

# Town of Cape Charles, Virginia

## Comprehensive Financial Review



April 2, 2026



# Introduction

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- Davenport & Company LLC (“Davenport”), in our role as Financial Advisor to the Town of Cape Charles (the “Town”), was asked to prepare a Comprehensive Financial Review to provide a financial update for the Town’s General Fund.
- In May 2024, Virginia American Water finalized the acquisition of the Town’s Water and Wastewater System for \$15 million.
- With the influx of the monies from the sale of the Water and Wastewater System, the Town paid off all outstanding debt and accumulated substantial Fund Balance. As a result, the Town is contemplating how to appropriately and responsibly utilize these funds in a manner that will maximize the Town’s long term financial health and sustainability.
- The goal of the analysis presented herein is to provide the Town a deeper understanding of the financial health and sustainability of the General Fund, along with information to assist Town Staff and Town Council in their decision-making process for future planning.



# Goals & Objectives

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As part of the discussion presented herein, Davenport intends to accomplish the following:

1. Review and update historical trends in the General Fund's revenues, expenditures, and Fund Balance;
2. Conduct a multi-year financial forecast of the General Fund to examine future trends in operating and capital expenses and identify potential revenue increases;
3. Provide an updated Peer Comparative Analysis of key financial and demographic metrics between the Town and similar localities;





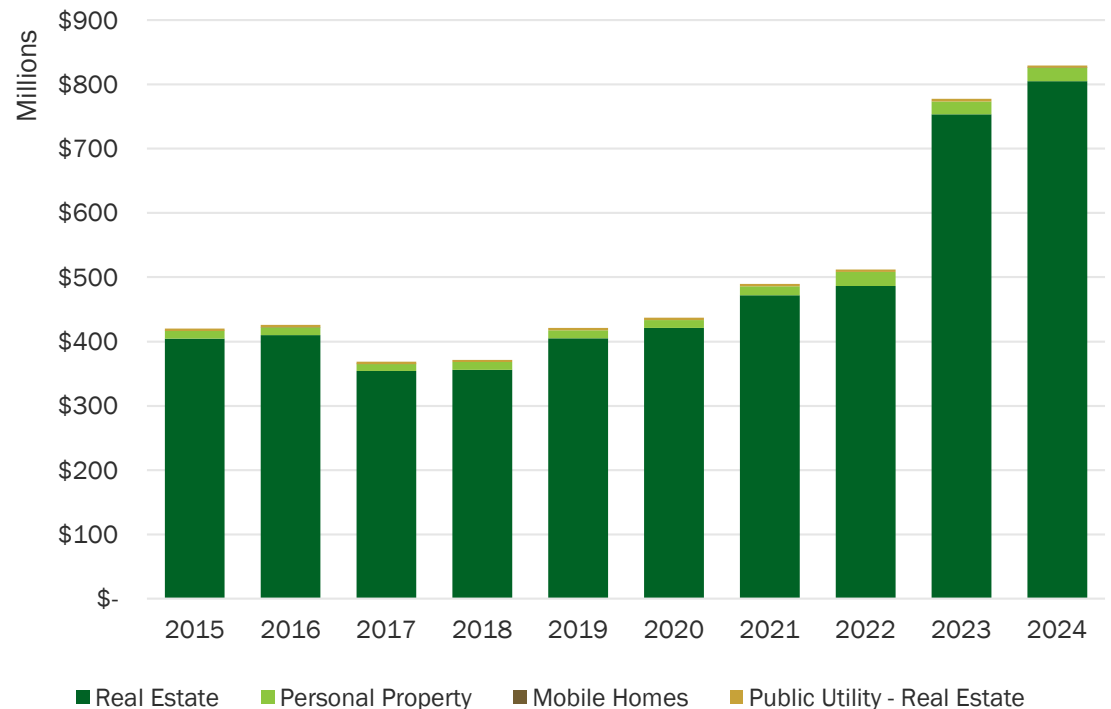
# Executive Summary

Town of Cape Charles, Virginia

# Executive Summary | Economic Trends



- The Town has benefited from a strong local economy. Total Assessed Value has increased every year since 2017 and has nearly doubled since 2015.
- The Town's Real Estate Assessed Value made up approximately 97% of the Town's Tax Base in FY 2024.
- The County conducts a reassessment every two years. The more consistent reassessments provide the Town with additional flexibility to adjust and/or account for inflationary pressures.

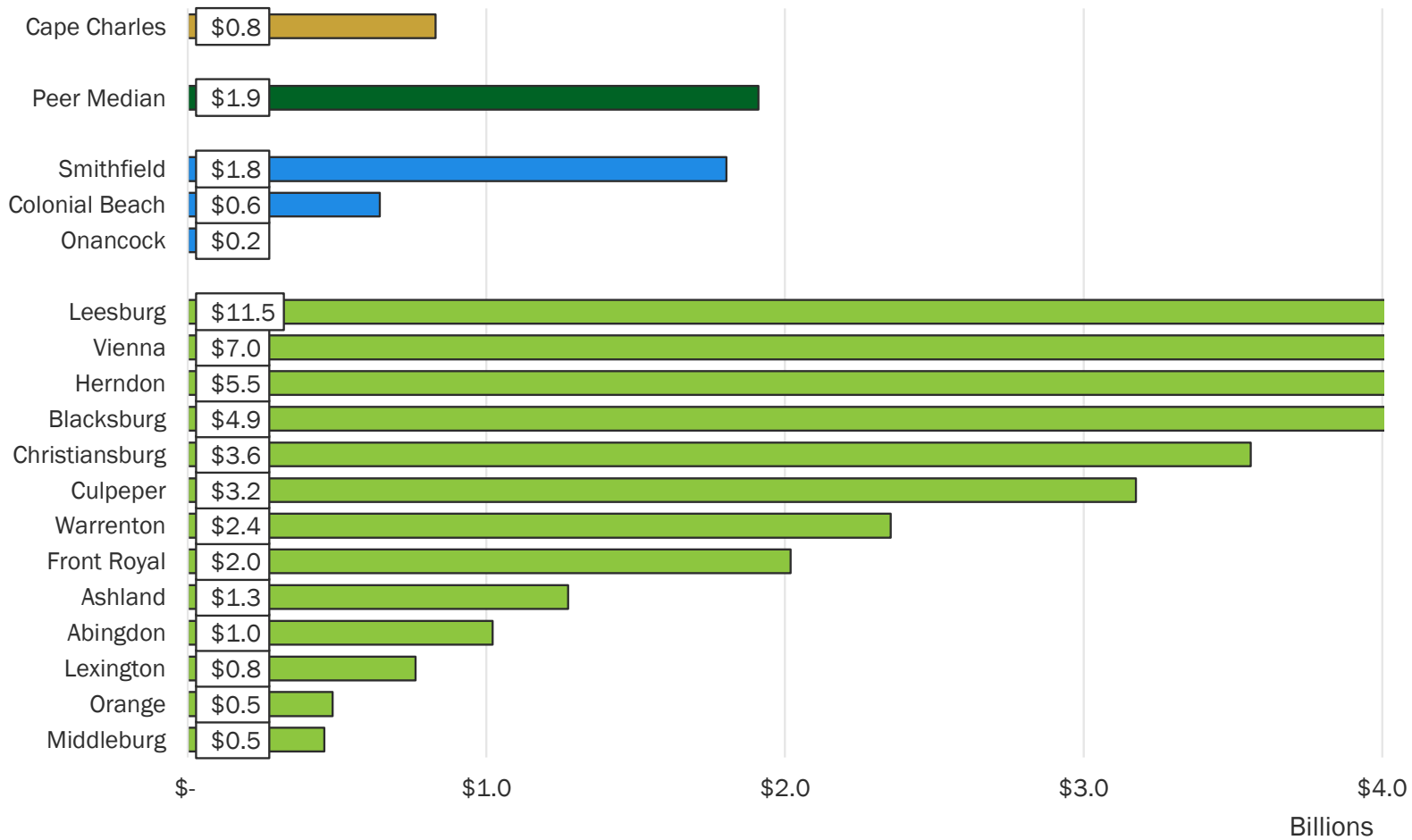


# Executive Summary | Economic Trends – Peer Comparisons



- While the Town’s Total Assessed Value is below the cumulative peer median, it is slightly above the immediate peer comparison median (Smithfield, Colonial Beach, and Onancock).

