A special meeting of the Board of Supervisors of Albemarle County, Virginia, was held on November 5, 2018, at 1:30 p.m., in the Lane Auditorium of the County Office Building on McIntire Road, Charlottesville, Virginia. The meeting was called by the Chair, Ms. Mallek, for the purpose of allowing a quorum of Board members to convene an open meeting and to act on a motion to go into Closed Meeting as authorized under Virginia Code 2.2-3711(A)(3),(8),(29); and to participate in a joint meeting with the Albemarle County School Board on items previously scheduled and posted on the Board's, November 5, agenda.

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

ABSENT: None.

OFFICERS PRESENT: County Executive, Jeff Richardson, County Attorney, Greg Kamptner, Clerk, Claudette Borgersen, and Senior Deputy Clerk, Travis O. Morris.

Agenda Item No. 1. Call to Order. The meeting was called to order at 1:32 p.m., by the Chair, Ms. Mallek.

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Agenda Item No. 2. Closed Meeting.

At 1:32 p.m., Mr. Gallaway **moved** that the Board go into a Closed Meeting pursuant to Section 2.2-3711(A):

- under Subsection (3), to discuss and consider the disposition of real property in the City of Charlottesville related to court facilities, where discussion in an open meeting would adversely affect the bargaining position or negotiating strategy of the County; and
- under Subsection (8), to consult with and be briefed by legal counsel and staff regarding specific legal matters requiring legal advice relating to the negotiation of an agreement for, and the possible relocation of, court facilities; and
- under Subsection (29), to discuss the terms and scope of a possible public contract for transportation services involving the expenditure of public funds where discussion in an open meeting would adversely affect the bargaining position or negotiating strategy of the Board.

The motion was **seconded** by Ms. Mallek.

Roll was called and the motion carried by the following recorded vote:

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

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Agenda Item No. 3. Certify Closed Meeting.

At 3:08 p.m., the Board reconvened into open meeting, and Mr. Gallaway **moved** that the Board certify by recorded vote that, to the best of each member's knowledge, only public business matters lawfully exempted from the open meeting requirements of the Virginia Freedom of Information Act and identified in the motion authorizing the closed meeting, were heard, discussed, or considered in the closed meeting. The motion was **seconded** by Ms. Mallek.

Roll was called and the motion carried by the following recorded vote:

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

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Agenda Item No. 4. Call to Order.

At 3:09 p.m., Ms. Mallek called the Board back to order. Ms. Acuff, Chair of the School Board, called the School Board to order.

SCHOOL BOARD MEMBERS PRESENT: Ms. Kate Acuff, Mr. Jonno Alcaro, Mr. Stephen Koleszar, and Mr. Graham Paige.

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Agenda Item No. 5a. Proclamations and Recognitions: Joint Resolution of Appreciation – Veteran's Day.

Mr. Randolph announced that he has a Resolution of Appreciation on behalf of the Board of Supervisors and the School Board. He then read and **moved** adoption of the following:

RESOLUTION OF APPRECIATION

WHEREAS, the United States of America, founded on the principles of liberty and justice for all, has called on her men and women in uniform to protect our national security and

WHEREAS, the preservation of our national interests, our rights and our freedom, has been ensured by the service of these individuals; and

WHEREAS, on Veterans Day we remember and pay tribute to the millions of patriots whose courage and sacrifice have secured our freedom and defended our values both at home and abroad; and

WHEREAS, over one hundred veterans continue to serve their country in public schools and government as teachers and other professionals providing services to the students and citizens of Albemarle County; and

WHEREAS, these veterans employed by Albemarle County Public Schools and Local Government deserve recognition for their continued service;

NOW, THEREFORE, BE IT RESOLVED, that the Albemarle County Board of Supervisors and the Albemarle County School Board does hereby recognize all veterans and the men and women that are currently serving in our armed forces around the world; and

BE IT FURTHER RESOLVED, that the Albemarle County Board of Supervisors and the Albemarle County School Board does hereby appreciate and honor the continued contributions and sacrifices of the Armed Forces veterans employed by local government and public schools; and

FURTHER RESOLVED, that this Resolution celebrating Veterans Day, be adopted this 5th day of November 2018.

Ms. Mallek **seconded** the motion.

Roll was called and the motion carried by the following recorded vote:

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

On motion and vote, the School Board adopted the same resolution.

Mr. Trevor Henry, Assistant County Executive, accepted the resolution on behalf of veterans working for the County. He announced that staff has plastic placards of the resolution for any veterans who could not make it to the meeting.

Agenda Item No. 6. **Work Session:** Summary of September 27, 2018 Joint Work Session Outcomes.

The Executive Summary forwarded to the Board states that On September 27, the Board of Supervisors and the School Board met to review the FY 20 - 24 amendment year process, learn more about the County's debt capacity and affordability challenges, and discuss ways the Boards can work together to address capital needs in the future. They also received information about Public Private Partnerships (P3s) and the Public Private Education Act (PPEA). During this meeting, Board members shared that they would like to continue their joint discussion on P3s and PPEAs.

Additionally, in October of each year, the Board of Supervisors and School Board meet to gain an understanding of the Human Resources Department's annual compensation market analysis and benefits information. They also meet in November to review long-range fiscal planning information prior to the annual budget process.

Rather than hold separate work sessions to address these topics, this year during the November 5 work session, the Board and the School Board will:

- Review a summary of their September 27 conversation regarding ways to work together in the future;
- Gain additional understanding of the Public Private Education Act (PPEA), and consider necessary steps to position the County to utilize the PPEA for future projects, consider adoption of PPEA guidelines, consider timing elements associated with P3s and Center 1, and consider next steps;
- Gain an understanding of the County's compensation market analysis, compensation initiatives and a long-term outlook of our health insurance plan;
- Receive a brief introduction to Five Year Plan Revenue Assumptions;
- Gain an understanding of the School Division's five-year Financial Plan; and
- Review next steps in the long-range and annual budget development processes.

Long-range financial planning connects long-range fiscal planning with strategic plans and provide an important context for the annual budget process.

The Board of Supervisors and the School Board utilize this work session to gain additional understanding about Public Private Partnerships and the Public Private Education Act, employee compensation market analysis and initiatives, the health care program, and the School Division's long-range financial plan.

