An adjourned meeting of the Board of Supervisors of Albemarle County, Virginia, was held on March 2, 2017, at 3:00 p.m., Room 241, County Office Building, McIntire Road, Charlottesville, Virginia. The meeting was adjourned from March 1, 2017.

PRESENT: Mr. Norman G. Dill, Ms. Ann Mallek, Ms. Diantha H. McKeel, Ms. Liz A. Palmer, Mr. Rick Randolph, and Mr. Brad L. Sheffield.

ABSENT: None.

OFFICERS PRESENT: Interim County Executive, Doug Walker, County Attorney, Greg Kamptner, Clerk, Claudette Borgersen, and Senior Deputy Clerk, Travis O. Morris.

Agenda Item No. 1. The meeting was called to order at 3:03 p.m., by the Chair, Ms. McKeel.

Ms. McKeel also introduced staff present and the presiding security officer, Captain Peter Mainzer.

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Agenda Item No. 2. **Work Session:** FY 2017-2018 Operating and Capital Budgets.

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Item No. 2a. **Capital Improvements Program**

- Overview of the FY 18 – FY 22 Capital Improvement Plan (CIP) , to include information on the recommended expenditures, revenues, key projects, and polices
- **Debt Management**: Overview of the County's existing CIP debt and FY 18 – FY 22 debt service schedule
- **CIP Financing 0ptions Overview**, including Referendum information
- Board discussion, feedback and recommendations on the FY 18 – FY 22 Recommended CIP

Mr. Trevor Henry, Director of Office of Facilities and Environmental Services, addressed the Board. He said there would be two components to his presentation, with the first being the County Executive's recommendation of the capital program as part of the proposed budget, and the second being a discussion of changes that have occurred since the recommendation that involve changes in interest rates on County bonds and items related to the market and timing of appropriations.

Mr. Henry presented a slide entitled "FY18 Recommended Capital Budget, CIP and Debt Management," and under the subtitle of "Desired Outcomes" listed two primary objectives for this meeting. He stated that the first is for Board members to receive and understand the County Executive's Recommended FY18 Capital Budget and FY18-FY22 Capital Improvement Plan (CIP) to include Revenues and Expenditures; Summary of Projects; Financial Policies and Goals; and County Debt and Debt Service. He said the second is to receive Board members' input on staff recommendations on Incorporation of Actual Interest Rates; Approach to Rising Construction Costs; Appropriations/Timing Adjustments for School Projects; and Upcoming Long-Range Planning Meeting.

Mr. Henry's next slide showed a FY18 CIP Development flow chart, and he stated that his role in Facilities is to chair the Technical Review Committee, which is a cross-functional committee of local government, schools, and public safety that reviews all requests. He said he works with Lori Allshouse throughout the rest of the process that runs from the summer until the present point in the budget process. His next slide provided a definition of the Capital Improvement Plan and Capital Needs Assessment, collectively referred to as the Capital Improvement Program. He stated that it represents a statement of the County's policy regarding long-range physical development for the next 5 and 10-year periods respectively. He described it as the intersection between financial planning and the long-term physical needs of the County as identified in the Comprehensive Plan.

Mr. Henry's next slide provided terminology that would be used in the discussion, including the Capital Improvement Plan: FY18–FY22; the Capital Needs Assessment: FY23–FY28, updated every other year; the Capital Budget – first year of the plan, appropriation authority FY18; the CIP Two-Year Request Process, 1st year –all department/agency request and needs including capital, with a 10-year look, and 2nd year–amendment year, urgent requests/updates only; and the Multi-Year CIP Budget, which includes previously approved Board projects that are expected to carry over into FY18.

Mr. Henry's next slide was entitled "Funding Priorities," with priorities listed as 1) Debt Service: Existing and New; 2) Mandates; 3) Obligations; 4) Maintenance/Repair and Replacement Project or Programs of Existing Facilities Equipment to maintain the core County infrastructure investment; 5) Continuing in-progress or planned projects in the current Adopted CIP; and 6) Other "new" projects are included based on ranking by the Technical Review Committee, the recommendation by the Oversight Committee, and/or by the Board of Supervisors, with these projects related to facility enhancements, additions, acquisitions, etc. Mr. Henry said they received 43 requests totaling $175M for projects covering the FY18–FY22 period. He referred to the list of projects on page 286 of the book provided to Supervisors and displayed them in his PowerPoint presentation.