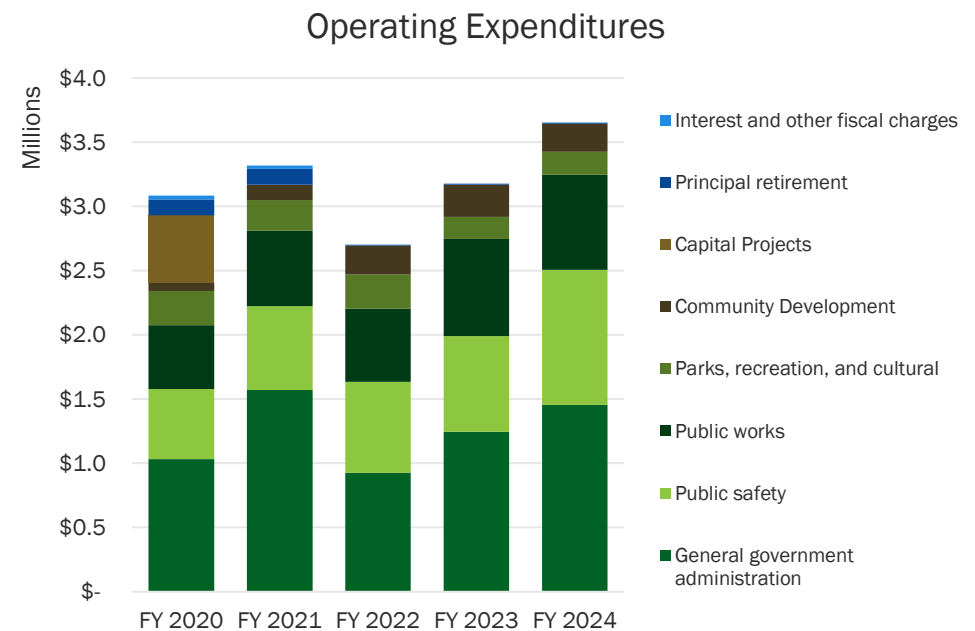
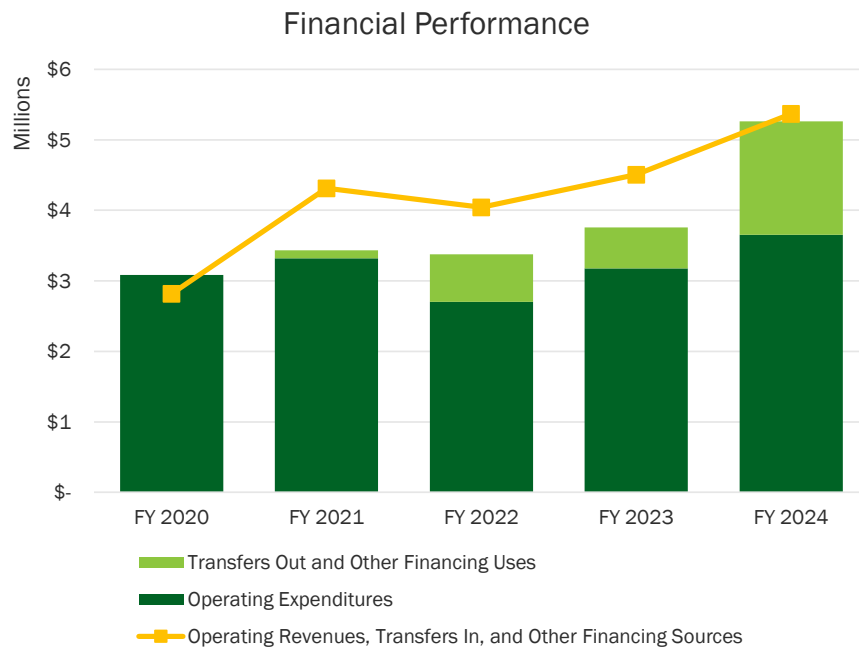
Assessed Value





# Executive Summary | Financial Trend

- The Town has been well-run from a financial perspective. The Town has generated surpluses in four (4) of the last five (5) Fiscal Years between Fiscal Year 2020 and Fiscal Year 2024.
- Revenue growth has been very strong with recurring revenues growing over 18% annually on average over the last five Fiscal Years. In comparison, expenditures have grown slightly over 4% over the same period.
- Based on the Draft Fiscal Year 2025 Audit, the Town generated a surplus of approximately \$500,000.



Source: Town Audits.

