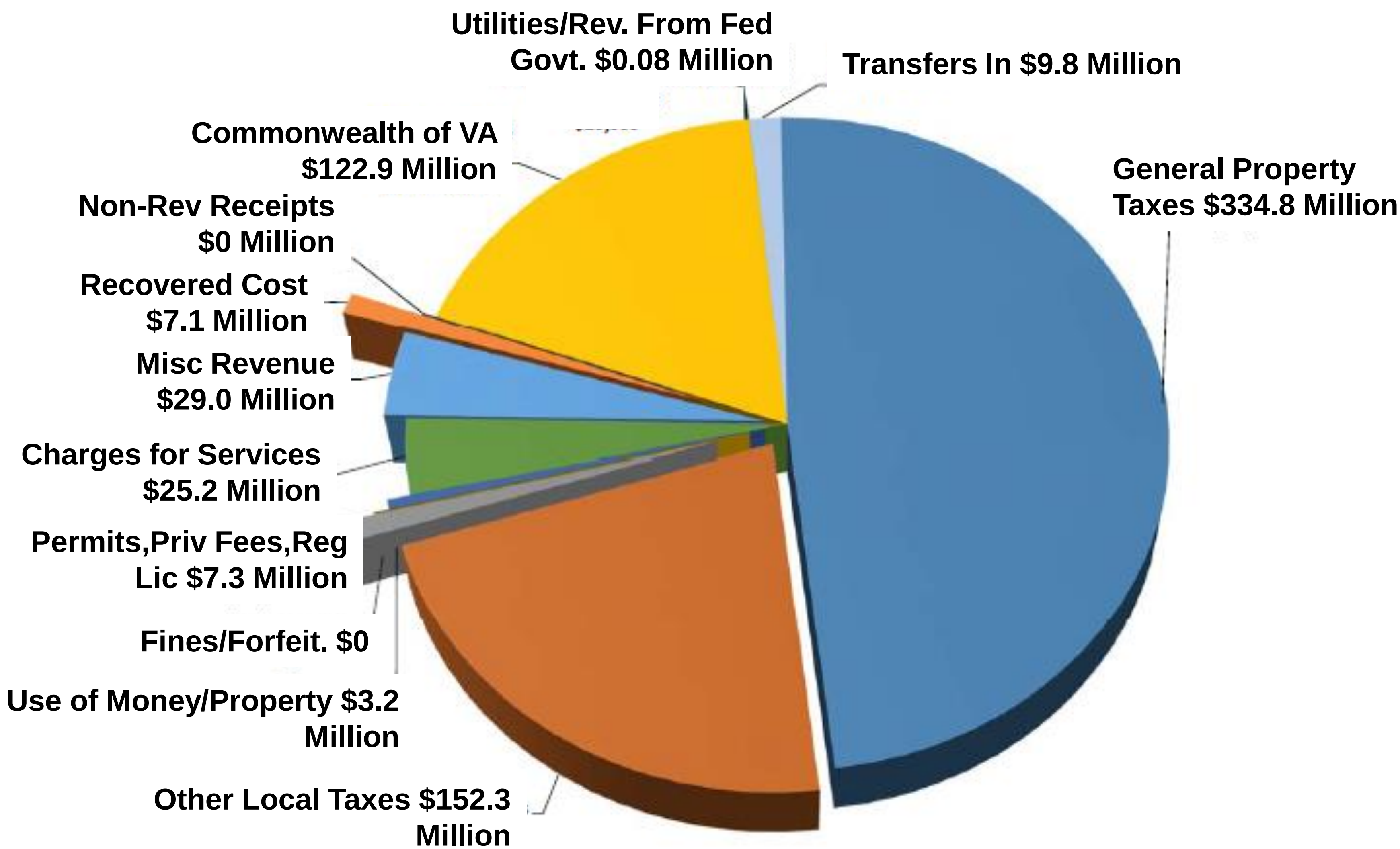
Presented By:

John B. Wack, Director of Finance

Overview

- Present the major sources of Revenue in the General Fund.
- Discuss the impact on RPS of the Commonwealth's change in the City’s Composite Index.
- Outline upcoming Budget Challenges for FY 2019.
- Discuss the rationale for the additional 1.5% Meals Tax and impact on spending.
- Provide recent history of prior 1% Meals Tax enacted by City Council in 2006 “to address debt-related costs for cultural facilities and new or renovated school buildings.”

