

At a worksession with the Caroline County Board of Supervisors Tuesday, August 16, 2010 in the Community Services Center, located at 17202 Richmond Turnpike, Milford, VA 22514.

PRESENT

D. M. "Maxie" Rozell, Jr. – Chairman
Floyd W. Thomas – Vice-Chairman
Wayne A. Acors
Bobby Popowicz
Jeff Sili

ALSO PRESENT

Alan L. Partin – Assistant County Administrator
Frances K. Hatcher – Finance Director
Michael A. Finchum – Director of Planning & Community Development
John Boryschuk – Director of Public Utilities
David Layman – Fire-EMS Chief

ABSENT

Percy C. Ashcraft – County Administrator

1. CALL TO ORDER (CONTINUATION OF AUGUST 10, 2010 REGULAR MEETING)

Chairman Rozell called the meeting to order at approximately 6:40 p.m.

2. INVOCATION

Vice-Chair Thomas led the invocation.

Chairman Rozell led the Pledge of Allegiance.

3. OPENING BOARD COMMENTS

Supervisor Popowicz apologized for being late. He said he was late because of meeting with a constituent.

4. DISCUSSION OF FY 2011 THROUGH FY 2015 CAPITAL PROJECTS AND RELATED BUDGET MATTERS

Chairman Rozell stated that Vice-Chair Thomas asked at the end of the last meeting to go over the Capital Improvement Projects (CIP).

Courtney Rogers, of Davenport & Company, LLC, stated that he was going to split his presentation up into two sections, the first covering the general government, schools and capital; and the second part is utility related. He said he was also going to go over some borrowing.

He then provided a PowerPoint presentation. He said as an overview in regard to the existing General Government and School Tax-Supported Debt as of June 30, 2010, the total principal outstanding:

General Government	\$25,930,783
Schools	<u>\$33,642,910</u>
Total	\$59,573,693

He pointed out that this does not include the Revenue Anticipation Note principal of \$5.5 million due on June 30, 2011.

Mr. Davenport then explained that the chart included in his presentation details fiscal year by fiscal year for the existing debt service requirements for General Government and schools only. He said the one thing he wanted to point out is that the last column of the chart that says "payout ratio", which indicates how much principal is paid off in 10 years. He said one thing that the rating agencies want to see are localities paying off at least 50% to 60% of their debt. He said more fast growing localities will pay off 60% to 65% of their debt and Caroline is right there at 50%. He explained that debt has a lot to do with amortization where you want to stay in the 20 to 25 year range, and focus on the 25-year range for some of the longer projects. He said this helps the payout ratio get back into the mid-50s, which will be a goal that they would want to see the County shoot for.

He stated that the total column the Board will also see on the next page in Column D, is what they will see for the first 8 or so years. He explained that they have taken the existing debt service and proposed debt service and what has been budgeted to show where they are currently through FY 2018 and the additional money needed.

He then talked about the CIP projects to be analyzed. He explained that what the Board will see are the projects on the left hand side and the number of years that they amortized or paying the debt off. He said in a lot of these they used the number of years that the auditors had called for depreciating these items. He went on to explain the projects and the debt amortization in years and noted that school buses should be 12 years instead of 10 years. He said the overall total for General Government and School Projects is \$43,000,000.

He explained the Utility Projects and the overall total is \$19,902,060 for FY-2011 and FY-2012.

Mr. Davenport stated that the next five pages of the presentation show each fiscal year and the amount of debt service by project. He said the Dawn Branch Library, YMCA, and Sparta Fire Station Projects are listed by fiscal year and explained that by using the

numbers on the prior page, they made the assumption of roughly 4.25% interest rate. He said they capitalized interest, which means they borrowed a little more to work through these couple of years because of the economy, and they start repaying a little bit in 2013 and then levelized the payments starting in 2014 for the balance.

He said on Page 11, the three columns on the left are the existing Debt Service principal, interest and total and then in the middle is the combination of all of the projects from the previous five pages of the presentation. He explained they are borrowing about \$43,000,000, \$44,000,000 in principal, and essentially because they have done this over a number of years, the debt service peaks in 2016, and then it declines a little because of the varying amortization schedules. He said when you add this together with the existing Debt Service which is the final three columns, you can see that it rises up to about 2016 and then begins to fall back.