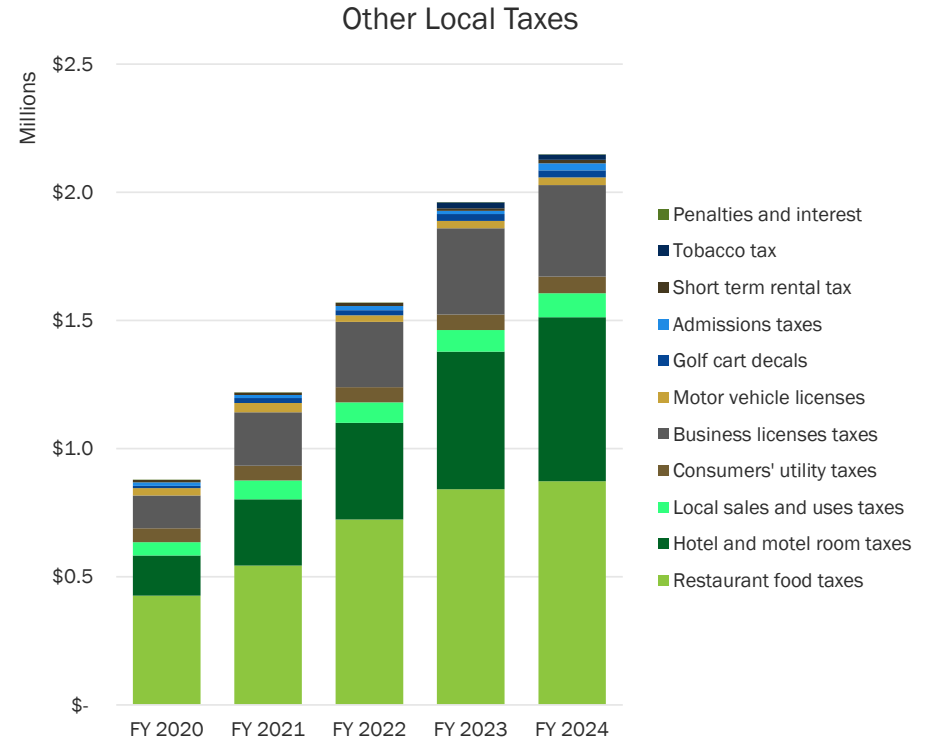
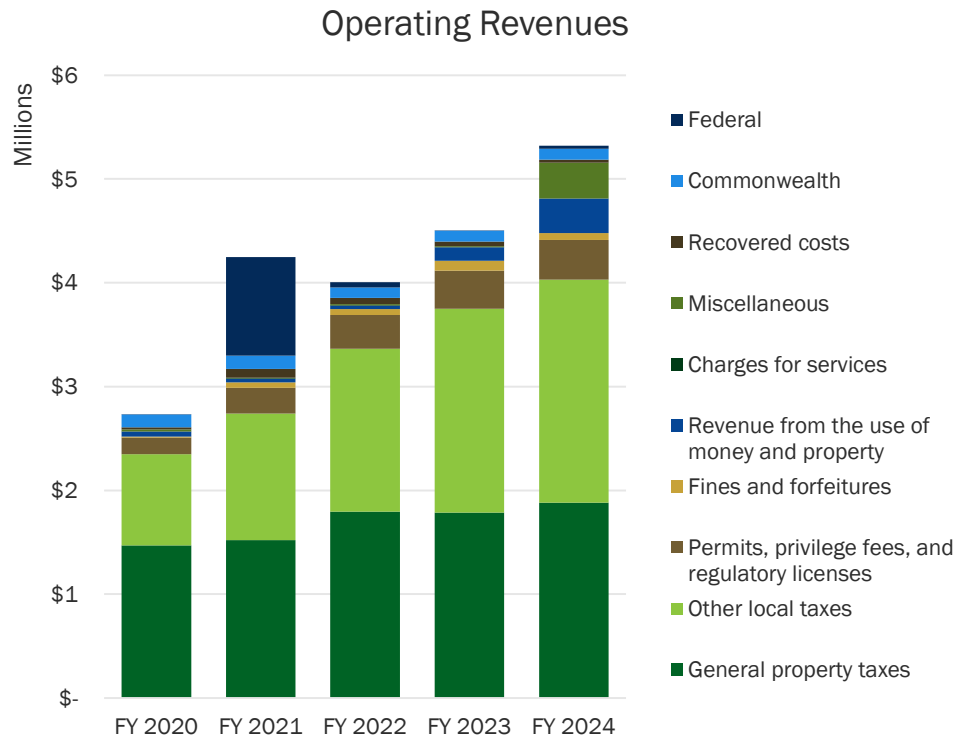
Note: In FY 2024, there was a \$14,393,390 one-time transfer from the Water & Sewer fund to the General Fund that is removed from Transfers In.

Note: In FY 2020, there was a \$2,328,870 operating transfer to the Harbor Fund to clear that fund's reconciled overdraft payable that has been removed from Transfers Out.



# Executive Summary | Revenue Trend

- The Town’s General Fund revenues have increased in four (4) of the last five (5) Fiscal Years. The only exception, the decrease from FY 2021 to FY 2022, is attributable to multiple federal grants received in FY 2021<sup>(1)</sup>.
- Other Local Taxes have made up over 40% of total operating revenue in the last two (2) Fiscal Years. Other Local Taxes are largely driven by Restaurant Food Taxes, Hotel and Motel Room Taxes, and Business Licenses Taxes.



Source: Town Audits.

(1) In FY2021, the Town received a CDBG small business recovery grant for \$549,376 and CARES act aid for \$172,864.



# Executive Summary | Reserve Trend

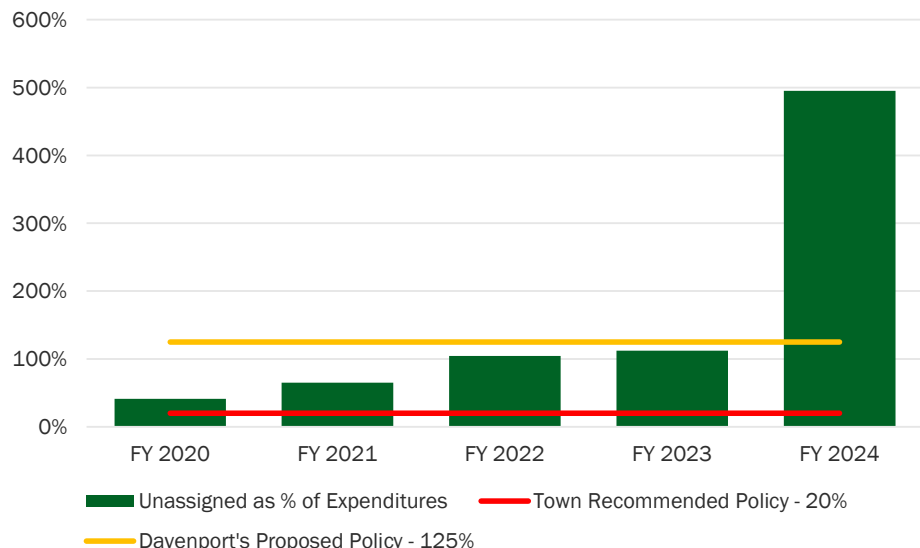
- The Town has historically complied with its recommended policy to have a General Operating Reserve equivalent to 20% of operating expenses<sup>(1)</sup>.
- After the sale of the Water and Wastewater System for \$15 million in FY 2024 bolstered the Town's Unassigned Fund Balance ("UAFB"), Davenport recommends enhancing the Town's policies. Davenport's proposed policy can be found in the below charts, with a more detailed description on the following page.

Based on the Draft Fiscal Year 2025 Audit, the Town's Fund Balance grew approximately \$500,000.

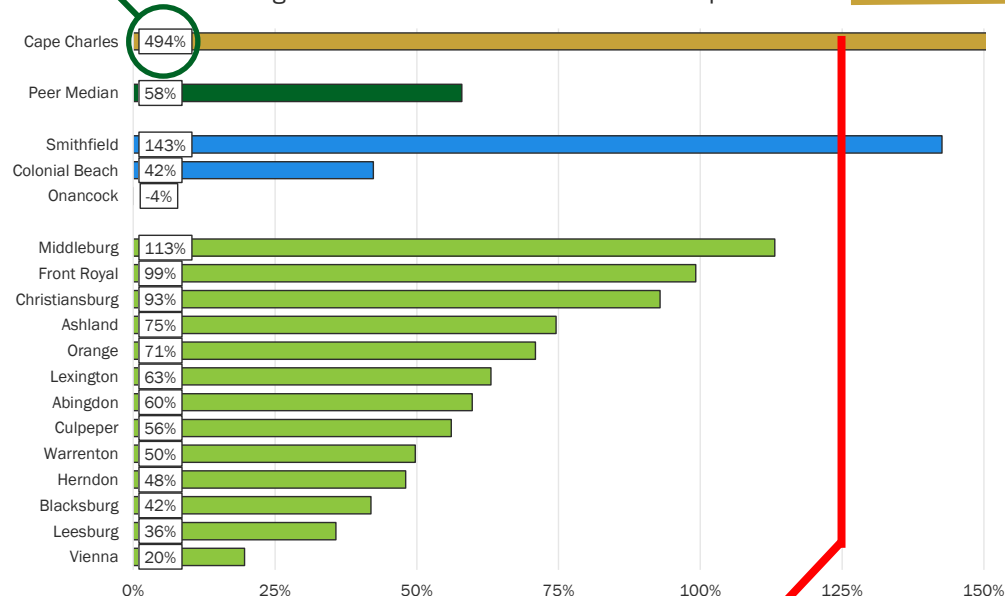
The Town's UAFB is approximately 494% while the peer median is 58% and the next closest peer is 143%.

