

October 28, 2019

The Honorable Mayor Richard West and Members of City Council
City of Chesapeake, Virginia

Dear Mayor West and Members of City Council:

I am pleased to present the recommended Chesapeake’s Capital Improvement Program (CIP) for the next five years (FY 2021-2025). I have worked with staff throughout the City to identify and address the most urgent facility and infrastructure needs. While no municipality can address all its capital demands in a five-year period, I believe this plan accomplishes as much as our existing resources permit. More importantly, the proposed CIP ensures Chesapeake will be prepared to successfully meet future opportunities and challenges.

The CIP identifies the City’s direction in making strategic investments that improves public safety and facilities that are important to citizens during the next five years. Our objectives in developing the CIP are as follows:

- Improving safety of public on roadways and throughout the community,
- Improving recreational opportunities that ensure a vibrant community,
- Investing in projects that encourage economic development and creation of good jobs,
- Improving City facilities to accommodate the needs of citizens and employees,
- Ensuring that public safety officials have the technologies and tools necessary to protect the public, and
- Investing in infrastructure that maintains safe drinking water and ensures the treatment of wastewater in an environmentally sensitive manner.

Over the next five years we propose capital spending of \$584 million (slightly above our current five-year plan). Significant new or expanded projects cover a broad range of activities, including:

- | | |
|---------------------------------------------------------------------|-----------------|
| • Modernization of school facilities | \$ 60.0 million |
| • South Norfolk Municipal Building | 12.3 million |
| • Public Safety communications and emergency equipment replacements | 13.3 million |
| • Technology investments – applications, network and equipment | 10.2 million |
| • West Road sewer installation | 10.0 million |
| • Chesapeake Expressway – paving | 7.9 million |
| • Participation on Regional Broadband Ring | 5.0 million |

While ambitious, the plan is well within the affordability guidelines adopted by City Council. Funding for the capital plan is largely provided by available cash and borrowing capacity within the two capital lockboxes, a judicious use of City fund balances, stormwater fees, cash and borrowing capacity of the utility fund, and transportation grants administered by the Virginia Department of Transportation.

Funding for the Capital Improvement Plan is split between cash funding and the issuance of debt over five years. Approximately 58% of the capital program is financed through either City cash sources or intergovernmental grants. Cash funding is provided from current operations, the accumulation of fund balances (surpluses) from past years, and from federal and state grants. A summary of the proposed capital funding plan follows.

<i>Cash from:</i>		
City and school capital lockboxes	\$ 94.2 million	
Water and sewer fund	69.1 million	
Virginia Department of Transportation reimbursements	58.5 million	
South Norfolk TIF	19.4 million	
Stormwater Fund	12.7 million	
Chesapeake Transportation System	12.0 million	
Grants and proffers	12.0 million	
Other City funds	63.8 million	
Total cash available for capital program	\$ 341.7 million	58.5%
<i>Debt to be issued for:</i>		
City projects – general government	\$ 60.9 million	
School projects	122.5 million	
Water and sewer projects	58.8 million	
Total debt required to fund capital program	\$ 242.2 million	41.5%

The proposed CIP meets all the City’s affordability policy targets based on the five-year revenue forecast and projected borrowings over the next decade. Targets are recommended for debt levels on borrowing for general government projects. These exclude debt and associated operations for the three enterprise funds: Water and Sewer, Stormwater, and Chesapeake Transportation System (toll roads). While the proposed CIP requires the issuance of additional debt, all affordability measures are met:

<i>Metric</i>	<i>Policy</i>	<i>CIP Proposal</i>
Net government debt compared to assessed value of taxable real estate in the City	Less than 3.5%	1.4% to 1.5%
Per capita general government debt	Less than \$3,000	Up to \$1,582
Annual debt service compared to general government revenue	Less than 10%	6.1% to 7.4%

While our capital assessment was comprehensive, the new CIP does not address all capital demands citizens have requested or that the City’s engineers and planners have identified. Several projects are either beyond the City’s financial capacity or the projects are at very preliminary stages and were not fully vetted. Several high-priority proposals that cannot be addressed with available resources include:

- Expansion of athletic fields at Centerville and Deep Creek Parks,
- Extension of the Dismal Swamp Canal Trail,
- Relocation of SPSA transfer station,

- Acquiring property for a new business park,
- Improvements to streets and roads,
- Renovations to some school facilities identified in last year’s school capital plan, and
- Flood control improvements that might feasibly address severe rain events.