He explained that on Page 12, they have taken that last column on Page 11 and now in Column B they have existing Debt Service, Column C is projected Debt Service, and then Column D is the total of the two. He said again, using the 2011 Debt Service that is currently in the budget, you see the need in 2013 of about \$2.1 million of additional money, and then an additional \$1.8 million. He said then from 2014 to 2015, an additional \$400,000 to \$500,000 and then another jump of \$400,000 to \$500,000 in 2016 and then it would decline from there.

He then stated that he would pause at this point to take any questions the Board may have and then he would show the Board if they do all of this with fiscal policies and certain targets that have been shown before, what things will look like.

Vice-Chair Thomas stated that the numbers did not include the revenue anticipation note.

Mr. Rogers said that was correct. He said it does include the interest, just not the principal.

Vice-Chair Thomas said basically they are borrowing \$5.5 million anticipating our next tax collection and is basically a cash flow issue. He said if they were to make that cash flow issue go away, it would be 15 cents to 16 cents tax increase for the entire year and that cash flow would go away, but they basically pay \$170,000 for debt retirement.

Mr. Rogers said about \$162,000.

Vice-Chair Thomas said basically they are paying \$162,000 a year for the privilege of ½ cent on the tax rate.

Mr. Rogers said a number of localities throughout the State do this.

Vice-Chair Thomas said that Mr. Rogers talked about the debt and that they should get to the mid-50s.

Mr. Rogers stated that was the payout ratio, which is how much principal is paid off in a 10-year period. He said they are now at 49% and where they should be. He said in looking at all of the projects, they would typically look at where the payout ratio is at the end of the fifth year because you are always adding projects and at some point you have to draw a line and see where you are. He said knowing that they are starting an amortization on the elementary school they just borrowed for a few years ago, a lot of these rolling stock items are shorter in nature. He said he thinks they are going to work up towards the 55 range, which is where he would like to see them move to.

He further stated that they currently do not have a policy, but that is something that he and Ms. Hatcher have talked about and some time in the future coming to the Board with some policies.

Vice-Chair Thomas stated that Page 11 shows the existing and proposed Debt Services and realistically they are looking at a 5 or 10-year period for the County. He said he would love to see 2036 and those years when it is less than a million dollars, but in all likelihood, they will be building a new school and so it will never get that low.

Mr. Rogers said that was true. He said he has been working with Spotsylvania and gone through this with them and as you grow, you will need new schools, administration buildings, and police cars.

Vice-Chair Thomas asked about the number they should be looking at in terms of Debt Service.

Mr. Rogers stated that the next slide would answer Vice-Chair Thomas' question. He said the two main policies that people look at are Debt to Assessed Value Policy and Debt Services as Percent of Expenditures Policy. He explained that the reason that 2011 jumps up is because they used the estimated decline by 15% due to the new assessment. He said assessed value is assumed to remain flat after 2011. He said currently, most localities around the state are in good shape with this one because of the growth that was seen prior to the slowdown. He said the Debt Service as Percent of Expenditures Policy is the one that most people have a problem with, because this is how much debt service in a given fiscal year is a percentage of the total budget of the County, General Government Operating, plus Schools. He said this is kind of the measure of, are you overspending on the credit card. He said the general guide that most people look at is 10% to 12%. He said back in the 90's, Spotsylvania was looking at 15%. He said they never got there, but using conservative assumptions that's where they were projecting and they showed the rating agencies. He said this is not unusual to jump up, but the rating agencies do not want to see it peak above the line. He said the danger here is if you jump up above the line, then they have the years 6 through 10 CIP that they are not talking about tonight, coming along as well.

He stated that in the assumptions, you can see that they have assumed that the operating side of the budget rose at 2% in 2012 and thereafter. He said your normal growth prior to the slowdown is about 8% or 9%. He said when things pick back up, this will come

down a little bit. He explained that they have Debt Service itself already factored in. He said Debt Service as Percent of Expenditures is the one you really want to watch and the question becomes how you manage this. He said obviously raising the operating budget is one way to manage this and taking projects out and pushing them out for years, helps.

Supervisor Acors stated that one of the things that has not been considered is that most of the projects that have been shown on the sheet, are projects that could be funded and debt retirement could be handled by proffer funds. He asked if that was correct. He said they talked about Schools, Fire & Rescue Stations, Police cars and other Departments.