Mr. Randolph referenced Item 003, Hollymead Dam Spillway Improvement, and asked how they were able to reduce the estimated FY18 cost from $106K to $90K. Mr. Henry responded that the funding request is related to project management hours only. He said he assumes the amount changed from the

Oversight Committee to the County Executive's recommendation as a result of a reconciliation of project management hours across all projects versus what is on the project management division's expenditure side to come up with a final rate. He said this project is in the design phase, and by the time they get to construction there would likely be a change between the estimate and the actual cost.

Mr. Randolph inquired about Item 013, Borrowed Proceeds Transfer. He asked if FY18 shows less money would need to be transferred out of the CIP ($77M to $42M) because they decided not to do the courts.

Mr. Henry asked Ms. Lindsay Harris to respond to Mr. Randolph's question.

Ms. Lindsay Harris, Budget Analyst for CIP and Debt, replied that the borrowed proceeds transfer reflects a change that they are borrowing the general obligation bond earlier than anticipated.

Ms. Mallek commented that the larger estimate considers that it would be next year.

Mr. Randolph confirmed his understanding.

Mr. Henry referred to page 254 and the FY18–FY22 Recommended Multi-Year CIP Expenditure Summary. He said this section provides a grouping by functional area so one can see what is happening within the various departments and it also shows the five years in the plan.

Mr. Henry continued with his presentation, listing some major projects included in the CIP such as the Senior Center at Belvedere, which will be 60,000 square feet with expenditures of $500K/year, totaling $2M from FY19 to FY22. He said this is a partnership between the Senior Center and the County. He explained that another CIP project is the Advanced Technology Center at PVCC, which will be 45,000 square feet with projected expenditures of $140K/year totaling $420K from FY18 to FY20, representing the County's contribution to the share of the worksite. He said the state funds the design and vertical construction, and the County has traditionally provide funding for the site work.

Mr. Henry highlighted two additional CIP projects: transportation revenue sharing, which has $1.5M earmarked for FY19 as a dollar-for-dollar match for this VDOT program; and the Acquisition of Conservation Easements (ACE) program, for which they have budgeted $250K in FY18.

Ms. Mallek said that for the past several years, they have had the second distribution to ACE come out after the audit and asked if there was a post-audit transfer in FY17. Ms. Harris replied that $250K is planned for an appropriation in April for ACE for FY17.

Mr. Sheffield said Ms. Mallek is asking for confirmation that in the adopted FY17 budget they did not allocate money for ACE. Ms. Harris confirmed this.

Ms. Mallek commented that this is the first time since 2009 that money is going to ACE, while they used to allocate $400K annually for ACE. She said she is grateful they have resumed allocating funds for tourism and after next year's audit she will try to get more.

Ms. McKeel referred to a document entitled "Albemarle County Benchmarking for Senior Centers and Senior Center Programs," stating that this document benchmarks Albemarle with similar counties across the state and is very helpful. She asked who produces this document.

Several meeting attendees replied that the Senior Center produces the benchmarking document.

Mr. Henry noted one additional project that allocates $210K for parking at Scottsville Elementary School to separate the bus drop-off from the parent drop-off. He said this would be combined with the school security project and some HVAC work, and is included in the recommendation.

His next slide presented FY18–FY22 recommended CIP expenditures, totaling $177.4M, and two pie charts show the dollar amounts and percentages of the projected budget for various project categories:

| | | |
|---|---|---|
| School Division | $86.9M 49% | |
| Judicial | $43.7M 25% | |
| Public Safety | $13.4M 8% | |
| Parks, Rec & Culture | $4.8M | 3% |
| Community Development | $3.4M | 2% |
| Water Resources | $6M | 3% |
| Health & Welfare | $2.4M | 1% |
| Technology & GIS | $2.2M | 1% |
| Other | $2.2M | 1% |
| ACE | $0.3M | <1% |

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|---|---|
| Maintenance/Replacement Projects | 32% |
| Non-Maintenance/Replacement Projects | 68% |

Ms. Lori Allshouse, Director of the Office of Management and Budget, presented to the Board. The first slide she reviewed included a pie chart depicting FY18–FY22 recommended CIP revenues:

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|---|---|---|
| Borrowed Proceeds | $92.4M | 52% |
| Use of Fund Balance | $39.2M | 22% |
| General Fund Transfer | $23.8M | 13% |
| Transfers | $10M | 6% |
| Local Revenue | $6.8M | 4% |
| State Revenue | $5.1M | 3% |