What is in the City's Adopted FY 2018 $691.9 Million General Fund Revenue Budget?



Impact on RPS of the Commonwealth's Change in City's Composite Index

- RPS is not receiving any additional State funding in FY2019 compared to the current year.
- A major reason for this is that State formulas indicate that the City's ability to pay for education has increased.
- The Local Composite Index for Richmond increased from .4758 in FY2018 to .4925 in FY2019.
  - Hold Harmless Legislation would result in RPS receiving the same amount of money from the state as FY 2018 levels, but for more students.
- Lottery-Funded Programs are already built into recurring State Aid, Richmond is due to receive less next year.

Upcoming Budget Challenges

- Council received a presentation on the 5-year forecast from the Budget Director on January 22nd.
- Projected revenue growth isn't enough to cover baseline expenses and existing commitments.
- FY2019 budget drivers include major increases in public safety personnel costs, debt service, retirement, and group health premiums.
- There was no allowance for an FY2019 salary increase for employees, nor program enhancements.
- FY2019 projected expenses exceeded revenues by $17.2 million; budget cuts will be needed.

Rationale for an Additional 1.5% Meals Tax

- The additional 1.5% Meals Tax provides a new recurring source of revenues that accelerates the City's Debt Capacity for Schools and does no harm to the City's Existing CIP.
- Why increase the Meals Tax?
  - Meals Tax is not solely on the City Residents – Approximately 32% of visitors come from a 50 mile radius outside the City.
  - It is Discretionary and Progressive in Nature – Households in the top 20% of income spend almost 5 times more than households in the lower 20% of income on discretionary meals outside the home[1].
  - (1) Bureau of Labor Statistics, latest available data (2015).

What is the Impact of an Additional 1.5% Meals Tax

- The impact of an additional 1.5% Meals Tax is shown for various spending levels below:

Cost of a Meal	Current Meals Tax @ 6%	Proposed Meals Tax @ 7.5%	Difference
$10	$0.60	$0.75	$0.15
$25	$1.50	$1.88	$0.38
$50	$3.00	$3.75	$0.75
$100	$6.00	$7.50	$1.50