Michael Finchum, Director of Planning & Community Development, stated that a lot of these projects, at least in part, can be covered through proffers and Debt Retirement could be covered by proffers as well.

Supervisor Acors stated that recently they talked to one of the communities and they are on course for 80 homes this year and 100 homes for next year. He said at roughly \$4,000 per home, that certainly provides you a source for revenue.

Vice-Chair Thomas stated that the developer for Belmont North promised a Fire Station for Carmel Church. He said they could approach it like Supervisor Acors suggested and the County could actually build a Fire Station and then charge the developer a fee. He asked if they could do that.

Mr. Finchum stated that subject to confirmation by legal counsel, he would say that there is a way to do that. He said if the developer failed to comply with their proffer obligation, the County could sue for compliance. He said that means you go to Court and you sue the developer to comply with his voluntary proffer, which would be to build the Fire Station. He said short of that, you could perhaps negotiate a settlement whereby the County assumes responsibility for that construction subject to the developer somehow reimbursing the County for that facility. He then said his caution would be, if the developer is financially not in a position to deliver the proffer that he made, he may not be in a position to reimburse the County if the County assumes that cost.

Vice-Chair Thomas stated that it was just another option or thought because he was talking to Chief Layman and he said Carmel Church is the County's weakest link when it comes to Fire & Rescue. He then asked the amount of the Belmont North Fire Station proffer.

Mr. Finchum said it was \$1 million.

Mr. Rogers stated that the next slide just shows some debt policy comparatives for surrounding localities.

Supervisor Sili asked what the average cash reserve was for each one of the surrounding localities.

Mr. Rogers stated that 10% is the average, which is roughly \$6,000,000. He said there are not many localities that can get away with lower numbers. He said the ones he knows of is Albemarle at 8%, but they do not have the growth; Fairfax County is 3%, but that 3% is a lot of money; and Loudoun County is 10%. He said the 10% for Loudoun and Spotsylvania Counties, they don't touch it and it is true emergency money. He said they have money over and above that, that is unencumbered that is actually used through the year; however, again, the 10% is true emergency money.

In response to a question from Vice-Chair Thomas, Mr. Rogers said that Loudoun and Spotsylvania do not have revenue anticipation bonds.

Vice-Chair Thomas stated that Spotsylvania has 10% for emergency money and are basically taxing citizens every year to have that emergency fund.

Mr. Rogers stated that the emergency money has built up over time and is not really taxed every year. He said as your budget grows, you set aside that money and you keep that threshold.

Vice-Chair Thomas said again, he can charge everybody in the County 16 cents on real estate and create that cash reserve or you can do just half a cent.

Mr. Rogers stated that it should be done over time. He said in our case here, the reason we are in this situation is because they had the utility fund that needed money and then the growth slowed down.

Supervisor Sili asked how that money spent on the utility fund was tracked and if it was tracked as debt.

Mr. Rogers explained that the auditors track that money as an inter-fund transfer, not debt. He said typically, roughly 8% is what you need as cash flow for a Virginia County budget and so you have roughly 2%. He said for those who have 10%, the 2% is really the emergency, and the 8% is what you really need for cash flow that operates the federal government. He said that 10% is \$6,000,000 and Caroline is right in that range.

Supervisor Sili stated that it was not like you can spend it because if they do, they are going to owe it, which is different than having a cash reserve. He said if they had to go into the \$6,000,000 for emergencies that would be debt that they would incur in the BAN they currently have.

Mr. Rogers stated that if you went into the \$6,000,000, on June 30, 2011 you would have to pay back \$5.5 million. He said you are basically using the money to fund operations until you get to the next election period, which is June 5, 2011.

Utilities - Overview

◆ Utility Fund Debt (not including Dawn)

- ◆ *Existing Debt Service Requirements*
- ◆ *Existing plus WWTP Debt Service Requirements*
- ◆ *Existing plus WWTP, Caroline Pines & Water Intake Debt Service Requirements*

Mr. Rogers stated that the Utilities debt as of June 30, 2010 does not include Dawn because the security for the bonds shown on Page 17 are outstanding currently and are the revenues of the Utility system not including Dawn. He said he knows they are trying to close the books out on Dawn and he does not have the final Dawn Debt Service.