Goes to 494%

Fund Balance Policy



Unassigned Fund Balance vs. General Fund Expenditures



Davenport's Proposed Policy (125%)

Source: Town Audits; Respective Locality Most Recently Available Audit; "UAFB" means Unassigned Fund Balance.

(1) Based on the Town's meeting minutes for the November 5<sup>th</sup>, 2020 work session.

# Executive Summary | Proposed Unassigned Fund Balance Policy



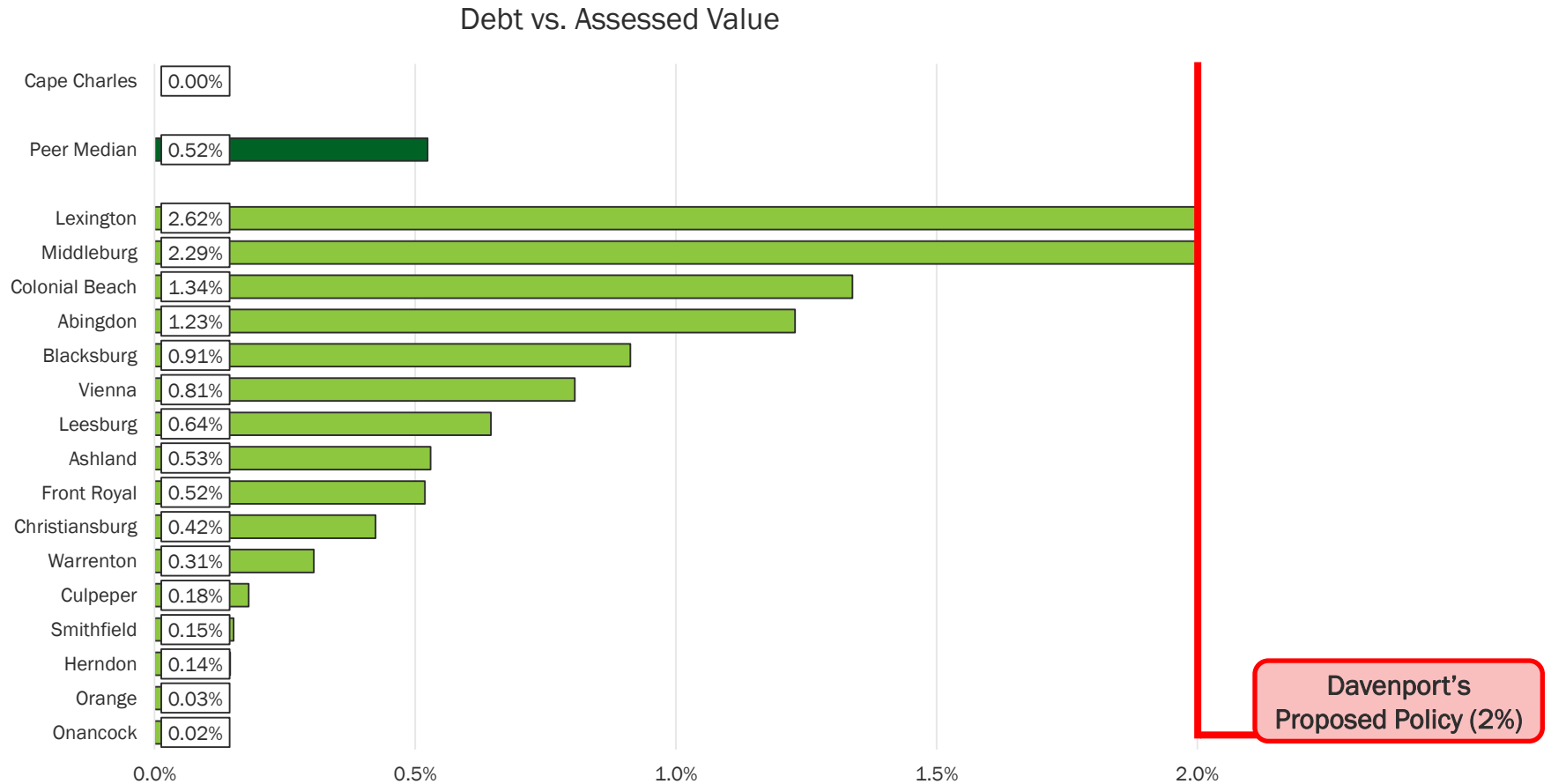
Davenport recommends the Town adopt an UAFB policy for the greater of \$5 million or 125% of General Fund Operating Expenditures and an additional \$1 million to fund a Revenue / Enterprise Stabilization Fund due to a highly dependent “Other Local Taxes” revenue and weather-related events (i.e., storms, hurricanes, etc.).

- Why is maintaining a healthy Unassigned Fund Balance important?
  - Provides adequate month-to-month cash flow and eliminates the need for costly cash-flow borrowing.
  - Provides funds for emergency situations (e.g. the COVID-19 Pandemic).
  - Provides funds for unforeseen expenditures or revenue shortfalls that occur during a Fiscal year.
  - Allows for bond funded capital projects to begin prior to having borrowed funds on hand.
  - Helps mitigate/offset other financial weaknesses.
  - Provides comfort to potential lenders and the rating agencies as it relates to the County’s financial strength / flexibility and thus allows the County to obtain competitive financing.

# Executive Summary | Proposed Debt vs. Assessed Value Policy



- Currently, the Town does not have any outstanding indebtedness.
- Davenport has presented the following proposed policies for future debt planning purposes.



**Davenport would recommend the Town adopt a Debt vs. Assessed Value policy of 2%.**

# Executive Summary | Proposed Debt Service vs. Expenditures Policy



- Davenport has analyzed the Town’s Fiscal Year 2026 Budget and has proposed the following Debt Service vs. Expenditures policy. The table below analyzes various Debt Service vs. Expenditures policy levels and the resulting capacity to issue debt under each level. Davenport has utilized a 5% planning interest rate in all scenarios.