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Ms. Lori Allshouse, Director of the Office of Management and Budget, stated that this is their first long-range planning meeting, and the County's approach with budgeting has been to do it in that planning context. She stated that this is the joint meeting; the School Board will hold a budget meeting on November 8, 2018 to continue its long range financial conversations in the context of its annual budget process. The Board of Supervisors will be meeting on December 5, 2018 and December 12, 2018. Ms. Allshouse said that staff will first provide a recap of the joint September 27, 2018 joint meeting.

Mr. John McQuilkin, Recruitment & Diversity Coordinator, reported that both Boards spent part of the September 27, 2018, meeting time doing small group discussions using the World Café protocol, with discussion around the CIP and some of the challenges faced during that process. He stated that one question from that meeting was*: "What are some things that could help the two Boards work together to meet our community's needs*?" He said that some of the things that emerged from that discussion were increasing dialogue by sharing visions, expectations, and CIP requests and timelines as early as possible in the process; increasing communication on long-range financial plans; acknowledging that there is a difference in the approach, as the School Board's requests are needs based, while the Board of Supervisors is required to present a balanced budget; keeping the tradition of commonality in mind, but also realizing there are instances when it makes more sense to do things separately; increasing opportunities for discussions of economic development as well as sharing information, building trust, and listening.

Ms. Allshouse stated that today's agenda will start with a follow-up from the September 27, 2018, meeting on public-private partnerships (P3), followed by presentation from the Human Resources team regarding compensation and benefits. She added that there will be a brief introduction on the five-year revenue assumptions, with a more detailed discussion on December 5, 2018, for the Board of Supervisors -- and the School Board is welcome to attend or listen in to that meeting. She noted that the School Division will then present its five-year financial plan, followed by a quick wrap-up.

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Agenda Item No. 7. **Work Session:** Public Private Partnerships (P3s) and Public Private Education and Infrastructure Act (PPEAs).

Mr. Bill Letteri, Chief Financial Officer, expressed appreciation for being able to continue the conversation on P3s and PPEAs. He recognized other staff that would be part of the presentation: Mr. Roger Johnson, Director, Economic Development, and Ms. Rosalyn Schmitt, Chief Operating Officer, School Division. He stated that they had begun the conversation in September, introducing the concept of P3s in a government environment -- with some detail given at that time -- and at the conclusion of that discussion, there seemed to be strong interest from the Boards in looking at it further and having staff come back with more detail. He stated that the Boards have the slides and notes before them, and there would be an opportunity at the end of the discussion to ask questions. In terms of today's overall goal, Mr. Letteri said that he will briefly provide the Boards with information on the legislative environment in the Commonwealth of Virginia related to procurement methods, what is enabled through the state, and how those things are different. He stated that he would also provide the particulars of PPEAs among the P3 options. He noted that he and Mr. Johnson would also address particular applications and where P3s would make sense, with a series of recommendations for the Board's consideration.

Mr. Letteri reported that the legislative environment in Virginia has shifted over the years, much of it in response to better ways of doing business and better ways of interacting with the private sector and governments. He said that much of this was started with road projects, wherein they would have engineering and road construction teams that came together and formed some different ways of doing business beyond the traditional design-bid-build format. He stated that the state developed a series of different options because of this, although the traditional model still exists. Mr. Letteri said the state has also introduced a design-build model and the enactment of a public-private educational facilities and infrastructure act, which provides a framework for public entities wanting to construct and work on projects within the legislative environment.

Mr. Letteri explained that design-bid-build is a well-known, traditional method of procurement that is well-articulated and discussed in the State Code. He stated that interestingly, its primary feature is that it is both sequential and involves separate contracts. Mr. Letteri said that with design-bid-build, each phase is done independently, so a public entity would engage a design firm and produce a final set of working drawings or plans. Once that is completed, it moves to the bid phase, which involves taking the plans, putting them out to the building community, and asking for a guaranteed price to perform the work. He noted that sometimes the bidding phase is about a 30-day cycle, followed by the negotiation phase -- so the typical timeframe is two to four months. Mr. Letteri said that once a low bidder is identified, they proceed to the construction phase, which involves a direct contract between the contractor and the public entity separate from the design contract.

Mr. Letteri said that due to the unpredictability of contract projects, the public entity could end up in a difficult place -- so the sequential nature of the projects and issue of separate contracts have been impetus enough for the State to consider a different approach. He said that despite the challenges of design-bid-build, it remains the most popular form of procurement in the State for public projects. He stated that design-build attempts to create one team. It was enabled in 2006 then expanded in 2017, such that it enabled localities to proceed to a design-build model, whereas in the past a locality had to demonstrate to the State that there was an absolute advantage over the design-bid-build model, including a requirement to go before a board for approval. He said that it no longer exists as of 2017.

Mr. Letteri said that design-build is one team sharing the risk and rewards, contracting directly with the public entity. He stated that frequently a locality or school system would hire professional assistance such as an architect or engineer to help define what they want to do in a design-bid program, or utilize internal staff to help. He noted that the model has been used frequently with VDOT. Universities have gotten away from design-bid-build, recognizing the challenges and difficulties of the model. He said that local governments are also considering the design-build model, especially for more complex projects.

Mr. Letteri stated that the PPEA was passed initially in 2002 with limited application, then expanded in 2009 to include almost all public-type projects that serve the public good in some way. He emphasized that there are two distinguishing features of a PPEA. First, in order to qualify as a PPEA, a project needs to be a pubic project serving the public good. The other feature is that it allows for solicited and unsolicited proposals, which is different than design-build, which are solicited only. Mr. Letteri added that a PPEA also offers a number of variations -- design-build only, engaging the private sector to finance, design, and/or build it. He said that other iterations include design-build financing and maintaining the facility, or doing it all and operating the facility, such as a civic center in which the locality is not interested in being involved in the ownership of the operation.

Mr. Letteri explained that to do a project under the guidance of a PPEA, the locality is required to adopt a set of guidelines. He said staff has looked around the state to all localities doing PPEAs and their guidelines, with most of them being similar in nature, and it would be fairly easy for Albemarle to adopt a standard form guideline that is also prescribed clearly by the state in terms of what it needs to include. Mr. Letteri stated that if the project were to involve a school, both the local government and the schools would need to adopt the ordinance or set of guidelines in order to qualify. He noted that PPEAs usually happens in two phases -- a conceptual phase that allows the locality to understand whether it meet the desired goals and objectives. He said that once that is established, they would proceed to a more detailed agreement level where they would get further into locking down price. Mr. Letteri said that staff has identified at least 100 projects occurring in Virginia that used this methodology.