The School Superintendent is scheduled to present his capital recommendations to the School Board in December. While we cannot predict the superintendent’s recommendations, this proposal adds \$60.0 million to the \$43.5 million established last year for modernization efforts by Chesapeake. That is the maximum amount we estimate is available for school capital projects under existing revenue sharing practices.

Immediately following this transmittal letter are summaries of existing and proposed capital projects for the upcoming five years.

The proposed \$584 million Capital Improvement Plan represents the City’s commitment of resources to protect, maintain, and upgrade critical infrastructure throughout the City. The CIP requires the issuance of \$183.5 million of general obligation bonds and \$59 million of public utility revenue bonds over the next five years. The City has capacity through a combination of locked revenue and tax increment financing to fund debt service on all required GO bonds. Similarly, the Public Utilities Fund has adequate capacity to fund debt service required on its revenue bonds.

While the objective of a Capital Improvement Program is to identify facility and infrastructure needs, several projects that might start before 2025 are not included in this plan. These include projects that are either currently or will soon be under evaluation and the outcome of the evaluation cannot be predicted. Projects that could require funding in the next five years include:

- Specific recreational projects that have been recommended or suggested by individual Council Members that have not been fully defined or approved by the full Council. Examples include a community swimming pool and expanded community centers.
- Public Improvements along Dominion Boulevard – a study recommending appropriate land uses of the area south of Cedar Road was completed last year. In order to develop a thriving mixed-use community, public investments are probably necessary. With the exception of an extension of water and sewer infrastructure to the Chesapeake Airport, such investments require financing that are outside the scope of current capital planning.

These and other issues are likely to emerge that will require attention in future capital programs. However, the availability of resources may require prioritization and deferral of some very worthy capital projects.

Looking Beyond FY 2025 – Given the continuation of current economic conditions, the City is well positioned to fund the capital program beyond the five-year planning period covered by the CIP. We project the City lockbox will have \$9.4 million of cash at the end of FY 2025. We have also included provisions for additional debt-financed funding for several projects beyond what is included in the CIP as noted here:

- Fire Station 4 – the CIP includes land (FY 2020) and design (FY 2025) funding for a replacement of the North Battlefield Fire Station with construction occurring after 2025. We have included a

provision in the City lockbox for a FY 2025 borrowing to finance the replacement station (\$10.0 million).

- Fire Station 16 – the CIP includes \$500,000 to purchase land for a new fire station in the Grassfield area that also could be designed and constructed beyond FY 2025. The City lockbox includes a tentative FY 2030 borrowing to finance the proposed station (\$13.0 million).
- Renovation of Public Safety Building – a study is also funded to determine the feasibility of renovating the public safety building and training facilities. While construction plans have not been established, the lockbox includes a provision to issue bonds to finance the project (\$17 million).
- George Washington Highway – this project has been delayed with construction anticipated in FY 2026. The lockbox includes a provision for a FY 2026 bond issue (\$7.8 million).

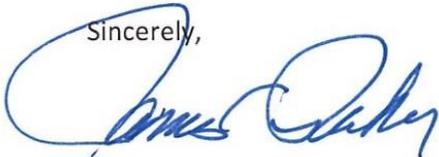
The Capital Improvement Program is a five-year planning document that is reevaluated annually. In the spring when City Council considers the operating budget, it will also appropriate funds for the first year of the CIP so that City staff can implement the FY 2021 portion of the new capital plan starting July 1, 2020. The proposed Capital Budget for FY 2021 is \$127 million and is financed as follows:

Cash from operating and capital funds	\$ 65,811,170
Cash from intergovernmental grants	22,543,000
General obligation debt	20,075,500
Revenue bonds (utility fund)	19,324,000
Total financing plan for FY 2021	\$ 127,753,670

In summary, the Proposed Capital Improvement Program for the next five years reflects our focus on maintaining existing infrastructure, ensuring economic vitality, and addressing the capital needs of core City services. The CIP proposal addresses critical requirements while maintaining or improving metrics that impact the City’s financial strength.

As in recent years, we began developing this plan in July and are completing it as my tenure with Chesapeake comes to a close. Chris Price, our incoming City Manager can work with the City Council to make any adjustments needed as the Plan is reviewed and finalized. While I am leaving, I feel confident of the direction established by the City’s Capital Improvement Plan.

Sincerely,



James E. Baker
City Manager