Ms. Allshouse said the use of the fund balance category is unusually large, as 88% of it is actually borrowed proceeds from the prior fiscal year which has been transferred. She said an example of local revenue would be a shared cost with Charlottesville for partnerships. She stated the transfers category includes proffers, tourism, and water resources and transfers from other funds. Ms. Allshouse presented a slide on CIP practices, policies and goals, and recognized the Department of Finance for managing the CIP and borrowing in a careful way in compliance with fiscal policies. She stated that one goal is to fund a significant portion of capital improvements on a cash basis and to budget net transfers to capital after debt service of 3% of General Fund revenues, and to have a remainder of $2M in the CIP fund balance at the end of the five-year time period. She showed a graphic of dollar amounts and percentages transferred from the General Fund to the CIP beginning in FY12 and projected through FY22, stating that the amounts and percentage have been increasing but are still below the 3% goal.

Mr. Letteri stated that overall, the County is in good shape in terms of the equity in the program. He said that progress towards increasing the amounts transferred is important in demonstrating to ratings agencies that they have ongoing, predictable revenue sources funding the capital plan.

Mr. Dill asked if there is a ratio with maintenance costs and commented that construction of new buildings could lead to higher maintenance costs. Mr. Letteri replied that their focus on first funding maintenance programs has avoided deferred maintenance problems.

Ms. Allshouse displayed a slide of the FY18–FY22 Recommended Budget CIP/Debt Model, which she said is listed on Page 245 of the Board’s budget book. She pointed out that definitions of the different models are provided in the book. Ms. Allshouse said there is no rate tax increase in the current budget, though a 1.3-cent increase associated with the capital program is planned to come in FY19 and FY20. She said they were able to defer this increase by a couple of years.

Ms. Palmer said the 1.3 cents for the school bond referendum was borrowed this year and the County is starting to pay back the debt. She asked Ms. Allshouse to clarify what she meant by the increase being deferred a couple of years.

Ms. Allshouse explained that the 1.3 cent tax increase was planned not just for debt service but also for equity cost and operations cost. She said that to make sure the model balances over the five-year period, they moved this forward to the next year as they could not get it to balance with all the other projects.

Mr. Bill Letteri, Deputy County Executive, noted that they made a decision to borrow the money early, which was a good move, and in doing so, they had to use one-time funds from FY16 to pay early debt service instead of putting them in capital.

Ms. Allshouse said they put almost $7M of one-time money into the CIP, which the Board will appropriate in the next month or two from FY16 revenues over expenditures, and this allowed them to delay the tax rate increase.

Mr. Dill asked if they are estimating increases in assessments in the future. Ms. Allshouse responded that they are assuming increases of approximately 2% annually, though she does not have the specific number available.

Ms. McKeel pointed out that last year they had assumed a certain increase in revenues from increased assessments, yet revenues came in less than expected.

Mr. Randolph asked them to look ahead to FY20 and, given that the School Board has indicated a need for a new high school, consider whether they would have sufficient funds to meet capital needs since demands on the general fund budget could be more stressed as a result of a potential economic slowdown. He suggested they consider the possibility of adding a one-cent rate increase in FY18 dedicated to the CIP as contingency planning for FY20. Mr. Letteri said this would be important to how they are structured over the long term as they look at a 10-year period.

Mr. Randolph said he is sensitive to this issue because in the past the County was placed in jeopardy in terms of capital improvements by past Boards not making investments during economic downturns. He said the County is now in a position of economic recovery, but is at the precarious near end of the recovery and if they do not take advantage of this now, they may not be in a position to deal with it in the future. He said he wants to best position the County to deal with all of the uncertainties that would get larger with time.

Ms. Mallek asked how the ratings agencies look at a nest egg, and said she remembers in 2009 and 2010 they did not have enough money to pay the debt. She said it is a balance between having too much cash available, which could lead to extra spending, and not having enough on hand.

Ms. Palmer said she would be reluctant to raise taxes given the changes that have been made to assessments. She stated that the recent assessment increases really affected some residents with moderate incomes.

Ms. Allshouse continued her presentation, presenting a slide on debt management and stating that the County supports the principle that projects are paid for over the useful life of the asset over time by those taxpayers who enjoy the use of the asset or improvement; can employ various types of debt vehicles, including lease revenue bonds, general obligation bonds through the Economic Development Authority, Virginia Public School Authority pool funding, and general obligation bonds issued through referendum; and strictly adheres to its debt service financial policies. She noted that the chapter includes long-term debt obligations, debt service funds, and the amortization schedule.