Mr. Letteri explained that the process involves a public entity soliciting or receiving proposals, and once they have enabled and adopted the guidelines, they could do either one. He said that if the locality is receiving an unsolicited proposal, the statute requires the proposal to be put back out to the public to indicate they received it and are interested, and to ask about other competing proposals that may be available. He stated that the conceptual proposal speaks to the team qualifications, scope of project, range of cost, and how the project would benefit the public. He commented that one of the interesting things about PPEA is that it allows for the locality or school system to charge a few for reviewing them, and the fees around the state have ranged from $2,000 to $25,000, depending on the complexity of the proposal itself. He noted that this applies to both solicited and unsolicited proposals.

Mr. Letteri stated that the process continues when one or more proposals are received, then they would be reduced down to the two or three they felt are most interesting. He said they would then ask for a detailed proposal that goes into a more detailed level of what would be provided and at what cost. He stated that once they have seen the detail on the various proposals, they would then pick a firm to proceed to an interim or comprehensive agreement that forms the basis of the agreement. Mr. Letteri noted that in the event of a school project, before entering into formal agreements they would need to seek the approval of the governing bodies. He added that the guidelines provide for a significant amount of public involvement, notification, and public hearings.

Mr. Letteri explained that the advantage of PPEAs is to move away from the design-bid-build mode of procurement, which have many challenges -- although for more simplistic, routine projects that are not complicated, they might find that PPEA does not offer enough of a benefit in that regard. He stated that the PPEA invites creative new ideas and innovation that may come from different design teams that do various projects around the country. He added that it has credibility with the state, which has procured guidelines and helps localities to do this -- and lenders now understand and accept PPEAs in the industry.

Mr. Letteri stated that he sees PPEAs as being positive, as localities could decide not to pursue a proposal if desired -- so it does not commit to proceeding. He said that another advantage is that project review costs can be recovered, which helps all involved and pushes some of the obligations to the private sector. He stated that in thinking about mitigating risks, there are risks involved in the partnerships and there are a number of things identified over time as being important in attempting to mitigate them. Mr. Letteri said that for an organization that has not done these things routinely, it would be valuable for them to engage a legal firm or development firm that have been involved in these before and could help them proceed in a way that would protect them.

Mr. Letteri emphasized that doing a two-step solicitation process is important, looking at conceptual levels and then going to more detailed levels. He stated that in establishing clear goals, in soliciting proposals they want to be clear about what they want to get out of the project and how much they are willing to expand, and it is important to articulate that early on to avoid misalignment. He said that it is important with school projects that may or may not involve private sector or commercial operations; both Boards need to see this in the same way. Mr. Letteri stated that it is important to use an interim agreement so they do not get too far along and establish some clarity about the expectations. He said that it is also important to circulate the agreements to legal and community development teams, as well as others, to ensure they are all understanding it. He added that they also need to provide contingency budgets to mitigate the risks.

Mr. Randolph asked how frequently they might have a government choose a private entity at the conceptual level, then go with a different entity on the operational level. Mr. Letteri responded that it is not likely because the guidelines are structured so that conceptual levels are received first, then they would down select and they would need to select a group of proposals and then go to a detailed proposal level. He said that at that point, they would make the determination on which team to formally go forward with to do the comprehensive agreement. He stated that although theoretically they could, but he cannot envision a place whereby they selected someone in that first stage, then do something else in the second stage.

Ms. Mallek asked if there is a fee paid to have people prepare the applications, as she recalled that when the RWSA was getting RFPs for dredging, they paid $10,000 or $20,000 to an entity to hand in the proposal. Mr. Letteri responded that it is an option, but he would not say it is customary -- and for unsolicited, they would not do that. He said that if they wanted to do a design competition, they could reach out to firms that have done special types of schools or libraries and might offer a $50,000 allowance, for example, for design efforts -- and each successful firm would be able to recover.

Mr. Randolph asked if the fee was designed to actually cover the real costs for the County or if it was just a nominal, good-faith fee that the company pays at the conceptual stage to show commitment to the project. Mr. Letteri responded that it is intended to cover the incremental cost to the County for reviewing that particular proposal, and the fee range he has seen for the PPEAs has been a minimum of $2,000 and a maximum of $25,000. He recalled that Henrico County has actually established that range, with the fee depending on the complexity of the project.

Mr. Letteri said that the PPEA enables both solicited and unsolicited proposals, and it offers greater flexibility because they are not really defining anything, and it allows for good teams to come together. Mr. Letteri added that they may want to solicit proposals, which would make them more proactive about the project and provide a greater opportunity to define project parameters.

Ms. McKeel asked if opportunity zones would play into this at all. Mr. Letteri responded that they could be identified in the solicitation and state that the County is seeking developers or design teams that would develop a project within the zone.

Mr. Gallaway added that both Boards that have a process to set up to review unsolicited proposals would encourage someone to bring this forward, as building in an opportunity zone could be an incentive for someone to build.

Mr. Letteri stated that it increases competition and if a public entity advertised that it was interested in doing a project in this location, it would increase the level of activity and the number of proposals. He noted that a solicited proposal also reduces the amount of time needed to understand what is being proposed. When putting out a proposal, it provides good exposure and marketing for the County. Mr. Letteri said that to ensure good performance, they would want a collaborative process with the community -- as it must have transparency. He stated that they need to promote an atmosphere of creativity and innovation, and they need to involve stakeholders along the way. He said it is important to be clear on objectives and how success would be defined, as well as how much should be spent.

Mr. Letteri said that there have been lessons learned around the country as to why things sometimes do not work, and too many closed door discussions raises suspicions about the program. He stated that it is important that the public sector recognize that these are partnerships, so the private sector cannot take all the risk and not be willing to pay for it. He said that all the departments and staff need to be together on the process, and they need to establish clear goals up front to ensure there would not be misalignment down the road. He stated that they would also want to avoid scope creep, and cost overruns happen when there is not a clearly defined agreement on the front end. Mr. Letteri noted that public sentiment could turn over time if there are protracted negotiations, and the project may fail if it is too restrictive in its nature or overly defined.

