An adjourned meeting of the Board of Supervisors of Albemarle County, Virginia, was held on June 2, 2011, at 9:00 a.m., Room 241, County Office Building, McIntire Road, Charlottesville, Virginia. The meeting was adjourned from June 1, 2011. (**Note:** The meeting was scheduled to be held at the Monticello Fire Station, located at 25 Mill Creek Drive, but due to building system malfunction, the meeting was moved to the County Office Building.)

PRESENT: Mr. Kenneth C. Boyd, Mr. Lindsay G. Dorrier, Jr., Ms. Ann Mallek, Mr. Dennis S. Rooker, Mr. Duane E. Snow and Mr. Rodney S. Thomas.

ABSENT: None.

OFFICERS PRESENT: County Executive, Thomas C. Foley, County Attorney, Larry W. Davis, and Clerk, Ella W. Jordan.

Agenda Item No. 1. The meeting was called to order at 9:17 a.m., by the Chair, Ms. Mallek.

Agenda Item 2. From the Board: Committee Reports and Matters Not Listed on the Agenda.

Mr. Boyd provided an update on the pump station replacement options at the Rivanna Station or Woolen Mills neighborhood. He mentioned that under Options A-D, there is a list of the pros and cons of each option, including environmental impacts on the neighbors. He stated that Option E has been put on the table most recently with the idea that you can drill underground. Option C calls for drilling a long trench and some places it would have to be 90 feet deep, but it was routed around existing buildings. He said that this option is relatively new idea proposed by a neighbor there, and studying it is very costly as there would need to be geothermal borings done to determine how the soil composition changes at different levels.

Ms. Mallek asked if that option would have to be as deep. Mr. Boyd replied, “yes”, it would still need to be 90 feet down, like the tunnel going under the river, because it is a gravity-fed 60-inch line. He said that the idea behind it is to eliminate the need for a pump station as it would all be gravity-fed from the existing Woolen Mills area.

Referring to information Mr. Boyd handed to Board members, Mr. Rooker said that he got a little confused as to what is “existing” and what is “new,” such as the solid red line that is the furthermost west point on the map.

Mr. Boyd explained that that was Option C, and it was redone as Option E; the red line was the line for Option C.” He said that the Board has opposed Option D, but what was decided at Rivanna was that Options D, A and E would be studied – with Option D paid for by Rivanna, therefore a shared cost allocation shared between the Albemarle County Service Authority and the City; Option E would be paid for by the City; and the County would pay for Option A. Mr. Boyd said that Option D just goes across the River and then comes right back, which just moves the pumping station across the River.

Mr. Thomas asked who owns the property that the pumping station is located on. Mr. Boyd responded that it is City property, Riverview Park, and they have not been willing to give up any land from their Park for Option A for the pump station. He said that the ACSA has wanted to proceed with a study because a lot of the station could be put underground, but obviously neighbors out there do not want it even though Rivanna has spent a considerable amount on scrubbers to help reduce odor.

Mr. Rooker added that the RWSA has promised to put the best scrubbing system into whatever new is put in.

Mr. Snow noted that this is the only facility in the City, with the rest being in the County.

Mr. Boyd added that there are 17 different facilities that Rivanna operates – with seven of those being pumping stations, one in the City and the rest in the County, and five of those being treatment facilities.

Mr. Rooker stated that 60% of the sewage is produced by the City and all of the facilities except this one pump station are in the County.

Mr. Boyd explained that wet water situations are the catalyst for needing larger systems.

Ms. Mallek pointed out that this was an active decision several years ago to build bigger pipes instead of fixing the leaky ones that are causing the I&I.

Mr. Boyd said that it has been suggested that all the infrastructure should be fixed, but as Mr. Frederick has pointed out that is not a practical solution. He also said that the amount being spent on the new dam is miniscule compared to what is being spent on the sewer system – which is driven by regulations – and the important aspect of getting beyond this with the City is the pressure of a December deadline to have an engineered plan for the DEQ.

Mr. Rooker stated that it is remarkable how little capacity is used on a normal day compared to when there is a rain event – about five times greater – which is where things are now. He stated that a locality can also have criminal actions if violations continue.

Agenda Item No. 3. **Work Session:** CIP Long Range Funding.

Mr. Foley reported that the goal the Board established last year focuses on ways to fund the capital program long-term, and that was the goal set for the two-year period although it is really a long-term strategic issue. He said that today's purpose is to talk about long-term issues rather than specific projects and to see if the Board wants to take any different direction. Mr. Foley stated that there may be some more opportunities in the near term to deal with "shovel-ready" projects, but the five-year planning period is still the same challenge as discussed before. He said that in the near term and in the longer term there is some reasonable news, but in the places with the most critical needs – such as courts, schools, etc. – there is still a struggle. Mr. Foley stated that the Technical Review Team and CIP Oversight Committee would commence their discussions in two months and they will need to know if any assumptions will be different, or if it will be a maintenance-only plan again. He then introduced Mr. Courtney Rogers and David Rose of Davenport & Company, who have worked with the County on fiscal planning issues before. Mr. Foley said that Mr. Bill Letteri, Assistant County Executive, would start the presentation.