He explained that the Debt Service on Page 17, total roughly \$1,000,000 in 2011 and 2012 and then it jumps up to just shy of \$2,000,000 in 2013 and levels off for a number of years. He said they have shown that currently, the Utility System is supporting itself on the operation side with new connections paying debt service.

He stated that page 18 shows only the Wastewater Treatment Plant on the left side and then once added to the existing Debt Service, they have added the column on the right titled, Cumulative Surplus/Deficit. He said since they have that surplus for a couple of years, they can use that surplus to help pay for some of the deficit in 2013, 2014, and 2015, so 2015 would be the first year that they would need to have some additional funds or have growth pick up.

Mr. Davenport stated that pages 19 and 20 shows the three projects shown earlier, which is the Wastewater Treatment Plant (WWTP), Caroline Pines and the Water Intake Project. He said with regard to the WWTP, they have pushed the principal off because it is going to be around for a while, and the debt is front loaded, they are wrapping the debt to try to levelize it. He said once they have done that, they wouldn't do it again on subsequent projects. He explained that on the left side of the slide is a summary of all three projects, which is about \$19,000,000. He said they have added it in with the new Debt Service using the same new connections, connection fees, added Caroline Pines estimated revenues, and they have a deficit in 2015 of \$350,000 and it will stay at that figure until 2020. He said assuming growth does not pick up, they will need additional revenues of a couple of pennies.

He then stated that the last few pages is information that the Board has seen before, regarding VRA Credit Requirements that they have to abide by.

Supervisor Acors stated that he was under the impression when they increased the water and sewer rates, that it would pretty much take care of the operation side of the Utilities Department. He asked how far they were off.

John Boryschuk, Director of Public Utilities, stated that as far as the operational portion of the budget, there are still some things in the budget that are not considered operational in the capital items still in there. He said most of what they are pulling now are capital items.

Supervisor Acors asked what was still in the operating budget that could be capital.

Mr. Boryschuk stated that they still have some engineering fees as well as looking at having to pay some additional over on some of the interim water supply over and above what they are doing on the treatment. He said they are not independent projects that were started this year.

Ms. Hatcher said the user rates are basically covering operational costs. She said the Dawn project is eating into the availability fees a little bit.

Supervisor Acors stated that in going back to what was asked and Mr. Rogers' response, is the fact that these numbers that Mr. Rogers has shown them tonight are pretty true as to the availability fees and where it is going to go to cover capital. He said it is not going to cover operations.

Supervisor Sili stated that means they could take all the connection fees and put them into a separate fund now.

Mr. Boryschuk stated that would depend on how Ms. Hatcher handles it. He said it could be a capital fund and an operating fund.

Vice-Chair Thomas stated that it may not be a bad idea for them to do that to make sure they manage it better.

Supervisor Acors stated that they need to make sure that the Utility Fund pays back the General Fund through the inter-agency transfer. He said he believes that as of this year's budget, that process had started. He said there is money in the Utility Fund to start paying back that loan from the General Fund. He said he just thinks it is good that if they can somehow separate the two so there is no question as to the money being paid back to the General Fund.

Mr. Rogers said as that takes place, the number in the audit shrinks.

Chairman Rozell stated that he also wanted to remind everyone that the Board wanted to take a 5-year look at CIP projects, to give them an idea of where they are long-term. He said he also met with the Chairman of the School Board and Superintendent, and he believes they need to sit down with the School Board to discuss these school projects in more detail and Mr. Wright has agreed to do that.

Supervisor Acors stated that they are really not that far off based on what the School Board presented in their memorandum to the Board today, versus what the County Administrator has included. He said the projects are different, but the amount of money is not that much different.

Vice-Chair Thomas asked if the reason for the meeting was to agree on the projects.

Chairman Rozell said yes. He said he has spoken with Mr. Wright and they need to have some collaboration on growth issues and issues yet to come.

He further stated that they do have some CIP Projects that they need to look at such as the Dawn Library. He said with regard to the Dawn Library, they need to get back to the architect, and the other items such as the upgrade to the WWTP, etc. He said everything else is tied to Economic Development in our region. He said they all know that the investments made by the previous Boards were smart investments, and they have to take action on that. He said not taking action would be problematic. He added that they talked about the extension of the water line to Caroline Pines and that is actually a budget booster by about \$1,000,000 from the latest numbers that they have.