Mr. Gallaway asked if those things would be discovered before a final agreement was in place. Mr. Letteri confirmed this.

Mr. Gallaway pointed out that a lot of those would be dependent on how it was defined in the agreement, so if they do not come to an agreement or if negotiations continued, the project effectively does not start. Mr. Letteri agreed, adding that part of the guidelines involves a very careful matrix and set of criteria that must be met to go from one phase to the next -- and all the questions are asked and answered in the process. He stated that a number of school projects have successfully used the PPEA guidelines, referencing a short list of communities that have done it -- in some cases more than once. He said they would certainly want to further inquire of those localities to get input on the process and what they encountered. Mr. Letteri stated that not all of the projects lend themselves to P3s, but as this community is evolves and entertaisn economic development and more complex projects, PPEAs and P3s begin to make more sense; and establishing guidelines and setting them up in ways that allows them to entertain these without commitment seems to be a good prudent way forward.

Ms. Acuff asked about the magnitude of the school projects. Mr. Gallaway mentioned that Mr. Letteri's list was not exhaustive, as Virginia Beach built a glorious new high school that was touted as a flagship high school, and that was a PPEA.

Ms. Palmer asked what aspect of it was the PPEA. Mr. Letteri stated that he has information about it that he could share; he communicated with Chris Lloyd, a partner with McGuire, Woods, and Battle, who is considered a state PPEA expert and has information about successful school projects.

Ms. Acuff and Ms. McKeel said it would be good to have Mr. Lloyd come share information with the Boards.

Mr. Roger Johnson said that Ms. Palmer had asked whether JLARC had looked at public-private partnerships, and he has since learned that they have not. Mr. Johnson stated that he is using a chart from the Brookings Institute, and he presented a slide showing the different elements a community is going through when they decide to proceed with P3s. He said that if a community recognizes there is a parking issue in their community, for example, they often came to a solution that would be a parking deck. Under that scenario, he said, the public sector could design it with an architect, borrow the money to build the parking structure themselves, hire a private sector construction company to build it, then turn around and operate and own it. Mr. Johnson stated that there is also the option of a private sector designing it, borrowing the money, constructing it and operating it, with the community then owning it as a public sector. He said that the terms public-private partnership are used interchangeably, but they can be uniquely different depending on the project -- and it is important to note that distinction because it sometimes makes sense for the County to borrow the money, and sometimes it makes sense for a third party to borrow the money.

Mr. Johnson explained that many communities use P3s for public good. The first example is building reuse when they want to save an historic structure, such as Woolen Mills; economic or community development for affordable housing; and downtown revitalization and pedestrian amenities. He said that most recently, a P3 was formed for Willow Tree to ensure the project moved forward, and it was for economic development purposes. He stated that it could also be used for aging neighborhoods when there are infrastructure needs, and the public investment could be associated with neighborhood improvements themselves. Mr. Johnson said that these are examples of public-private partnerships are used in other communities that are outside the scope of the PPEA and PPTA.

Mr. Johnson referenced a chart that Stantec provided for the County, which shows the work that has to be done for a P3, and the amount of time it generally took to complete a P3. He noted that in this scenario, there is an assumption of site control by the local municipality -- so they own the site or have the option to buy the site, or controll it in some other form. He stated that to go through the process, it takes approximately 55 months from inception to completion, if the site were owned. He said that if they do not own the site, it could take up to 72 months. Mr. Johnson stated that in each one of the steps, they have a partner they are working with and they must agree on the steps going forward, which takes more time.

Mr. Johnson said that with a P3, it would take four and one-half to six years, and if there was site control, it could be straightforward. He stated that without site control, it takes more time and becomes more complex. He stated that Virginia Tech found in their research that it is sometimes more successful than others. Usually a P3 has components that the land is already owned by the community, there is an existing plan that the community has already embraced, or there is a community or redevelopment need that the community has already said they must work on, and, last, there is community consensus about benefits such as high-paying jobs or mixed-use development. He said that with those components, the likelihood of a P3 making sense and being successful is much greater.

Ms. Rosalyn Schmitt addressed the Boards and stated that she would present tangible next steps, and staff's recommendations for the Board's consideration. She said that staff believes this is a valuable tool to add to the County's toolkit, and would recommend at a future meeting that they establish PPEA guidelines and adopt a resolution to support them, which would need to be done by both Boards to apply for school projects. She stated that high school center one is moving forward and is expected to open in three years, and they are recommending that there be further engagement with economic and community development in support of that project. Ms. Schmitt said that staff recommends moving forward with the site selection and the design, and recommend that the Boards are open to considering unsolicited proposals but not to actively solicit proposals, primarily due to timing concerns. Staff is also recommending that the Boards consider these for any future school projects.

Ms. Acuff asked if there was a gold standard for types of guidelines and whether there are best practices. Mr. Letteri responded that staff has done research of localities in Virginia that have established guidelines, and they are surprisingly similar in nature as they are guided by the state procurement act, so the County would not have to reinvent the wheel.

Ms. McKeel asked staff to address the opportunity zones, as they are in the areas needing education facilities. Ms. Acuff supported this idea.

Mr. Johnson explained that opportunity zones are federally designated census tracts that meet a minimum threshold for qualification, and if someone wanted to invest in that area with capital gains funds, they could do so and not have to pay capital gains if the investment stays in that particular area for ten years. He stated that it could be for a built environment or a business located in that census tract. There are two in the County and two in the City -- in the southwest portion of Rio Road and Route 29, and on the southern side of Charlottesville. Mr. Johnson clarified that there are investment firms that have already raised capital for the sole purpose of investing in these particular census tracts.

Ms. McKeel stated that it could be an opportunity for the way schools have talked about building.

Mr. Paige stated that there were good examples of school construction in both Wise County and Newport News, and he asked staff to contact with those localities, which have each built at least two or three schools through PPEAs. Mr. Letteri responded that he would contact them and had identified them as good examples of successful PPEAs.

Ms. Schmitt noted that the Newport News design firm was one that Albemarle worked with in the past.

Mr. Koleszar asked if the only economic development zones were in the Rio Road and Route 29 area, or if there were some south of town -- and if so, what that area would be. Mr. Randolph explained that it is 5th Street below I-64 and west.

Ms. Schmitt stated that staff would distribute maps of the areas.