Mr. Letteri addressed the Board, recognizing staff from the Office of Management and Budget, who has helped in this process. He also noted that Ms. Rogers and Mr. Rose have helped the County considerably over the years with financial strategies. He said that this is a broader discussion of critical projects, specific strategies about financing projects, but with the overall focus on funding capital projects for the long term. Mr. Letteri stated that this is a maintenance only program with little capacity to do other programs. They will spend some time defining and discussing capital needs. , and what constitutes a critical need. He said that most everyone can agree that a maintenance only program is not what a long term capital program should look like. He said that once that gap is understood the Board will want to focus on specific financial strategies and capacity issues created over time by new revenues coming into the County. Staff is hoping that the CIP groups this summer will have more clarity on that to inform their process.

In terms of today's agenda, Mr. Letteri said he will go over some of the CIP policies and goals, trends and capacities, revenue/resource/debt components, and capital needs. Mr. Rogers and Mr. Rose will then discuss their evaluation of the County's systems and opportunities they have seen.

Mr. Letteri reported that he went back and reviewed the policy goals for the CIP. The County established a goal some time ago of trying to generate at least 3% of General Fund revenues after paying debt service toward capital – or $6 to $7 million per year. He emphasized that the 3% is current dollars to contribute towards maintenance or new projects – which come from either net transfer or other revenues, which are comprised from surpluses from other years, interest earnings from the Capital Fund, proffers, grants, donations from other communities, etc. Mr. Letteri stated that the County has gotten to a point of about one-third of the goal. He added that the 3% is contributions for new projects, after debt service, and the debt service cost is going up so available funds would decline unless it is offset by growth and revenues.

Mr. Boyd said that the County needs to look at how to level out that debt service.

Mr. Rooker stated that the strategies the Board has discussed in the past include using debt to acquire projects because the Board was not contributing enough cash.

Mr. Boyd said that most of the debt service is from school projects and the Board does not get much chance to discuss it but instead the projects go to the Virginia schools financing program.

Mr. Rooker indicated that that is not the case, as the Board definitely discusses financing them.

Mr. Foley noted that if the County got any cheaper financing it would have to go to referendum for General Obligation Bonds. He added that all the projects go through the CIP process and they have been approved by the Board.

Mr. Boyd said that even though projects are discussed with the Board, it has been pretty much automatic, even the discussion this year about funding maintenance projects through debt.

Mr. Rooker said he disagrees because the Board has chosen to finance those things with debt because the County does not have the cash to pay for them. It was not done seven or eight years ago because there was enough cash going into capital to pay for them with cash.

Mr. Boyd stated that the County was running $10 million surpluses during those times. He then asked what the baseline is for maintenance and how those are decided upon – such as installing lights on tennis courts and replacing tile floors with wood. He said that he does not know how it is that the school system comes up with their maintenance projects, but it is pretty much a level $3 to $3.2 million every year if you look back historically.

Mr. Letteri explained that in both cases of school and local government, the staff insists upon a conditions assessment program whereby they engage outside engineers, etc. to go through the facilities and examine all of the components of those facilities – and they build a list of all core improvements they think are necessary to maintain those facilities, as well as provide a schedule for priorities over five years. It is on the basis of those documents and those reports that both local governments and schools produce their maintenance reports and maintenance requests. He said that it is driven by actual projects, with the assessment team staying within industry standards – which are also reviewed by the County. Mr. Letteri added that in the last couple of years the schools were well below the $1.25 and $1.50 range.

Mr. Foley pointed out that the industry standard is used to judge what has been submitted, and the County is below the industry standard in terms of investment in maintenance.

Mr. Boyd asked why that couldn't just be included in capital then. Mr. Letteri responded that that is a good idea. The County has approximately $500 million in assets and a certain amount of maintenance money is needed annually over time.

Mr. Foley said that the County has essentially done that on a policy basis, but it does use industry standards to guide its decisions. He added that the CIP Oversight Committee has had the opportunity to look at all of the details of specific projects.

Mr. Boyd asked if the industry standards used are both private and public. Mr. Letteri responded that they are. He added that if a roof system or major mechanical system is replaced in a school at a cost of roughly $150,000 or so, it is fairly certain that it will have a useful life of 15 to 20 years, so one could argue that, just as with a capital project, the long-term benefit supports the notion of debt financing.

Mr. Rooker said that the exception to that is if you own a fleet of buildings there is a wave of replacement needs that happens every year.

Mr. Letteri noted that a collection of the projects coming out of the maintenance categories are those that do not have useful lives, so some of those are funded purely in cash.

Mr. Boyd stated that while he is not interested in micro-managing these projects, he would be in favor of estimating the fixed costs of maintenance.

Mr. Foley said that the CIP already does that and if the issue is that one of the potential strategies is evaluating maintenance projects, staff can bring that back to the Board – even though they have already gone through that. Staff thinks the plan before the Board is a responsible maintenance plan, and it has taken up all of our money. He stated that that's the starting point for today's discussions, and $327,000 is what is left after maintenance.