Debt Service vs. General Fund Expenditures Policy Levels	Current Policy (8%)	10%	12%	15%
<b>20-year Amortization</b>				
Debt Capacity	\$3,635,000	\$5,045,000	\$6,190,000	\$8,025,000
Resulting Debt vs. Assessed Value	0.44%	0.61%	0.75%	0.97%
<b>25-year Amortization</b>				
Debt Capacity	\$4,115,000	\$5,705,000	\$7,000,000	\$9,075,000
Resulting Debt vs. Assessed Value	0.50%	0.69%	0.84%	1.09%
<b>30-year Amortization</b>				
Debt Capacity	\$4,485,000	\$6,225,000	\$7,640,000	\$9,895,000
Resulting Debt vs. Assessed Value	0.54%	0.75%	0.92%	1.19%
Approximate Annual Debt Service Capacity <sup>(1)</sup>	\$292,000	\$405,000	\$497,000	\$644,000

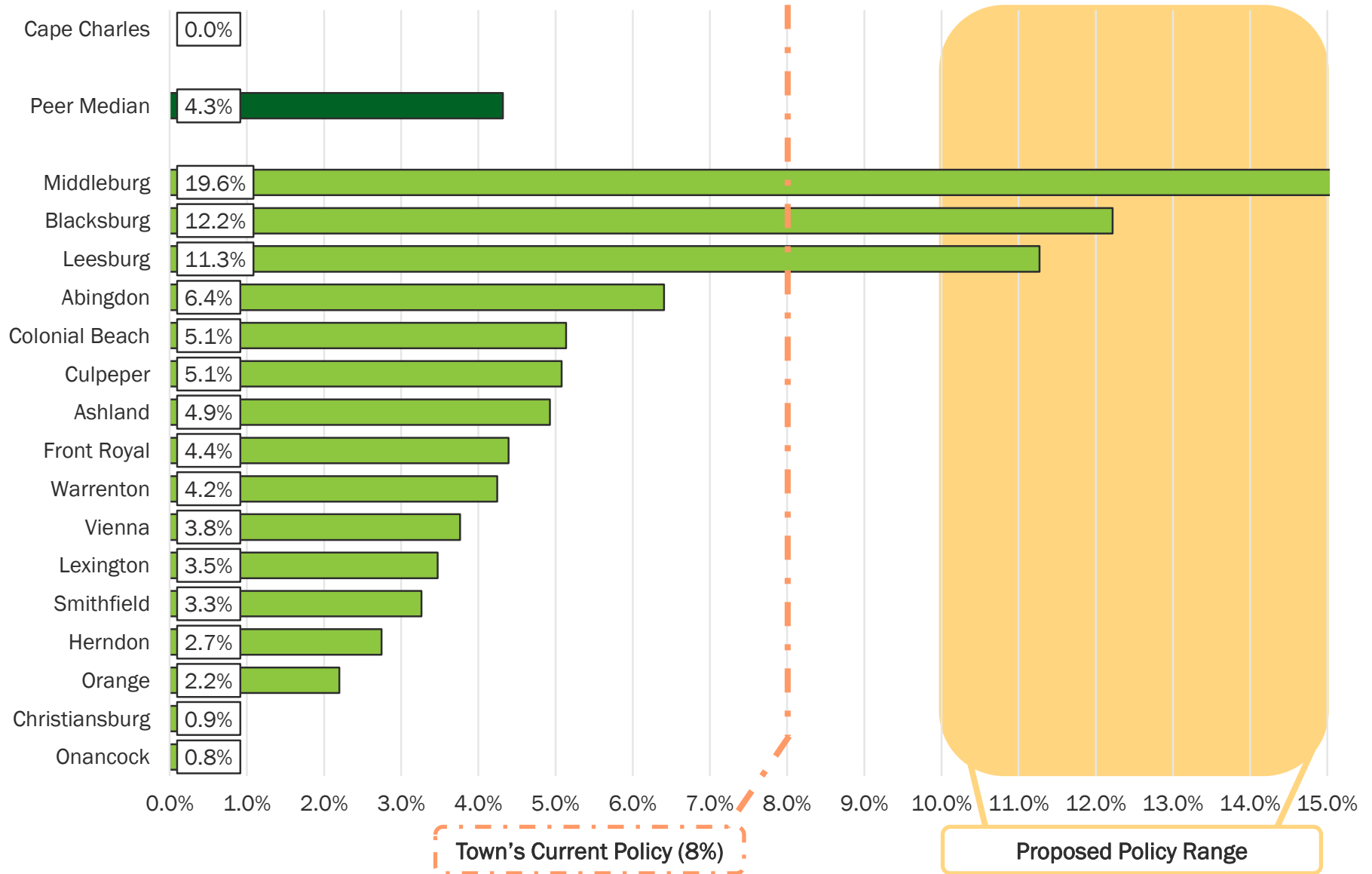
**Davenport would recommend the Town adopt a Debt Service vs. Expenditures policy of 10-15%.**

(1) Debt Service calculated utilizing Fiscal Year 2024 Audit General Fund Expenditures value.  
 Note: Debt vs. Assessed Value ratio utilizing Assessed Value based on Fiscal Year 2024 Audit value.

# Executive Summary | Proposed Debt Service vs. Expenditures Policy – Peer Comparisons



## Debt Service vs. Expenditures



# Executive Summary | Capital Asset Management Program



- Davenport has reviewed the Town’s Capital Asset Management Program (the “CAMP”). It totals approximately \$11.7 million with an additional \$750,000 of potential fleet/vehicles costs to be needed over a 5-year period.
  - The largest project in the CAMP is approximately \$6.5 million for a New Municipal Building. This is a large generational capital investment for the Town.
  - The Town has identified capital needs of \$5 million over and above the New Municipal Building.
  - The Town has minimal recurring dollars for capital needs.
- Given the substantial list of identified projects – including the Town Hall and others - Davenport would recommend the Town conserve cash and explore a debt financing for the New Municipal Building.
  - Doing so will allow the Town to conserve cash and provide flexibility to structure the need for any long-term debt (whether for the New Municipal Building or other projects) based on the actual cost of the projects and the Town’s financial condition at the time.

# Executive Summary | Capital Asset Management Program (cont.)

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- On the following pages, Davenport has presented a two-part strategy for the debt financing of the New Municipal Building and the impact on the Town's proposed debt policies:
  1. An initial issuance of an interim financing to maintain the flexibility to be able to cash fund other Town capital projects and utilize the Town's Debt Capacity for generational capital projects like the New Municipal Building.
  2. Term-out (i.e. permanent financing) of the initial interim financing utilizing funds from a potential sale of the Civic Center and the current Municipal Building to decrease the permanent financing amount.

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# Executive Summary | Proposed Issuance for the New Municipal Building



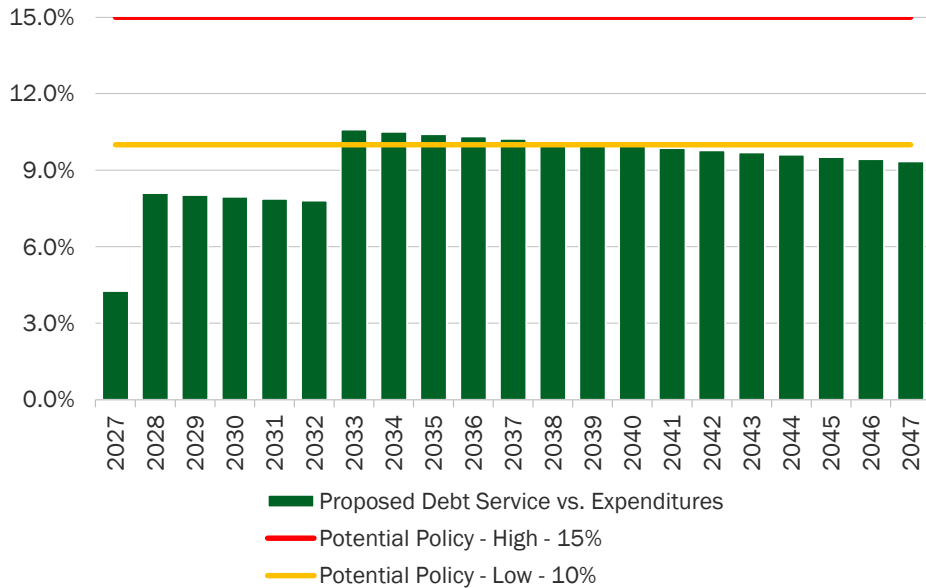
- For the proposed strategy for the issuance of the New Municipal Building, Davenport has utilized a planning interest rate of 5%. This is above the current market for purposes of conservative planning. The interim financing is assumed to be issued with a 5-year financing term, and the permanent financing is issued with a 20-year financing term.
- The initial interim financing for the New Municipal Building would have an interest only debt service estimated for planning at approximately \$350,000 annually for roughly 5 years with the ability to permanently finance/payoff/paydown the interim financing earlier, at the Town's discretion.
- The interim financing would provide the Town with flexibility to determine the ultimate size and structure of the permanent financing. For planning purposes, a permanent financing in the \$5.5 million to \$6.5 million range would result in an annual payment of roughly \$475,000 to \$555,000, assuming a 20-year term at 5% for planning purposes.