Mr. Koleszar asked if his understanding from staff was that they would not be able to use a PPEA for high school one because the timeframe is too short to solicit bids. Ms. Schmitt responded that to achieve the current timeline, they could not do it through a PPEA -- but they could delay the project if the right opportunity presents itself, although there would need to be a compelling reason to do that.

Ms. McKeel said that if they developed the guidelines and had them ready, they could possibly have an unsolicited proposal -- which seems to be a worthwhile goal. Ms. Schmitt agreed.

Mr. Randolph said they might also need to lease space for a year while the building was being completed.

Mr. Alcaro commented that one thing he likes about unsolicited proposals is the fact that none of them have all the great ideas.

Mr. Gallaway said that they would want to get that into the CIP process, given how long it could take for a P3, and he asked how this would play into the planning for an unsolicited bid. He stated that it would be easy for the CIP process to identify projects but highlight those that might be prime candidates for P3s.

Mr. Randolph suggested that they could also park money in the CIP for this purpose, as they did with the courts.

Ms. Acuff asked if there was a threshold of size or scope for successful projects that they know of. Mr. Gallaway said that he thinks of it in the same way they approach economic development, and they must be prepared for what comes up -- so the smaller the scale, the smaller the timeline. He stated that if they are educated on it, they could move forward fairly quickly with smaller projects.

Ms. Mallek commented that it is important to practice with small projects first before jumping into $20 million ventures.

Mr. Letteri stated that he could also provide a range of projects, and generally they are larger projects, but there might be exceptions.

Ms. Mallek asked how staff is planning to share the next round of information. Mr. Letteri explained that he could work with legal staff to prepare the guidelines in conformance with state regulations, then circulate that information, or bring it back in a future Board meeting for more a detailed discussion. He said they are relatively straightforward and do not require a drill down so that each phase has to be discussed, so it could be brought back as a consent item for approval. He stated that if in the circulation of the documents the Boards see something they are not comfortable with, staff could bring it back for discussion.

Ms. Mallek suggested scheduling some time for having a succinct presentation in the Board meeting, which would help reassure the public that the County has given it due diligence.

Ms. McKeel added that she likes having the Board and School Board together to discuss this, as it saves disconnects and confusion, and she asked if Mr. Chris Lloyd might be able to attend. Mr. Letteri responded that Mr. Lloyd has offered to do this, and if the County were to move forward with a PPEA, they would want to consult with his firm.

Mr. Randolph suggested having a spreadsheet with localities using PPEAs, the nature of the project, costs and timeframe -- and perhaps photos of the projects.

Ms. Palmer referenced a link to information on schools in Norfolk, and asked if the P3 highlighted was for the design-build and that is what the community chose, and whether there was an estimate of what they saved in costs or time. Mr. Letteri responded that he does not recall the details of that particular project.

Mr. Gallaway commented that a lot of localities do this to save the time.

Mr. Letteri said that it is not always cost savings but might have other benefits.

Ms. Palmer commented that she was a little confused by staff's recommendation that they were going to do a parallel track of staff doing the guidelines and the schools continuing to plan for their needs. Ms. Schmitt confirmed this, adding that it allows them to stay on schedule if there is not a compelling proposal made, allowing the Schools to move forward with site acquisition and the preliminary design work that would inform a PPEA. She stated that in the case of high school center one, the benefit of a private involvement is that incubator or office space adds a beneficial adjacent component. Ms. Schmitt emphasized that they could pursue a design-build procurement method without a PPEA, and in this case it would be private programming.

Mr. Koleszar said that he views design-build as a different procurement method, not necessarily as a P3, and it also offers benefits via collocation of schools and other activities.

Ms. Acuff commented that her key concern with school projects is time scenario as there are many students in Albemarle High School. She said that her understanding is that the School system would get more guidance on the guidelines and would be provided with information on opportunity zones on a map, as well as a chart showing various projects around the state. Ms. Acuff added that there is also an invite option for Mr. Chris Lloyd.

Ms. Mallek noted that Mr. Lloyd might be involved after the County has adopted guidelines and made the decision to proceed, as he was before them two years ago, along with a representative from Harrisonburg. She asked if the state helps with pre-qualification of bidders and solicitors. Mr. Letteri responded that one of the great advantages to this type of program is movement away from selecting a contractor just based on price, as they could use quality and experience as factors in their decisions.

Ms. Palmer asked if some of the links sent by staff were examples of schools that benefited from collocation from a private company. Mr. Johnson responded that staff did not consider this through that lens but could look for examples. He said that regarding location, with the County's land use plans, P3s use the schools as a way to take advantage of that particular land besides having a school in a particular area, which helps with the tax burden but also helps prevent sprawl by maximizing land use.

Mr. Gallaway commented that they are starting to reconceive what school spaces are, which is open to what a PPEA or P3 could bring. He said that he does not think they are looking to do design-bid-build differently, unless they are rushed to bring a school online faster. He stated that the locations he looked at are places doing the design-build process as their traditional means of capital improvement programs, and P3s would be one more tool for capital improvement, as well as working schools into mixed-used environment.

Mr. Letteri concluded by stating that staff would proceed by putting together a packet of information that includes draft guidelines and other information regarding some of these examples they think would be useful. He said they would also schedule another joint discussion, knowing that it may be after December before it is revisited.

Ms. McKeel commented that the Places 29 work around transportation was all design-build and was very successful, coming in on time and under budget.

Recess. The Boards recessed at 4:19 p.m. and reconvened at 4:28 p.m.

Agenda Item No. 8. **Work Session:** Compensation and Health Care Program

Ms. Lorna Gerome, Director of Human Resources, introduced staff present with her today: Ms. Dana Robb, Program Manager, Compensation and Rewards; Ms. Claudine Cloutier, Program Manager, Benefits; and Ms. Brooke Conover, Human Resources Analyst. Ms. Gerome said the HR staff would present information on compensation and benefits for the Boards consideration to guide their budget process. She noted that they are a bit later than they have been in previous years but are still on track. Ms. Gerome said that the County is facing some challenges because the economy is strong and employees do not stay in jobs or with employers as long as they once did, and the County is seeing an increasing number of employees retire. Ms. Gerome stated that on the local government side, one-third of County employees are over age 50; on the school side, a one-third of teachers are over age 50; and one-half of administrators and classified staff on the school side are over age 50.