Mr. Boyd asked what the peer groups are spending on infrastructure and maintenance. Mr. Letteri said that staff can build charts that show the square footage of buildings that are subject to the maintenance piece and establish what those standards say, showing a comparison to what other localities do.

Mr. Foley said staff can follow-up with a comparison of benchmarks including industry standards. He added that for today the Board can make the assumption that that's what is being used now as a ground floor, and even with some tweaking it is not going to take care of long-term capital needs.

Mr. Letteri said that the next part of the discussion is what a five or ten year capital plan should look like. There is a need to get beyond the ground floor and it is important to note that a capital plan is part of a government's financial and budgeting program. It is a prudent financial tool that says capital programs by their nature are long-term, they are large and they take a lot of resources. A capital plan provides a way of planning for those projects over time so you don't have major spikes. He added that there needs to be some reconciliation between what this program should look like and what it looks like today.

Mr. Letteri provided a list of unfunded projects the Board has previously discussed. Some of the projects are core critical needs and some are quality of life issues. All of the projects add up to substantial dollar amounts.

Mr. Boyd asked about the addition to Monticello High School. Mr. Foley stated that this is for additional classroom space.

Mr. Letteri said that there are some assumptions coming up related to school expenses, but those are contingent on redistricting – and if that is not done, a major feeder school would be needed at a cost of about $40 million.

Mr. Foley commented that this needs to be tied back to the five-year watch list, and last year's data did not include the latest figures on enrollment from DIA information, etc.

Mr. Boyd said that the school system is going to have to consider whether they will redistrict. Adding on to Monticello and Albemarle High Schools when there is available space at Western Albemarle is not wise planning just to avoid redistricting.

Mr. Foley commented that the Board's discussion with the School Board about CIP assumptions is critical as they move forward.

Mr. Letteri stated that the ACE Program and a lot of other public safety projects would need to be considered, especially in areas like Pantops as the population there grows and as the contract with the City expires. There are several public works projects including County Office Building windows that are unfunded. He said that the entire area of Community Development – such as sidewalks, lighting and road work – has had zero funding for a couple years and include zero funding going forward.

Mr. Foley noted that the master planning funds have pretty much come out with a small amount staying in Places 29, but there might also need to be money to put in the revenue-sharing match for the bridge project. He commented that most of that money has been robbed, but, again, there is still some in Places 29.

Mr. Rooker said that the financial report in the Board's June 1st consent agenda showed a surplus of around $2.5 million and a fund balance of about $4 million. He said some of that surplus is used for the Stabilization Fund, but could some of it be used for the transportation match. Mr. Foley responded that some of it has been factored into the financial analysis.

Mr. Letteri said not all these projects are going to be critically needed in the next five years, but they do represent approximately $200 million in program needs. He thinks the County needs to figure out how to get from the $75 million to some number in the capital program. Mr. Letteri said he will now turn the presentation over to Mr. Rose and Mr. Rogers to talk about what they see in the County's structure and what may be some opportunities.

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(**NonAgenda. The Board recessed at 10:05 a.m., and reconvened at 10:18 a.m.)**

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Mr. David Rose of Davenport & Co. addressed the Board, stating that six years ago when they met with the Board they were thinking about a 10-year horizon because the first five years were in good shape so a long-term strategy was considered. Mr. Rose said that the County is at the top statewide and nationally in terms of financial management, which is why it qualifies and enjoys the AAA bond rating. He stated that the focus on benchmarking to that level of credit is already embedded in this long-term approach. He added that there would also be some specifics included in this presentation.

Mr. Rose stated that over the next five years the 2012-2016 capital program includes a two-thirds debt component and a one-third equity component (or cash), which is considered a very strong debt to equity ratio and it enables some flexibility. He said that this is being discussed today with no damage or no impact to the current real estate tax rate as it relates to capital. Mr. Rose also stated that there is about $200 million in unfunded needs, which is somewhat sobering because about $75 million of that is going to maintenance needs.

He then presented a detailed year to year perspective on the debt to equity components for the next five years of the $75 million, which is roughly 60/40. He said that they plan to come back to the Board with some specifics to actually do the borrowing, which is often done the year subsequent to when the projects are decided upon.

Mr. Courtney Rogers said that part of the $30 million in equity contribution is a combination of the 3% trying to be achieved through the leftover after debt service, revenue monies, and monies that have built up in past years from surpluses that have eroded as the economy has gone down. He stated that by 2016 there is only $2 million left in the capital fund balance if this plan holds, which means that the fund balance won't exist for the next five years – thus impacting the 60/40 mix and possibly affecting the County's status.

Mr. Rose stated that County staff through the Board's direction has done a great job of creating the excess cash flow to be put into a specific capital fund, a dedicated fund that has been used during the last few lean years. He said that they have made certain key assumptions based upon input from the County and are trying to be as positive as possible but also very cautious.

Mr. Rooker clarified that the $75 million is maintenance only.

Mr. Rose agreed, adding that there is a rolling series every five years of about $75 million of maintenance only – and beyond that there is still $200 million of unfunded needs, and for the next five years $75 million of that would be maintenance only. So the real question is how to go from just taking care of maintenance only to boosting this.