Chairman Rozell stated that they have all these CIP issues that have been laid out, they have police cars and other things that operate local government, and they have to be careful because of all of these things stacking up. He said it's all going to catch up to them one day because now they have to start replacing buses, police cars, and wastewater systems.

Supervisor Sili stated with regard to the Dawn Library, they have not seen the water and sewer estimates, road improvements, or building improvements estimates. He said all they have is just the building. He asked if that was all that was going to be done.

Chairman Rozell stated that the Dawn Group raised about \$150,000 and have constantly been raising funds for that and is ongoing monthly.

Supervisor Sili stated that he knew his question could not be answered tonight; however, those are outstanding issues.

Vice-Chair Thomas stated that the Sparta people are not here, but Chief Layman may or may not be able to answer this question, but the Sparta Volunteer Fire Department representatives were at the last meeting and provided the Board with an update as to where they were. He said about 5 years ago, the Board gave them money and they basically turned it down because of the County owning the building. He asked Chief Layman if he knew if they have agreed to the County owning the building.

Chief David Layman stated that he pulled the file, or what was left of the file after the last meeting, and he has spoken to and discussed with the people from Sparta about some of these issues and the issue of the County owning the building has not been resolved. He said he believes further discussions will have to take place on those issues.

Vice-Chair Thomas stated that they borrowed the money and they basically gave the money back. He said the Board would wait for resolution on that issue.

Mr. Rogers stated that in order to get the money, they had to give collateral and that building was the collateral.

Supervisor Sili asked how public and private partnerships worked.

Mr. Rogers stated that he did not know the legal side of public and private partnerships. However, in order for them to go and borrow money, they need to have something that they can show to borrow. He said it could be rolling stock, vehicles, or a building.

Vice-Chair Thomas stated that they wanted to do it and they had the money 5 years ago, but they turned it down. He said he wanted to make sure that it is all clear if they go through the effort of borrowing money again.

Chairman Rozell stated that Chief Terry said last week that it would be a year away before they were ready for anything.

Vice-Chair Thomas stated that he just wanted to make sure they cleared up all the previous problems.

Chairman Rozell stated that there are some issues that they need to be decided and some things they need to move forward on. He said they have to move forward on the WWTP and the Caroline Pines situation. He said the preliminary work is just about done.

Supervisor Sili stated that they talked about a special district for Caroline Pines and asked when that would be set up in terms of the borrowing and moving forward.

Chairman Rozell stated that County Attorney Benjamin Emerson talked about that at the last meeting and if any fees were not paid, it would go on the property tax bills.

Supervisor Sili stated he understood that a special district would be set up because there was an additional tax on the capital that they have actually put out for that project.

Supervisor Popowicz said that was because there are other issues with the system other than the water connection. He said other things need to be done such as upgrading their lines.

Supervisor Acors stated that he was not sure that they are going to be able to take a vote tonight, but believes that they need to have in place the projects that they plan to fund. He said he believes that Mr. Rogers has gone through and made application to VRA for certain projects, but he does not know if they should take a vote without the County Attorney present. He said he believes this needs to be acted on at a regular meeting of the Board in September; however, he does believe there are some projects that they need to move forward on.

Vice-Chair Thomas stated that a lot of things they are talking about are projects that are 10, 20 and 30 years out. He said some young people in the audience have mentioned a bowling alley, a big box store, etc., and none of these things are on their list. He said maybe they need to consider how to work those things in to keep young people safe and off the streets. He said he would save this list as they get other developers to come in.

5. OTHER MATTERS

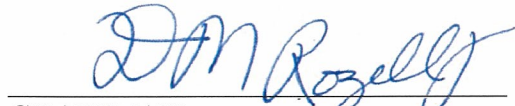
There were no other matters to be discussed.

6. ADJOURNMENT

Supervisor Acors moved and Supervisor Popowicz second to adjourn the worksession at approximately 7:45 p.m.

<i>Roll Call Vote:</i>	<i>Acors</i>	<i>Yea</i>
	<i>Popowicz</i>	<i>Yea</i>
	<i>Rozell</i>	<i>Yea</i>
	<i>Sili</i>	<i>Yea</i>
	<i>Thomas</i>	<i>Yea</i>


CLERK TO THE BOARD


CHAIRMAN