Ms. Gerome stated that the Boards' adopted market process has been followed for 18 years now, but they have made some changes -- with a significant change done around the teachers scale last year. She said that when there has been a need, the process has allowed the County to be flexible. She noted that this year, the County did significant work around public safety employees involving creating a step scale, which the Board of Supervisors is familiar with.

Ms. Dana Robb addressed the Boards, stating that she would discuss how the County compared with the classified market. She reported that the County has followed the adopted market, which was a 2% increase for classified employees, along with pay for performance -- so they met their target. She said that a second action was the movement of a classified scale, which allowed them to attract new employees. Ms. Robb clarified that no adjustment to the classified scale means they would possibly not hire new employees at market rates and risked falling behind. She stated that moving the classified scales only impacted current employees that are below the minimum of their paygrade and at the maximum. She noted that there are less than 12 employees that fall below the minimum, and about 100 employees are at the maximum -- so they received a lump sum instead of a base pay increase.

Ms. Robb presented an illustration of the pay for performance merit matrix, noting the 2% increase for classified employees depending on where they fall in their evaluations and where they fall to midpoint. She said if an employee meets and exceeds expectations, they received a 2.5% salary increase if they were at or above midpoint, and those below midpoint received a 3.5% salary increase. She noted that the reason was to try to accelerate those employees to midpoint quicker to pay them at market rate.

Ms. Robb stated that this year, the County moved from a four-anchor point scale to a two-anchor point scale for teachers, which means they essentially corrected to a straight line. She said that this allowed them for the future to have equal percentage increases for all teachers, and this year because of the straightening of the line, most teachers received a 2% and a 5% increase, which also enhances the understanding of the teachers of how they receive salary increases and what they are actually receiving, as well as the ability of the administrators to communicate what teachers are receiving. She added that that helped with equity across the scale and she confirmed that there was no merit increase for teachers.

Ms. Mallek asked how it was not merit based if some got 2% and some got 5%. Ms. Robb responded that they had to straighten a line, which required adjustment to those amounts, and in future years they would get the same amount.

Ms. McKeel noted that they used to refer to it as an average of 2%, which caused a lot of confusion.

Mr. Koleszar pointed out that the 30+ year teachers at the top of the scale would still be the small group that would not get the 2%. Ms. Robb responded that they would get a longevity payment.

Ms. Robb stated that the County met its target to be at or above the 75th percentile, and referenced a chart that compared to the 26 school divisions in the adopted market in 2018-19. She said that the boxes on the slide represent how many of the school divisions for which they gathered market data, and they illustrated that there are four at 15 and four at 30 that are above Albemarle -- with Loudoun County at the very top and other districts such as Prince William and Loudoun, as well as Charlottesville, being above the County. She said that at zero, 22 divisions are below Albemarle and 4 are above -- and as they move along the scale, the gap widens. She said that the takeaway here is that the County is meeting and, in some cases, exceeding the market target.

Mr. Randolph asked if the teacher target of 75th percentile is an average or a medium. Ms. Robb responded that they were ranked, with all the market data from the 26th divisions ranked in order of pay and the 75th percentile determined from that information.

Ms. Mallek asked if the teachers with Masters degrees have a comparable scale with different numbers. Ms. Conover responded that they do a Masters analysis but has traditionally provided the Bachelors, as that is the basis for which they built the scale -- and at the Masters it was also very similar.

Ms. Robb said she would review some ongoing project and compensation initiatives from the past year. She explained that they review departments and individuals for classification reviews, and this year will be reviewing Parks and Recreation, Child Nutrition Services, Principals including Assistant Principals, and the Information Technology departments. She stated that the School Division has the broadband pilot program that is still in the pilot phase, which was created to allow lateral movement in administrator-level positions. She noted that they are in the third year of the program and would bring results to the School Board at the conclusion of the year to show how the program worked for the School Division. Ms. Robb added that the Public Safety pay scale was approved by the Board of Supervisors on September 5, 2018, which consisted of a step scale of most positions in police, fire/rescue, Sheriff's office, and Emergency Communications Center. She said that implementation of these step scales would begin January 1, 2019.

Ms. Acuff asked if any other positions can be reviewed. Ms. Robb responded that there are ad hoc reviews they conduct during the year, so if a director or manager feels a position's responsibilities have changed or the position has grown in some way, staff could look at it.

Ms. Acuff stated that she is concerned about bus drivers.

Ms. Robb replied that this was the next issue she would discuss. She stated that Ms. Gerome mentioned that given the times with low unemployment rate and projected upcoming retirements, staff is identifying positions that are hard to fill and developing strategies to assist with recruitment and retention. Ms. Robb said that bus drivers are one category of positions in that review, so staff is currently working with a review of bus drivers -- looking at market data and coming up with some creative strategies to assist with recruiting and retaining those positions.

Ms. Acuff noted that there are currently 15 vacancies -- which is quite high -- with 165 busses going out every single day -- and even the mechanics and Director of Transportation are driving. She added that since she has been on the School Board, they have had a very difficult time filling and retaining those positions.

Mr. Koleszar suggested that CATEC develop a CDL program so that high school students can prepare to receive those licenses, as local employers also have similar problems attracting drivers for delivery vans, etc.

Ms. McKeel stated the Regional Transit Partnership representatives have discussed a driver wage that might be consistent across the community, as JAUNT, UTS, Charlottesville and Albemarle are at the table because they are all struggling to find and retain drivers -- and when one entity raises its wages, the others has to do the same or risk losing people.

Ms. Robb presented information on market performance, with the adopted market achieving 2%. She said that World-at-Work is projecting a 2.7% increase, adding that in the past the County has looked for other sources for projections -- but no other sources provide that for education and local government. She stated that World-at-Work's figures has been high since the end of the recession, and they use the projection as a guidance to form decisions on what to suggest for salary increases. Ms. Robb said the County cannot go out to the adopted market yet because everyone is still forming their budgets and have not yet made those decisions.

Ms. Robb reported that World-at-Work is projecting a 2.7% increase, and based on several drivers, County staff felt it should recommend something slightly different. She said that positions are taking longer to fill, projected retirements will only increase, and local markets are moving. She stated that staff is suggesting a 2.3% market increase so they stay within market. This means that for classified employees they would get a 2.3% market increase and fund pay for performance, as well as adjusting the classified scale by 1%. She said that for new public safety pay scale employees, they would get 2.3%, step and scale increase, as well as performance lump sums established for that program. Ms. Robb said that they also recommend a 2.3% step and scale increase for teachers for the coming year.