Ms. Mallek asked if this is based upon the 3% of General Fund revenue going into capital. Mr. Rose said this is based upon where you are now.

Mr. Letteri explained that based on a $200 million general operating fund that number would be about $6 million at 3% - but net after debt service it ends up being $327,000 plus other sources of revenue as mentioned, bringing the total to $2 million or one-third of what the target should be.

Mr. Snow asked what the total debt is at the end of the five-year period. Mr. Rose responded that there would be $45 million in new debt that would be issued, not factoring in retired debt.

Mr. Snow asked how much debt the County has paid off during that time. Mr. Rose said he does not have that information right now, but would get to it. He added that the County has a very strong pay down record.

Mr. Foley said that they have factored in the possibility of paying off debt and freeing up some money, which would be shown momentarily.

Mr. Rose stated that between 2012 – 2016, the County would be paying off over $50 million in debt over the next five years, and then basically staying level in terms of total debt outstanding.

Mr. Foley said that they have also factored in the savings from paying off that debt.

Mr. Rose reiterated that this is all being predicated on no additional tax money.

Mr. Snow asked if this plan factors in growth. Mr. Rose responded that growth is factored in. The growth assumption is then raised in subsequent years based upon information coming from County staff as they know the County a lot better than Davenport does.

Mr. Foley said that staff took a fresh look at revenue estimates and this is the best information possible given modest revenue projections.

Mr. Snow stated that he has heard some news reports recently that have said there could be a double dip recession.

Mr. Rooker commented that if the U.S. defaults on its debt and the debt ceiling isn't raised, there is no blueprint as to what might happen next. He thinks the Board needs to be cautious from the standpoint of making certain that the County can survive economic shocks. He said that real estate prices are still declining nationwide and are down to where they were in 2002.

Mr. Foley said that there are reasonable assumptions behind the numbers here and the County is in a pretty conservative place.

Mr. Rooker pointed out that there would likely be huge cuts in federal budgets, which might mean more obligations at the state and local levels.

Mr. Snow commented that if the government does make substantial reductions, the localities can get rid of their mandated programs.

Mr. Boyd said that does not normally work.

Mr. Rose said that Davenport can come back every few months to see what factors have changed, and if there is one small positive when the stock market takes a hit, there is a flight to quality – such as lower interest rates on municipal debt – when other markets are in decline.

Mr. Boyd stated that the results of the Economic Vitality Action Plan need to be tied to how that might impact future needs for both operating costs and CIP. There is a tendency of local governments to think that the only way to fix this problem is by increasing taxes.

Ms. Mallek said that the entire picture will need to be considered, as some of those new commercial ventures will require public infrastructure.

Mr. Rooker mentioned that the Shops at Stonefield really preceded the action plan, but would also provide a shot in the arm for sales tax.

Mr. Boyd said if the economic vitality area of the economy could be increased it could have an impact.

Mr. Foley said that the question is where are the resources are going to come from for projects that are completely unfunded. Staff could provide an analysis of what the revenue generated from an opening of a typical Wal-Mart or something like that. He said that in the scheme of the entire $350 million budget, the impact is not as dramatic as you might expect. Mr. Foley emphasized that the hope was that real estate revenue would start to creep up or remain flat, but that has not been the case. He also said that every bit of that revenue from Stonefield, etc. is subject to a formula whereby an amount comes off the top but some is left for the operating side. It is not pure revenue to go to capital, unless the Board makes a policy change on growth and revenue. Mr. Foley stated that if it comes from the operating side it takes away from schools and other local government programs. He said that his goal is for the Board to agree that these assumptions presented are reasonable, and with that they make some decisions on what to do next – whether to hold the line and ride this through for five years or think about other revenue sources.

Mr. Thomas asked what the impact would be from new apartment construction in the Rio District. Mr. Foley responded that residential is usually a negative, as there is an impact on schools and other services.

Continuing with the PowerPoint presentation, Mr. Rose stated that the debt issuance of maintenance only for schools has been about $5 million per year on average.

Mr. Letteri added that all public safety items are apparatus.

Mr. Rose said that most of the borrowing done here has a rapid payout, as a number of maintenance only items have a relatively short useful life.

Mr. Rose emphasized that everything they are talking about is making sure they are not kicking the can and pushing it down to some subsequent generation. Mr. Rose stated that rating agencies have been "asleep at the switch" for the last few years when it came to things like collateralized mortgage obligations, etc., and institutional investors have never looked more closely than they do now at local governments to see how they are rated. It is very critical that the County keeps its AAA bond rating.

Ms. Mallek stated that the County is “kicking the can down the road” because nothing on the long list of items planned for many years are being done.

Mr. Rose responded that that is true if the County keeps deferring things that need to be done, but he was speaking to borrowing being done for today’s needs is being done responsibly.

Mr. Letteri said that there was a Board work session where staff shared a long list of special financing options, such as changing the rate of paying back principle, but staff is advocating not going down that road to create short-term capacity.