Ms. Allshouse presented a slide entitled “Debt Service Management Key Debt Policies/Goals” and explained the principles of payout ratio, whereby the County intends to maintain a 10-year payout ratio at or above 60% at the end of each adopted 5-year CIP for tax-supported debt and lease payments, with the payout ratio as of 2026 being 67.80%; useful life, whereby the County finances capital improvements or other projects through bonds or capital leases, it would repay the debt within a period not to exceed the expected useful life of the projects; and the County’s target debt ratios calculated annually, with debt as a percentage of the estimated market value of taxable property not exceeding 2%, and the ratio of debt service expenditures to general fund and school fund revenues not exceeding 10%. Her next two slides demonstrated that Albemarle’s debt ratios are within the targets.

Ms. Allshouse concluded her presentation with four staff recommendations: 1) incorporate actual interest rates; 2) approach to rising construction costs; 3) appropriation/timing adjustments for school projects; and 4) upcoming long-range planning meeting. She contrasted the interest rates shown in the general obligation and lease revenue bond models, which differ significantly from the actual rates and suggested they include these updates in the FY18 proposed budget. Ms. Allshouse said the general obligation bond model estimated 4.25% vs. 2.88% actual, and the lease revenue bond model estimated 4.5% vs. 2.94% actual.

Ms. Mallek asked Mr. Letteri if the nest egg generated by this savings would help offset early payment on the loan, as they went out earlier than originally planned. Mr. Letteri responded that it would not, stating that the good news is the rate and the bad news is increasing construction costs. He recommended that they reserve the interest savings.

Mr. Henry suggested the interest savings be reserved for likely increases in construction costs. He said the recession led to 40% of construction workers leaving the industry, resulting in a shortage of construction workers.

Ms. McKeel commented that in the past when projects have come in at higher cost than budgeted, they cut them and got lesser results, then moved onto the next project, and they should think about what a project should be and fund it even if it means they do not move onto the next project. She used a project at Georgetown Road that they cut back on twice and ended up with a project that lacks bike lanes and quality. Ms. McKeel also gave the example of a project at Greer Elementary School that was cut back, resulting in a facility that was not of sufficient size for what is needed.

Mr. Letteri brought up the Woodbrook project coming up this summer and said they would have to give the go ahead by early May in order to get it going, which means they would need to strategize to prepare for the potential of increased construction costs.

Ms. Allshouse continued her presentation with a pie chart display showing expenditures of the FY18 Capital Budget of $40.5M:

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| School Division: | 74% | Health & Welfare: | <1% |
| Public Works: | 6% | Other: | 1% |
| Public Safety: | 5% | Courts & Judicial | 1% |
| Community Development: | 5% | | |
| Parks, Rec & Culture: | 4% | | |
| Water Resources: | 3% | | |
| Technology/GIS: | 1% | | |
| ACE: | 1% | | |

Mr. Sheffield asked if the large percentage of expenditures by the schools division is due to the bond referendum. Ms. Allshouse confirmed this.

Her next slide was entitled “Appropriation Timing Adjustments for School Projects” and listed challenges as: the County does not have enabling authority from state to appropriate multi-year CIP projects that exceed a fiscal year; the school division desires to complete CIP projects in the summer when children are out of school; the resolution of appropriation for an FY budget begins July 1; and schools cannot enter into contracts until CIP appropriations are approved by the Board and do not have authority to expend money until July 1. Ms. Allshouse listed adverse effects of these challenges as long lead times and delayed project starts; a concentrated purchasing season by the Purchasing Department; a competitive disadvantage; and summer work that crosses fiscal years (accounting/OMB/PMD).

Her next slide showed staff’s recommendations for adjusting the appropriation timing for schools and consider requesting enabling authority to be able to appropriate CIP projects as multi-year projects.

She presented suggestions for this year to appropriate the schools' FY18 approved CIP projects that need to start in FY17 by April; and appropriate these same CIP projects for FY18 and de-obligate any expenditures that occurred from April to June through the current carry-forward process, which supports best practices for timing of contracts, ordering lead items and projects would be best positioned for success. Ms. Allshouse said that suggestions for future years include to plan, budget, and appropriate school CIP projects so they begin when needed, instead of July 1; and consider requesting enabling authority from the State so the County can appropriate projects as multi-year projects.

Mr. Kamptner asked if the school's FY18 approved CIP projects comes out of the FY17 funds. Ms. Allshouse confirmed this.