Mr. Randolph asked how much the additional .3% would impact the budget. Ms. Allshouse responded that Ms. Laura Vinzant, of OMB, has done some analysis of that; the salary increase for local government would require $1.5 million in ongoing funding and another $140,000 for one-time bonuses for public safety -- and that would encompass the entire 2.3%. That figure also includes the pay for performance piece.

Mr. Koleszar complimented staff on its fidelity to this model, noting that the County follows it using their judgment but does not automatically follow it, so the process is continuingly self-correcting.

Mr. Dill asked how the activism around the country among teachers have affected their decisions, as he is not sure if the World-at-Work environment reflects anything beyond statistics. Ms. Acuff responded that she thinks the work the School Division did last year to straighten the line and consider compensation addresses that for now. Ms. Gerome agreed but said they would want to keep an eye on teacher salaries elsewhere.

Mr. Dill asked if part of the problem is a teacher shortage overall. Ms. Gerome and Ms. Acuff confirmed that this is the case.

Ms. Palmer noted that there is an overall worker shortage.

Ms. Acuff commented that they typically have about 1,100 to 1,200 applications but were down to about 800 to 900 this year, with 180 teachers hired out of that number.

Mr. Koleszar noted that there are about 300 to 400 unfilled teachers positions throughout the state; the education schools are graduating fewer people than are retiring. He said that they are sufficiently competitive and are not seeing shortages where they cannot fill positions.

Ms. Acuff commented that there were about 200 letters from teachers over the past two years that prompted the market study and the adjustment, and some of those same teachers approached her to talk about their teaching assistants and how those positions are turning over quickly -- due largely to very low salaries.

Mr. Dill asked if there was any movement towards increasing the ratio of student teachers with auxiliary online or technology. Ms. Acuff responded that she does not know.

Mr. Koleszar said they may have to look at state funding for education. He said he is hopeful this year the state legislature will step up to the plate and put more money into K-12. He said that if they take advantage of taxing internet sales and federal changes, the state may have significant additional money to go into education, which would likely flow into teacher raises. Ms. Gerome replied that they are monitoring it.

Mr. Randolph mentioned that housing prices are outpacing teacher raises, so this is a good step but is just one piece of the puzzle.

Mr. Koleszar noted that when schools did its teacher compensation study, the consultant came back and when he modified pay for cost of living to other divisions, Albemarle's pay actually leapt in comparison to Loudoun, etc., and he recommended using a cost of labor differential.

Ms. McKeel said that one reason they are paying more is because they are giving a stipend, and Virginia legislators have not agreed to help do that in the state.

Mr. Gallaway commented that it would be good to get the General Assembly to pay over the SOQ formula that does not represent what a true staff in a school should be.

Mr. Koleszar stated that the state is paying about $600 per pupil less than they were in 2008 when adjusted for inflation.

Mr. Alcaro said that at one point the legislature was looking at 3% teacher raise and asked if that was still the number they are using. Ms. Gerome responded that she was not sure.

Ms. McKeel commented that this did not mean it filters through the County's composite index and that the state would pay the 3%. Ms. Gerome commented that it is still early in the process.

Ms. Palmer said that she would love to see the updated pay per student as referenced by Mr. Koleszar. Ms. Gerome responded that Ms. Schmitt would be sharing that.

Ms. Gerome stated that about 90% of employees participate in the County's health insurance. The County's goals are to offer quality and affordable coverage both in terms of premiums and plan design. She said that they want to have two choices for employees -- offering the high-deductible plan allows for that. She said that 15% of employees are in that plan, which is a very high percentage, and staff is also keeping an eye on the adopted market, sustainability, and compliance with appropriate regulations.

Ms. Claudine Cloutier explained that sustainability in health insurance is important because the County has a self-funded plan and does not pay the insurance company to take the risk for them but instead take each other's risk. She said that these plans are funded through a pool from employer and employee contributions, which are in turn used to pay claims, prescriptions, and plan administrative fees, as well as stop-loss premiums, in the amount of $200,000. She noted that wellness initiatives are also paid from this fund, and what they do not use for expenses are held in reserve in the case of bad plan years when they are not taking in as much in revenues as they are paying out in claims. The reserve is a very important aspect of the County's self-funded health plan.

Ms. Cloutier reported that over the last several years, they have introduced deductibles -- $500 for individuals, $1,000 for family in the traditional insurance model; a high-deductible health plan that has lower premiums and about 15% participation; and a health savings account with an employer contribution. She stated that she has been on the high-deductible plan since its inception, noting that the out-of-pocket maximum is $4,000/$8,000 in a worst-case scenario year, which is only $500/$1,000 more than the Select Plan. She said they have also changed rules for spousal eligibility, which is limited to those that do not have employer coverage of their own that is affordable and meet minimum essential quality as defined by the ACA, as well as a dependent eligibility review that is also done as new dependents come onto the plan.

Ms. Cloutier said they have moved to Anthem, and that brought greater discounts on the network. She mentioned that the County had three rate holidays last year, then reverted back to Plan Year 2016-17 levels because contributions coming in were causing reserves to pop up. She said that the County also offers wellness programs, such as the food hub farm program that provides local produce, as well as flu and TDAP vaccines. She said that the activity tracker promotion just started, and an incentive program provided a $100 incentive for participating in a health assessment/screening.

Ms. Cloutier reported that throughout the year they are looking at claims data and monitoring the reserve balance to keep reserves at a place that makes sense financially and meets their needs. She said that in the coming year, they will potentially be hearing about their evaluation of an in-house pharmacy and/or clinics, which is in the incubation stage. She said that there is a lot of information gathering to do, but it looks promising in terms of convenience and possibly cost savings.

Ms. Cloutier reported that they contribute to employee healthcare on a flat basis, with the Board contribution being the same regardless of whether an employee has dependents in the plan. She said that in January 2020, they will finally move to full implementation of the reallocation of those contributions, which is meant to fund appropriately the plans at the tiers. Ms. Cloutier said that the plan year start has shifted from October to January. She stated that they are currently working with budgeting for a 5.4% increase in total contributions for the plan year to run from January through December 2020.