Mr. Rose said that the concept of credit spreads means that the BBB credit versus the AAA credit used to not matter much, but since the credit crisis of September 2008 there is a big spread. It has never been more important that the County keep the AAA rating as it provides maximum access to credit markets and ensures that borrowing can continue at the very best interest rates.

Mr. Rooker stated that this provides comfort to the Board as it shows that outsiders are validating the County’s economic policies. The County is continuing to operate with financial prudence.

Mr. Rogers added that from an economic development aspect, companies look at localities for their bond rating when deciding where to locate.

Mr. Rose said that by virtue of the County being so highly rated and having some pieces of debt, like the 2003 lease financing, that are in a refundable mode, the County can responsibly, without raising the tax burden, add $10 million to the capital program immediately if the Board decides to do so. The County has a $10 million capacity without having to say it has added to the burden of the FY 2013 or FY 2014 budgets.

Mr. Dorrier asked what the interest rate would be.

Mr. Rose responded that he is using a 4% or 5% rate, stating that undertaking a project or two adding up to $10 million is entirely feasible. He explained that the County’s interest rates are quite favorable and because of excellent access to credit markets it can borrow absent to referendum at rates that are right on top of AAA rates. Mr. Rose stated that the County can also bring some rates down on outstanding debt while restructuring existing debts in a favorable way.

He said that his second important point to make is that after 2016 the County now has debt capacity of approximately $110 million – based upon a series of assumptions with interest rates and the idea of borrowing money, with a little bit of tweaking of best practices, i.e., by amending and strengthening some of the County’s financial policy guidelines.

Mr. Rooker asked if that would essentially be $35 million over the $75 million needed for maintenance over that time period. Mr. Rose said it would be, but the sobering part is that $75 million is just for ongoing needs and $35 million for new projects over 10 years. It’s $111 million of funding, of which two-thirds is going to be borrowed and one-third is going to be equity.

Mr. Rose stated that the third point is that if the Board were to consider dedicating the equivalent of 3 cents on the tax rate (about $1.5 million per cent), that translates into about $60 million of capital projects – or $4.5 million per year – and that could occur immediately or several years from now. He said that those allocations would not be needed until FY 2014 or FY 2015, if they decided to do all $60 million fairly quickly.

Mr. Rogers said that if there are additional revenues over and above that, the penny might not be needed.

Mr. Foley stated that if the Board plans to do any unfunded projects with funding in 2014, those are projects that have to get started and we need to change the assumptions for the CIP development sometime in the near future as a strategy. He said that otherwise it won’t be factored in and the $60 million won’t be there.

Mr. Rose noted that all of these are done within the County’s financial policy guidelines – the benchmarking, the best practices – which the rating agencies have expected from the County.

Mr. Boyd asked if there is a plan to use EDA bonds. Mr. Rose responded that they have not gotten into that detail yet, as this is just a long view as to how it might be accomplished. They also did not get into specific projects.

Mr. Rogers said that with a public works project, VRA would be an option.

Mr. Rose stated that the important point is that the County’s borrowing ability is such that it would not be hemmed in by a close margin such as $50 million versus $60 million.

In summary, Mr. Rose said that $10 million has been identified in immediate capital needs with $200 million overall, with $111 million for the second five years. Mr. Rose said that with the equivalent of $60 million there is a modest amount with not much left over. He also stated that the scenario with the $200 million was created with assumptions made that it would just be coming from the General Fund.

Mr. Letteri commented that it is reasonable to say that some renovations would need to be done to schools in the next five years, along with renovations to the Courts and Levy Building. He then went over what they consider to be a list of potentially critical projects.

Mr. Foley said that even if the projects were cut in one-half, there is no money in the plan to provide for any of those at this point.

Mr. Letteri said the list is intended to illustrate that there is some volume of critical needs that will likely need to be addressed in the next five years.

Mr. Rooker asked about the window replacement in the County Office Building. Mr. Letteri responded that it has risen above the maintenance as it is a critical component of the County Office Building and it has already been deferred four or five years in a row, and that is why the projected landed on this list.

Mr. Rooker asked if the replacements are expected to result in energy savings. Mr. Letteri responded, "yes". Mr. Rooker said that there are assessors who can evaluate how much is saved in energy costs. He added that it may be something that pays for itself.

Mr. Foley noted that that is part of the analysis that has already been done and one of the reasons the project is on the list. The projects on this list scored high – with the windows scoring high because of the energy savings.

Ms. Mallek said that in Greene County the building renovations are being paid for by energy savings.

Mr. Foley added that Jail expansion is not on the list because no plan has been developed, but every other month he hears about the jail population. That is one of that projects that when it needs to happen, it will have to happen. The courts are in the same situation.

Mr. Letteri presented information that indicated that even if the decision was made to move forward with some of the larger projects today, it takes two or three years to get the design work underway, hire the architects, get the project underway, mobilize contractors, building the facility so that it is functioning, etc., and the funds are not usually borrowed until the next year. The real revenue needs are way out here in third and fourth years.

Mr. Snow asked about the $111 million if the financing strategy is changed. Mr. Letteri explained that the amount comes in large part from increased capacity by paying debt off. Mr. Foley clarified that it is for everything after FY 2016 and it would not be freed up before then.