# Executive Summary | Proposed Issuance for the New Municipal Building – Debt Policies

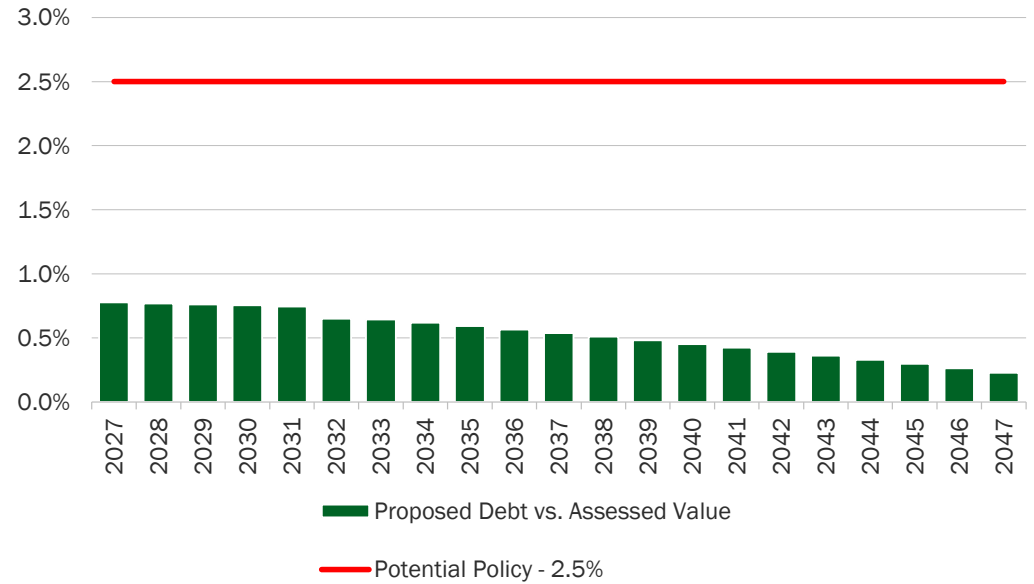


- If the proposed issuance was executed, the Town would remain in compliance with both debt policies, barring the Debt Service vs. Expenditures adopted policy level.
- The proposed issuance would result in payments of approximately \$475,000 per year. The equivalent impact of these payments on the Town’s major revenue sources is as follows:
  - Equivalent Real Estate Tax Penny Impact: approximately 4.3 pennies;
  - Equivalent Meals Tax Percentage Impact: 2.82%; or,
  - Equivalent Transient Occupancy Tax Percentage Impact: approximately 2.71%.

**Debt Service vs. Expenditures**



**Debt vs. Assessed Value**



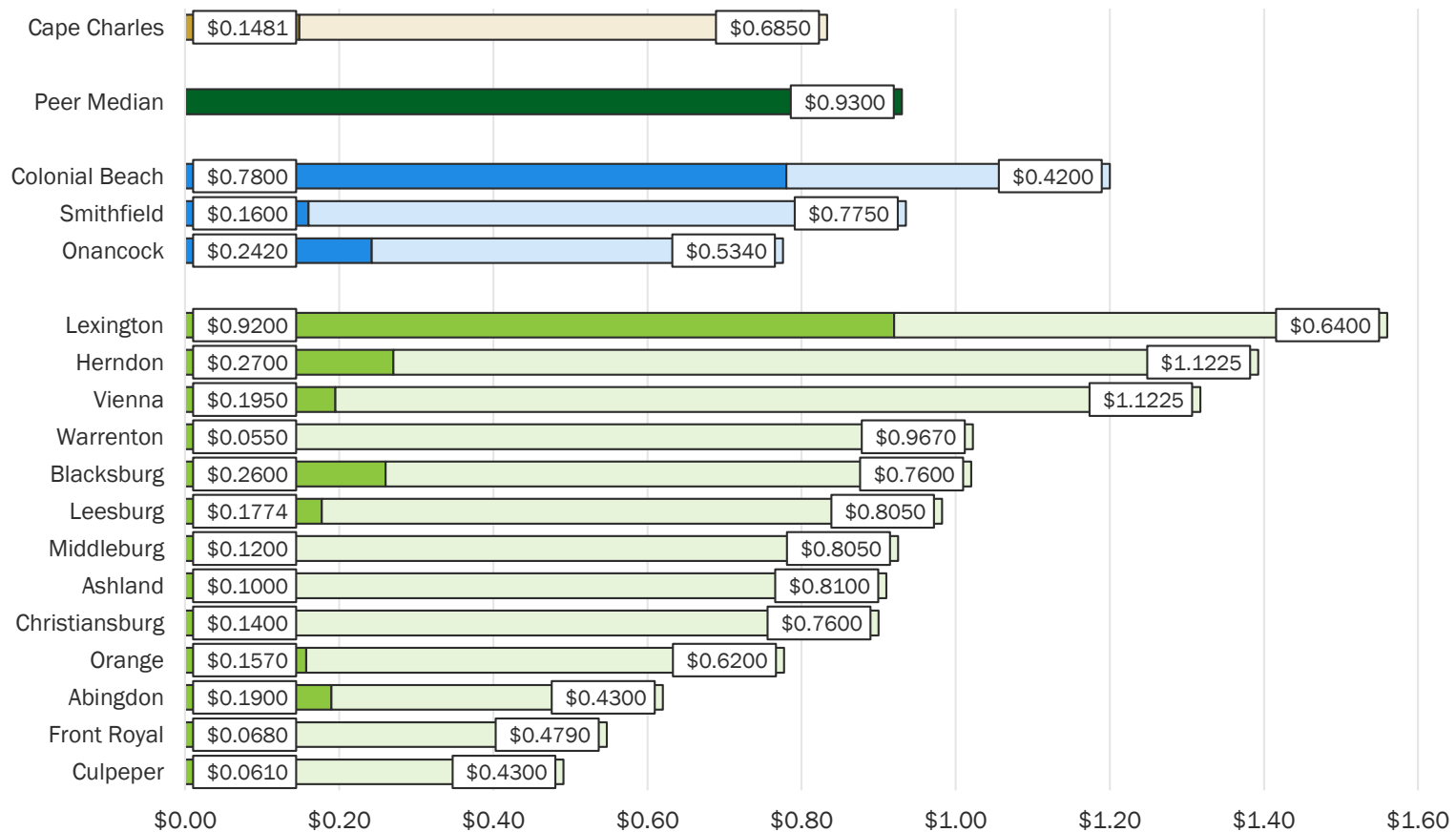
Note: The Town’s penny value is assumed at \$108,964. Graphs and equivalent impacts above assume an approximately \$6.5 million 5-year interim financing at a 5% planning interest rate and a \$5.5 million 20-year permanent financing issuance.