Mr. Letteri said school projects have a two-step process, and to be ready by May they want the schools to have considered how they may want to modify projects to accommodate bids that exceed budget. He said that staff suggests the School Board meet in April to discuss this and make decisions.

Mr. Kamptner recommended they request enabling authority when they review next year's legislative priorities to appropriate CIP projects as multi-year by having the state code 15.2-520 revised from the current text: "No money shall be drawn from the treasury of the County, nor shall any obligation for the expenditure of money be incurred, except pursuant to appropriation resolutions. Funds appropriated for outstanding grants, however, may be carried over for one year without being re-appropriated. He said they would seek to remove words which infer that re-appropriation is necessary. He said Virginia counties that do not have a county executive form of government are allowed to do this, and said they would have this laid out for the Board in July when they present the legislative priorities.

Ms. McKeel suggested they have both the County and school legislative packets contain this request. Mr. Kamptner confirmed that they can do this.

Ms. Mallek asked for clarification as to why the County is at a competitive disadvantage, as listed under adverse effects under challenges, and asked if this is because they have so many projects they are trying to do at once. Mr. Henry confirmed that they compress many bids into one month and if this can be corrected so they can design in the fall and have bids in January-February, they would hit the mark at better times, which could result in better costs. He stated this would also allow for a broader market from which to solicit bids and said that by soliciting bids later, as is current practice, they lose out on bids of companies that have already filled their construction schedules.

Ms. Allshouse continued with staff's recommendation regarding long-term planning and said a meeting with the Oversight Committee would be scheduled, at which time they would review the overall process, including definitions and ranking matrices. She said that a joint Board of Supervisors/School Board meeting is planned for May 20, during which they would plan and assess future capital needs and the timing of a future bond referendum.

Ms. Allshouse listed important dates in the budget schedule:

March 2: CIP, Debt
March 7: Finalize tax rate for advertising, begin discussion items on the list
March 28: Fire & Rescue presentation/discussion, finalize discussion of items on the list, board approves proposed budget
April 11: Public hearing on proposed budget and tax rate
April 18: Set tax rate and approve budget

Mr. Sheffield, referencing Mr. Randolph's comments about unexpected cost overruns on construction costs, asked if a model can be prepared to consider changes in the revenue side. Mr. Letteri said they could do a model assuming a one-cent change for FY18 and asked if the Board would like them to model any additional scenarios.

Ms. Palmer suggested an assumption of a one-cent decrease.

Mr. Randolph agreed with Ms. Palmer's suggestion, saying there could be the potential to maintain the current tax rate and dedicate the money to the CIP.

Ms. McKeel said grants may disappear in the future, which could impact social services.

Mr. Walker said they could identify sources of grants to get a sense of the order of magnitude that grant reductions could have and present them to the Board.

Mr. Dill pointed out that they have a AAA rating and are the best they can possibly be. He said they can take reasonable precautions but does not want them to sound negative.

Ms. McKeel concurred with Mr. Dill's comments and said she just wants to see where they stand with some big grants.

Ms. Allshouse asked if the Board would like staff to model a one-cent tax increase as well as an illustration of a decline in revenues. Mr. Randolph clarified that they want an assumption of a one-cent increase as well as taking one-cent out and not adding it to the CIP.

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Agenda Item No. 3. From the Board: Matters Not Listed on the Agenda.

Ms. Mallek asked if any Supervisors could provide feedback about the information she distributed at the prior meeting about St. George's Cottages. She said she would like to find a time to talk about this and add it to the agenda for May.

Ms. McKeel said she would be glad to talk about this.

Ms. Palmer said she has not had a chance to read about it yet, but would be fine with it.

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Agenda Item No. 4. From the County Executive: Report on Matters Not Listed on the Agenda.

There were none.

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Agenda Item No. 5. Closed meeting *(if needed).*

There was no need for a closed meeting.

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Agenda Item No. 6. Adjourn to March 7, 2017, 3:00 p.m., Room 241

At 4:55 p.m., Ms. Palmer **moved** to adjourn the Board meeting to March 7, 2017, at 3:00 p.m., Room 241. Mr. Dill **seconded** the motion. Roll was called and the motion carried by the following recorded vote:

AYES: Ms. McKeel, Ms. Palmer, Mr. Randolph, Mr. Sheffield, Ms. Dill and Ms. Mallek.
NAYS: None.

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Chairman

Approved by Board

Date: 07/05/2017

Initials: CKB