Mr. Rose stated that the key assumptions for funding are the County's 2012-2016 CIP is funded with approximately two-thirds to one-thirds debt to equity ratio; the ending Capital Fund Balance remains at/above the County's policy guideline of $2 million without growth in the future; the County's amoritization of debt remains very rapid. Currently at 72% it increases to nearly 80% by the end of the 2016 time period. He said that over the next 10 years the County has almost three-quarters of its debt paid off.

Mr. Rooker asked about the new debt acquired, given that this is just addressing current debt.

Mr. Rose explained that the additional debt laid on is going to be done so quickly that most of the debt would be paid off in 10 years. He said that most counties have a policy that establishes what is prudent in terms of how fast debts are paid off, with anything of 50% of higher is considered a solid payout ratio, 60% of higher is considered a very good and healthy payout ratio, and 70%+ is already achieved in Albemarle. That is important because you are almost working counter to what you are trying to do which is deferring and pushing a lot of absolute critical needs at a time you could have done them at a cost effectively and not exacerbate the tax rate burden, because you are just going to spread that a little more responsibly. Mr. Rose emphasized that Davenport recommends that Albemarle adopt such a policy.

Mr. Rooker asked if he knows how much capacity that creates. Mr. Rogers said they don't have that number at this time.

Mr. Foley said that the key issue here is that most of that opportunity is in the later years of the 10, which is why the $111 million appears.

Ms. Mallek asked why it would be crammed into a short payout when it could be extended out over a more reasonable time. Mr. Foley responded that the debt that's locked in right now in the five years is VPSA debt, which cannot be refinanced. He said that the wrong takeaway here would be to try to refinance debt and accomplish all projects in the next five years. This strategy has really evolved over the last two or three years. In fact the interest rate assumption was higher before.

Mr. Rose said that if some policy amendments over the next four or six months are created, that will put the County in good stead as the Board looks at its CIP over the next five years.

Mr. Rose stated that Davenport recommends refinancing and restructuring those pieces that are at higher interest rates that are non-VPSA. If the Board wants to look at some of the unfunded needs, they can get up to $10 million now. They are also recommending that the Board accomplish all of those needs at one time instead of going long term.

Mr. Rogers stated that there is $11 million in the previous CIPs but also $10 million in the 2012 CIP the Board has adopted.

Mr. Foley clarified that items already underway have to be financed, but unfunded projects are about $10 million in the next five years of the $68 million in projects the County had identified as critical. The County has to go to market for the $11 million in projects it is obligated to. He said that the County will be able to start a project with cash and then reimburse itself, which is a strategy the Board adopted.

Mr. Rogers said that Davenport has been working with Spotsylvania County as transportation challenges have increased for localities, and that county went to referendum in 2005 with their entire six-year plan – and it passed in toto. He stated that they will never issue the entire $144 million in bonds, but they were able to fund bonds by establishing a special district agreed upon by retailers for a new shopping area that would impact Route 1. Mr. Rogers said that the idea was that since the land had not yet developed the credit markets might not lend for 15 years, so they did interim financing for five years of interest only with the taxes taking care of that interest.

Mr. Boyd asked if that was a CDA situation. Mr. Rogers responded that in this case it was a special district, not a CDA, whereby the County Board is the controlling entity and can change that tax rate year to year.

Ms. Mallek said that that was one of the most supported ideas in the transportation workgroup six or seven years ago, with the idea of using the entire growth area and City as the district.

Mr. Boyd commented that this was a big issue with North Point as well.

Mr. Rooker said that North Point wanted the County to issue bonds so that they could build their internal infrastructure – not to make public road improvements. He stated that Albemarle Place and Hollymead Town Center had a requirement that if they created a CDA, that it be used for external improvements, with a 25% tax increment on the tax rate – and they agreed to it. Mr. Rooker said that the County must implement a CDA in order to realize that revenue.

Mr. Boyd asked if that was not discussed in terms of going down the Route 29 corridor and establishing a special taxing district. Mr. Rooker said that was the thought.

Mr. Davis said that the scheme for the County corridor-long CDA does not seem practical, given the restrictions on how it is formed. If the Board is interested in having a taxing district, a service district is a much more efficient approach. He stated that there has been some litigation recently on the matter, with the courts backing localities on their ability to restrict service districts to commercial and industrial properties only, and not taxing residential properties. That seems to have been resolved now by the courts.

Mr. Rogers confirmed that these districts did not include residential.

Mr. Rose said that there has not been a CDA financed in Virginia in the last several years, so a service district by virtue of local government control would be much more affordable.

Mr. Boyd asked if Short Pump was done through CDA. Mr. Rose responded that that is paid off and has been a real success story. He added that Davenport had to come in and refinance downtown Richmond to keep it out of technical default – so that CDA is effectively dismantled. They then came in with GO bonds. He said that it all ties back to the reasonableness of the assumptions and the quality. Short Pump was successful enough that it has retired all of its bond debt.

Mr. Boyd asked if this had been discussed by the Board for stormwater management. Mr. Davis responded that there is a stormwater management utility that is based on things other than assessed value of property, and the possibility of having stormwater service districts as a special tax district. There are pluses and minuses to both of those strategies.