# Executive Summary | Real Estate Tax

- The Town’s current Real Estate Tax Rate is 14.81¢ with the addition of Northampton County’s Real Estate Tax Rate of 68.50¢ for a total Real Estate Tax Rate of 83.31¢.
- The total Real Estate Tax Rate of 83.31¢ is below the peer and immediate medians.

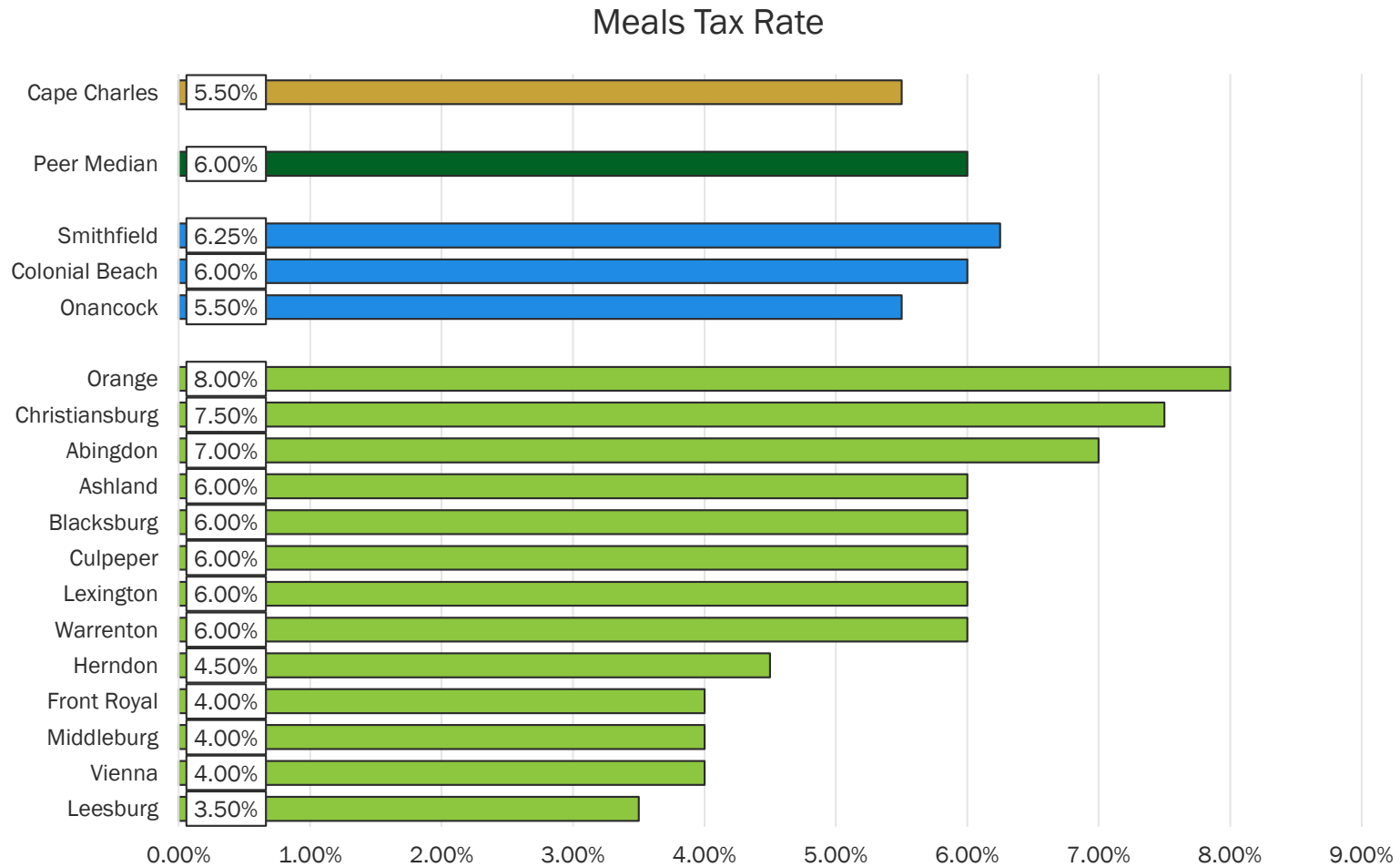
Real Estate Tax Rate (per \$100 of Assessed Value)





# Executive Summary | Meals Tax

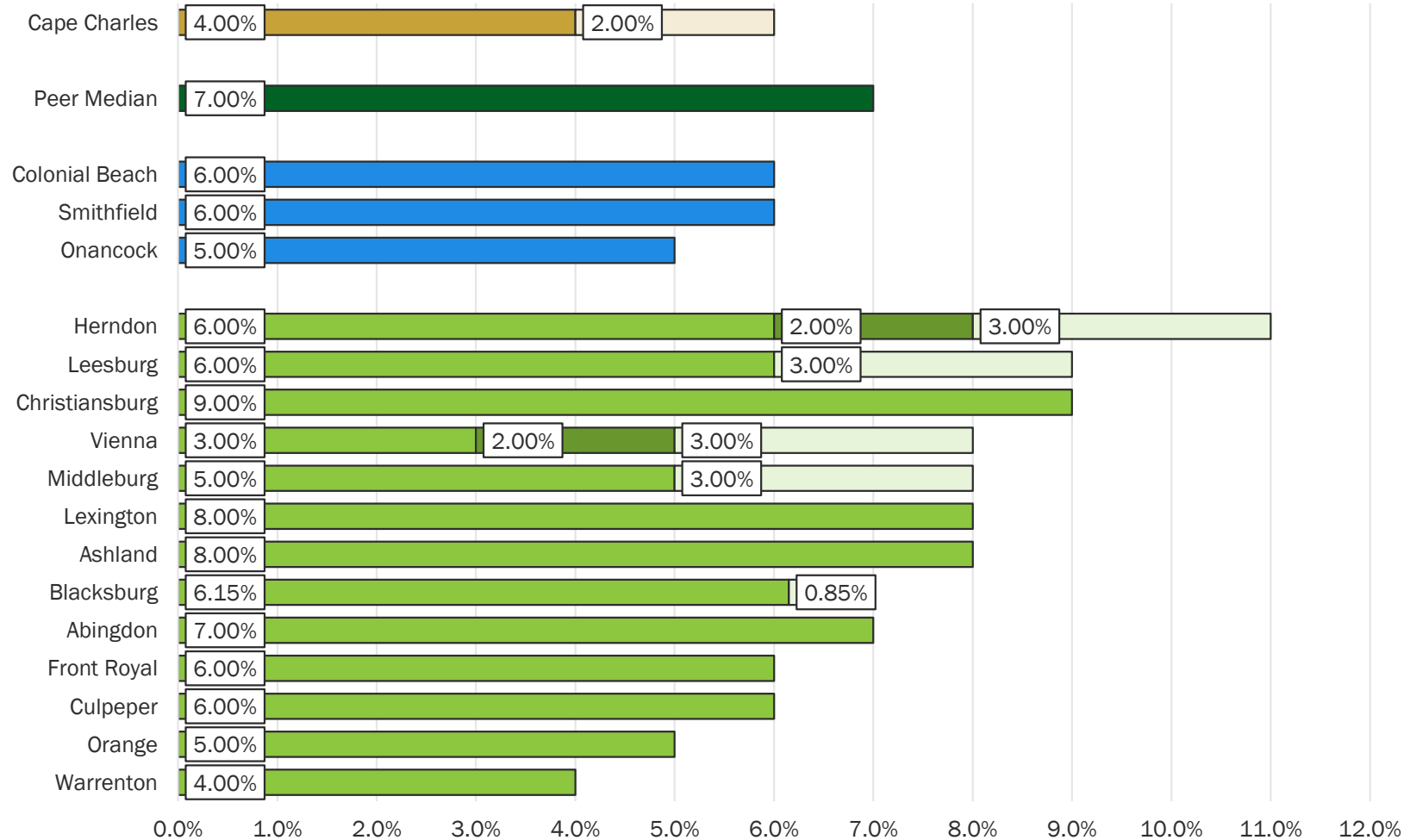
- The Town’s current Meals Tax Rate is 5.50% which is below the peer and immediate medians. As previously discussed, the Town’s Restaurant Food Taxes makes up the largest component of Other Local Taxes and makes up approximately 16.4% of total operating revenues.