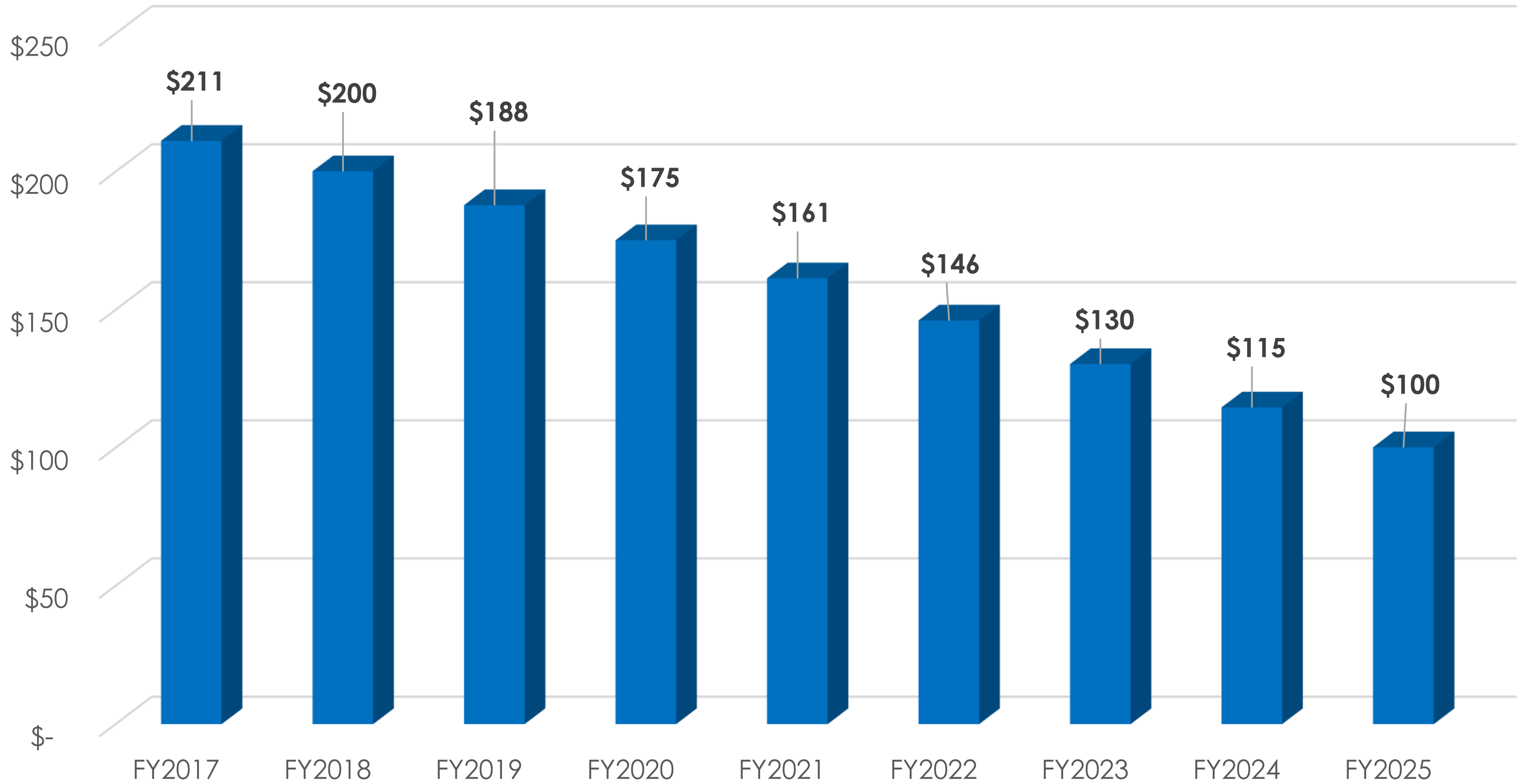
The City's Existing CIP – Considerations

- In the upcoming years, the City's debt service will increase significantly.
- This will happen even without adding new Schools projects to the spending plan.
- Borrowing will need to occur for previously approved projects not yet completed.
- The vast majority is for Schools, Public Safety, Infrastructure and Streets.