Mr. Rogers said that the City of Richmond has a program right now where residents get a small bill each year. Mr. Rose commented that there is also a cap on the amount.

Mr. Foley noted that the issue here is rather than general raising revenue do you focus it on a particular service in a particular area or do you focus it on service districts.

Ms. Mallek said that it is a user fee more than a tax.

Mr. Rooker stated that it is an enhanced tax essentially and a lot of counties do it.

Mr. Boyd asked if that is what the Service Authority does to pay off the pump station. Mr. Foley responded, "yes". He added that a service district is another way to get resources – as is going to referendum, along with voters giving opinions on certain facilities. The other option is to allow natural growth and revenues to help pay for the service.

Mr. Rose said that he and Mr. Rogers could come back with the actual breakdown of the $35 million additional and the timetable of projects; provide a breakout of refinancing pieces so the Board could see the interest rates and approach; and engage in a discussion of policy amendments.

Mr. Rogers noted that there is a new GASB 54 ruling that will impact how a County's fund balance looks, which is something that localities are considering now.

Mr. Foley stated that the end result of those three items is to help the Board figure out how to get the $10 million in five years and how to get the $111 million in years six through ten. It does not solve the major issue about the critical projects that are unfunded in the five-year period. He added that whatever they come back with won't make any difference for funding those critical projects in the next five years.

Mr. Rooker also said that the capital projects need to be ranked based on the impact of their operating costs.

Mr. Foley said that normally the CIP Oversight Committee would look at any money freed up and make recommendations about how to proceed.

Mr. Boyd agreed with Mr. Rooker's point about operating impact.

Mr. Foley stated that the Board might have to make a decision about reallocating money back to operating in order to accomplish a project just to get it up and running. It is a significant question.

Mr. Rooker said that he is not really in favor of going outside the normal CIP process without input from the committee first, adding that he is not sure how the school projects will play into this – as they may rise to the level of emergency more so than local government projects. He stated that there is good representation of the Board on that committee.

Ms. Mallek said that using the existing emergency list is a good place to start.

Mr. Boyd noted that there is quite a bit of money put under apparatus for public safety. He asked if that should be looked at in terms of postponement if it is for the training facility.

Mr. Bryan Elliott, Assistant County Executive, commented that the bulk of the projects under public safety are apparatus; but some of it is for ECC upgrades and the CAD data system.

Mr. Boyd said that is just the area he thought that some dollars could be postponed. He suggested that perhaps it should go back through the CIP process. He also thinks this is valuable information and the Board needs to get Davenport back to talk about how the additional $10 million would work.

Mr. Foley said that Davenport could come back as an agenda item regarding financial policies and a financial proposal, with the only question being the $10 million in the five years – which is 5% of unfunded projects. He asked if the Board has any other things it wished to discuss today about other strategies or approaches. He asked if the Board wants to come back in another work session on some of the broader funding issues.

Mr. Rooker stated that unless there is a will to establish a special tax district whereby commercial properties pay a higher tax rate, there is not a need to come back.

Mr. Boyd said that that is not something he is interested in.

Mr. Davis stated that it could only pertain to projects that are providing an extra benefit only to that defined area.

Mr. Rooker said that the entire urban area could be a special taxing district to provide transportation projects, i.e., Berkmar Bridge, Pantops, etc. Mr. Davis indicated that those transportation projects are not even included in the $200 million.

Mr. Rooker stated that the $75 million in ongoing maintenance is not unfunded, so the $200 million is overstated and is really $125 million.

Mr. Letteri said that what is considered unfunded changes from year to year. It is an attempt to describe an order of magnitude rather than a precise number.

Ms. Mallek proposed that there should be discussion of items listed as the next three steps, rather than just coming back with a decision in five minutes.

Mr. Foley said that within the next few months, the Technical Review Team will begin its work and the five-year plan will start, and even the 1.5 cents on the tax rate would not need to be planned for until FY 2014 but it should be considered now as it would lead to some RFPs and investments that need to be made.

Mr. Boyd stated that operating costs would need to be known for some of the capital projects before talking about dedicating more money from the tax rate.

Mr. Foley commented that there are questions about economic development generation and whether maintenance can be lessened, and staff has estimated those as realistically as possible.

Mr. Rooker said that at the end of the day the question is whether economic vitality would increase sales tax revenues, and it comes down to something you can plug into a spreadsheet and whether growth estimates can be increased.

Mr. Foley noted that the growth and revenues are funding the operating side too, and the question is whether the order of magnitude is large enough. He said that at least there is $10 million and the question is whether the Board wants to do anything different regarding the CIP process going forward.

Mr. Rooker said that the Board has eliminated some of those options, such as the special tax districts. He does not know if the Board wants to have the conversation today of building into projections in two years an increase in the tax rate by an amount up to two cents and dedicate it totally to capital.

Mr. Boyd said he does not think the Board can have that conversation today because it cannot be looked at without operating funds information. He added that the Board could just not give staff raises which would free up quite a bit of money, but it may not necessarily be an option to choose.