# Executive Summary | Lodging Tax



Lodging Tax Rate



Town/City Lodging Tax
 

 Town/City Lodging Tax
 
 Other Additional Rate<sup>(1)</sup>

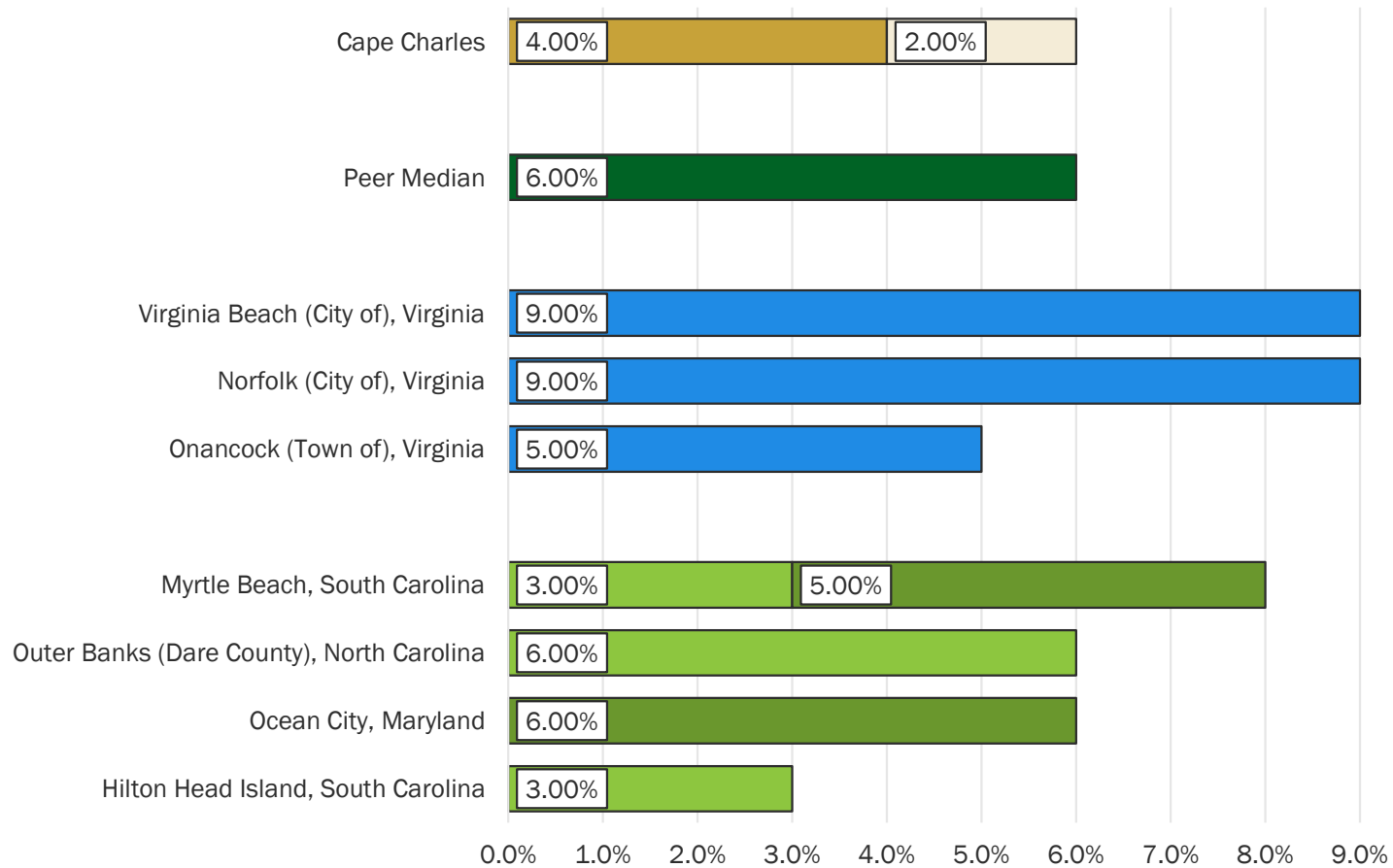
Source: Respective Locality Website and/or Budget.

(1) Including, but not limited to, Montgomery Regional Tourism Board, Northern Virginia Region, Northern Virginia Transportation Authority, or Tourism.

# Executive Summary | Lodging Tax – East Coast Beach



Lodging Tax Rate



Town/City Lodging Tax

County/Other Additional Rate<sup>(1)</sup>

Source: Respective Locality Website and/or Budget.

(1) The City of Virginia Beach, Virginia charges an additional lodging-related charge of \$2.00 per night flat room tax which is not included in the graph above; The City of Norfolk, Virginia charges an additional lodging-related charge of \$3.00 per night per room (for hotels) or \$3.00 per bedroom per night (for vacation/homestay rentals) which is not included in the graph above; Ocean City, Maryland's Lodging Tax Rate is not from the City, but rather the Worcester County Room (Hotel) Tax rate of 6%; The City of Myrtle Beach includes a State Accommodation Tax which is returned to local governments which is 2.0% and a Horry County Hospitality Fee of 1.5% to 3.0%.



# Next Steps / Timetable

Timing	Action
April 2, 2026	<ul style="list-style-type: none"><li>▪ Davenport to present the Comprehensive Financial Review</li></ul>
By June 30, 2026	<ul style="list-style-type: none"><li>▪ Town to adopt the Fiscal Year 2027 Budget.</li><li>▪ Town to received bids for the New Municipal Building</li></ul>
After June 30, 2026	<ul style="list-style-type: none"><li>▪ Davenport, at the direction of Town Council, to present the Plan of Finance for the issuance of the New Municipal Building, including a Financing Schedule.</li></ul>
Balance of FY 2027	<ul style="list-style-type: none"><li>▪ Davenport to assist the Town with the planning process for the interim financing mechanism for the New Municipal Building.</li></ul>

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