Recent History of 1% Meals Tax

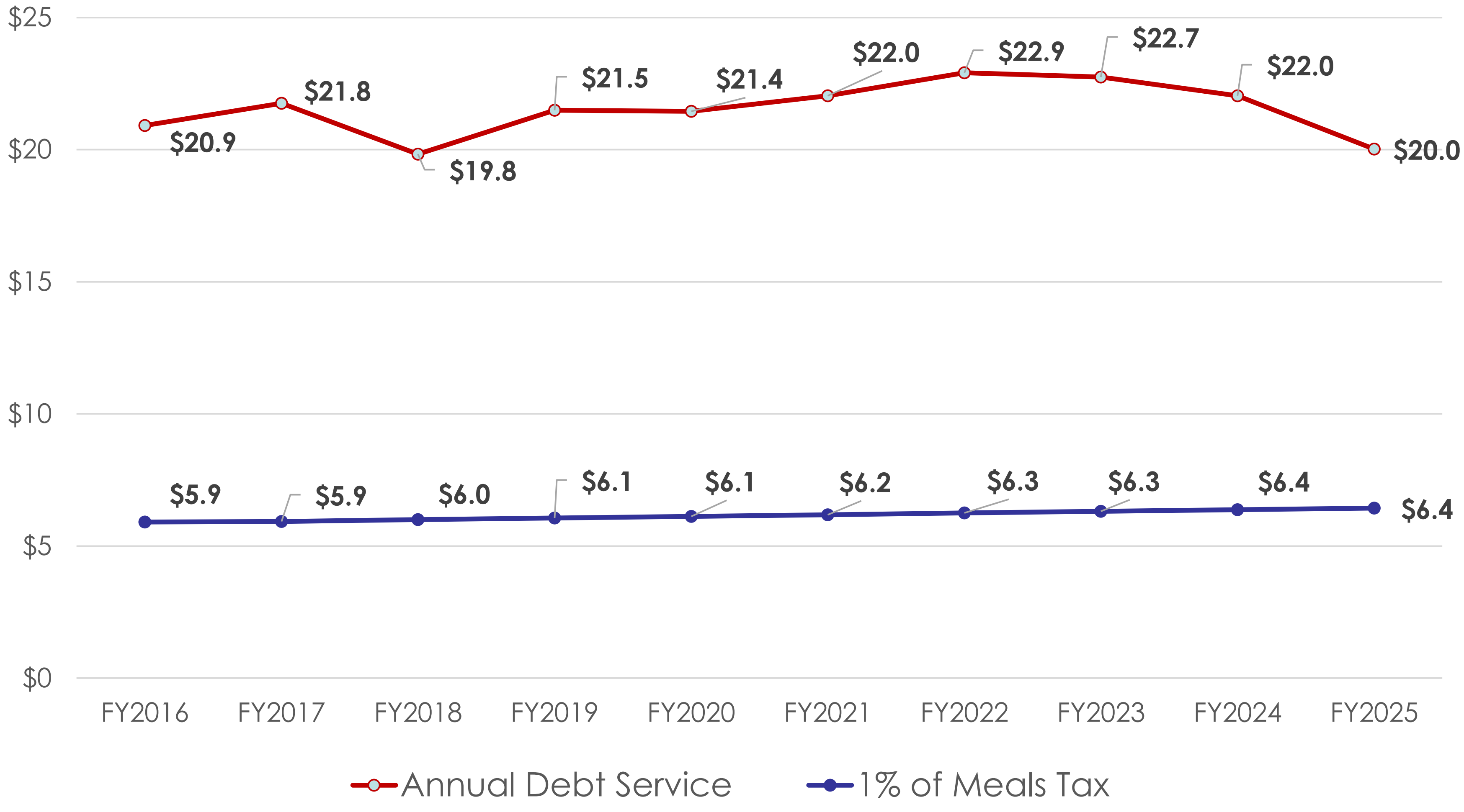
- Ordinance 2006-54-124 continued the 1% meals tax, as a general fund revenue source "to address debt-related costs for cultural facilities and new or renovated school buildings."
- Current debt in these categories include Schools, CenterStage, Altria Theater, and the Coliseum.
- For example, the CenterStage debt won't be paid off until FY2030, and the Altria debt until FY2033.
- The meals tax revenues from that 1% only cover a portion of the general fund's related debt service, leaving other revenues to subsidize those costs.

Outstanding Principal Debt for Culture and Education (in $Millions)



Note: the City's general fund covers approximately $20-$23 million in annual debt service in each of these years, including principal and interest

Debt Service versus 1% Meals Tax Revenues (in $Millions)



Summary

- Existing revenue sources will be needed to cover core City services and growth in debt service related to the City's existing 5-year CIP.
- New and renovated School facilities are a dire short term need, additional revenues are necessary to expand debt capacity in an affordable way.
- An increase in the Meals Tax would generate the needed revenues, in a progressive way that puts less of a direct burden on City residents.
- Our children deserve modern, state-of-the-art learning environments.

Questions?

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