Mr. Rooker pointed out that projections are not going to be certain and there may not be much better information than what is here now. The Board is never going to have perfect information about what is happening three years from now; it is just a question of whether the Board will for projection purposes include some additional money in the tax rate to be dedicated to capital. He emphasized that it is not a decision to do it, but allows staff to run five-year projections on the assumption that there will be more for capital.

Ms. Mallek commented that she thinks the Board needs to ask staff to do it.

Mr. Snow stated that income now seems to be above what was projected, so the numbers must be run just as a matter of planning.

Mr. Foley noted that the items Mr. Boyd is mentioning are all part of the normal process, which will start in the fall with the five-year financial plan. Staff is going to do that anyway. He said that he would suggest that the discussion just needs to be carried to that process when the assumptions are revised and the revenues are updated.

Mr. Boyd agreed with that suggestion.

Mr. Rooker said it would be fruitful for the CIP committee to know if it will have additional revenue to work with – whether it comes from additional growth in revenue, tax increase, etc.

Mr. Letteri pointed out that the first round of review comes through the Technical Review Team, which could include operating costs associated with each project and perhaps come back to the Board at some point with one or two different scenarios based on ranking of projects – with revenue pictures that could show what could be accomplished.

Mr. Foley said that the only challenge with that would be it would be a strictly technical review without the benefit of project evaluation on merit and priority. He said that in December there will be a joint work session with the Board and School Board to include a maintenance plan plus a recommendation for the $10 million, but it could also include a scenario with two cents on the tax rate or additional revenue growth. The Board would then at least have the sense of two scenarios.

Mr. Boyd stated that the Technical Committee does not need to weigh in at that level.

Mr. Rooker said that he thinks they do, because last time this came up the Board split on whether funds should be dedicated to capital. He thinks it would help everyone to have more refined information so that when they are considering changing the tax rate for capital projects they know what projects they are talking about. He added that it becomes a lot more concrete and a lot more informed.

Mr. Thomas said he would also like to have that information, and it is not a commitment.

Mr. Foley commented that if that is done it will ensure that staff cycles that back to the five-year financial plan to assess operating impact – which will not be done if it is just a running list.

Mr. Snow said that the Board could proceed with the assumption that the revenue would be generated through sources other than taxes, and if the money is not available they know they have to back off.

Mr. Foley noted that other localities who are doing good financial planning put a number in there and hope their revenues grow enough, and if there are not quite enough they back down on any possible tax increase. Staff would also assume no tax increase unless there is not enough revenue growth and the Board still wants to do the project.

Mr. Snow agreed that that approach makes sense.

Mr. Boyd said he has no problem with trying to accomplish it; it is just how they get there.

Mr. Rooker said that he just wants to make sure the Board has the best possible information when they vote on a tax rate. The Board just needs to know that stuff in advance.

Mr. Boyd stated that this could be done with or without a recommendation from the Technical Review Team.

Mr. Rooker added that he would like to look at two cents, just to see what it would mean.

Mr. Snow agreed. The Board can always scale it back.

Ms. Mallek also agreed. She also said that when the Board comes back with operating expense, it is a little trickier because some windows of opportunity on cost savings have been lost because of postponements. That is money the Board would never have to borrow if the cost is lower. Ms. Mallek said that the cost of improved storm water management in Crozet is not known. She added that at rezoning time there are lots of promises about increased sales tax revenues and she would like to know what is actually being delivered – such as those generated at Hollymead Town Center.

Mr. Rooker clarified that Ms. Mallek is asking what the annual enhanced tax revenue is coming to the County for Hollymead Town Center in the form of sales taxes, property taxes, etc.

Mr. Boyd said that the other side needs to be considered also, such as Martha Jefferson and Biscuit Run projects.

Mr. Davis commented that sales taxes are hard to pinpoint.

Ms. Mallek commented that she understands it is not always a gain.

Mr. Snow also stated that the impact on staff for this type of analysis needs to be considered. Mr. Foley responded that it will be time consuming and may also open the analysis up to criticism.

Ms. Mallek said if that is the case, she will retract that part of her request.

Mr. Rooker stated that the total sales tax revenue picture of new development could be considered, but perhaps people are buying less at older stores. He said that Mr. Steve Allshouse has run some numbers on increased activity in the county and those assumptions could be used.

Mr. Foley said that staff could look at a scenario at a macro level.

Mr. Boyd commented that those measurements were part of the Economic Vitality Action Plan.

Mr. Foley then summarized the main points of the work session, noting that staff would run some scenarios of what 2 cents and 1.5 cents on the tax rate would mean for funding capital projects.

Mr. Boyd said that in the past the focus has been only on the first five years of the CIP.

Mr. Foley explained that every other year, the County does the 10-year plan.

Mr. Rooker recommended that Board members watch the movie *Too Big to Fail*, as it illustrates how close the world economy was to total collapse.

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Agenda Item No. 4. Adjourn.

There being no further business to come before the Board, the meeting was adjourned at 12:17 p.m.

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Chairman

Approved by Board
Date: 09/07/2011 Initials: EWJ