Mr. Randolph suggested not bringing opioids into the in-house pharmacy for legal reasons, control issues, and nationwide epidemic. Ms. Cloutier said that one of their big spends is specialty drugs, so there is discussion about only doing those and not doing routine medicines.

Ms. Acuff asked what the trajectory of pharmaceutical claims looks like compared to overall claims. Ms. Cloutier said she does not have that data with her.

Ms. Mallek asked about the track record for higher deductibles, as it could lead to people neglecting their medical treatment due to those costs. Ms. Cloutier responded that HR tried to do a good job of talking to people, and there is an attraction to the lower premiums so they encourage people to put that in their HSA. She reiterated the $500/$1,000 difference between the HSA and the Select Plan -- with the Board providing $1,100 a year to pay toward the HSA. She stressed that it is important to her that people understand it, so she spends as much time as necessary discussing it with people. Ms. Cloutier noted that people on the high-deductible plan have less of a spend, which could be because they know it is out of pocket.

Ms. Acuff asked if they track whether the 15% on the high-deductible plan is lower income people. Ms. Cloutier responded that it is all over the place and appeals to people that like the math of it.

Ms. Acuff noted that under the ACA, certain preventative services are covered anyway. Ms. Cloutier confirmed this, stating that mammographies, colonoscopies, other routine screenings, flu shots, etc., are covered for free anyway.

Ms. McKeel asked if spousal flu shots are covered. Ms. Leanne Knox, Safety and Wellness Program Manager, stated that employees are prioritized at the onsite clinics, so other family members are not included in this, due to time and resource constraints. Currently, the County partners with Giant pharmacists, who come out to each school and government building -- 50 locations -- for two to four hours at each stop.

Ms. Gerome also pointed out that flu shots are offered at many places around the area.

Mr. Koleszar mentioned that he attended the bus driver appreciation luncheon at which flu shots are offered, and that is where he got his.

Ms. Knox reiterated that many more pharmacies are offering vaccinations than in the past.

Mr. Gallaway asked when the changing contribution would take effect. Ms. Cloutier responded that it would be January 2020, and the County has been discussing the reallocation for the last five years. She explained that it should not change anything budgetarily, as they just take the full funding rate and slice it differently. She said that she would share background information with Mr. Gallaway.

Mr. Letteri then referenced the slide showing healthcare reserves; he commended staff for its use as a management tool, noting that it tells the story of the healthcare program over the last 10 years -- the volatility, the recession’s impact, responsiveness of staff, the good management of the fund, etc. He explained that there are two parts to the graph, including the upper portion that shows the behavior of income in the plan through contributions and expenses of the plan, primarily in the form of claims. Mr. Letteri said that they would like those lines to be close together, thus maintaining a healthy fund balance.

He stated that in 2008-09, revenues were coming in just above expenditures. He explained that there are two pieces to the chart: the ideal/projected fund balance amount, which ideally remains at 20% of projected claims. Mr. Letteri said that in the early part of 2008, the County was near 50% in fund balance level, and the two years following that revenues exceeded expenditures and led to a very healthy fund balance by 2010. He stated that this allowed the County to hold premiums steady and limit contributions required of the locality through 2014, at which time claims began to rise. He said that beginning in 2014, the County had to react to claims expenses, and revenues were not able to keep up and they fell below the fund balance of 20% in 2015-16 to the point that it required an infusion in 2016.

Mr. Letteri stated that staff put together the Choice Plan and spouse changes that helped the County turn the corner on claims experience, as well as some luck, which allowed for a quick recovery and brought them back to the current 50% level in the fund balance. He said that this puts the County in the position of doing new things such as an in-house pharmacy or mitigation measures for future volatility.

Mr. Koleszar emphasized that one of the cost-savings measures was shifting those costs to employees.

Ms. McKeel agreed that this is a very important point.

Mr. Letteri said that the County has a good plan management team, and the goal going forward is to create an environment in which plan contributions closely match expected claims, and to position the County to make critical or strategic investments that allows it to keep healthcare at a minimum.

Mr. Randolph asked what the factors are in the 2020 projections. Mr. Letteri responded that the chart represents the current state of master schedule that informs where premiums would be set and does not necessarily reflect the revised principles of making those premiums equal to projected claims. He said that this is an earlier version of the plan, and moving forward they would want those figures solidified.

Mr. Koleszar said it looks like the County’s 2018 experiences are dramatically less, but the projections have not been changed to reflect those experiences.

Ms. Mallek commented that this is always a moving target. Mr. Letteri agreed.

Agenda Item No. 9. **Work Session:** Brief Introduction - Five-Year Revenue Assumptions.

Mr. Steven Allshouse, Manager of Economic Analysis and Forecasting, addressed the Boards and said he has spoken to the Board of Supervisors before about revenue forecasting but not the School Board, and he has been doing this for the County since 2011. He said they are projecting revenues for FY19 and FY20, and in the beginning of the process they may be looking almost two years into the future and a lot can happen in that time period. Mr. Allshouse noted that his revenue team consists of the Finance Department, Office of Management and Budget, and Community Development staff members -- as well as consultants from other agencies and internally. He stated that there are about 10 members on the team in addition to the consultants.

Mr. Allshouse explained that the revenue projections encompass general fund revenues, and of those he focuses on state, federal and local revenues but not transfers or anything outside of the general revenue fund. He said that they use a number of methodologies, with three mathematical approaches including trend line analysis, which look at past patterns; con-metric modeling that considers indicators to predict future revenues, with "Stata" software to look at independent variables; and a non-statistical algorithm that make logical assumptions about how revenues might change. He commented that he continuously monitors what is happening with the economy on a global, national, state and regional level, which helps inform quantitative factors.

Mr. Allshouse stated that for the past seven years, the County has been within 2% to 3% of the forecasted value of the general fund, with actuals coming in close to what was originally forecasted and budgeted. He added that they have been operating in a fairly good time to be doing forecasts, and because the economy has been in a long expansion they have not had a change in the business cycle and have benefited from stability the last several years -- but that could change. Mr. Allshouse said as he looks forward to the rest of FY19, he sees that the economy is strong and things are going well at the state, local and national levels, although there are some foreseeable issues that could have an adverse impact on revenues moving into FY20.

He mentioned that he had attended an economics conference in Boston recently, and some of the issues mentioned were corporate debt, emerging market debt, and a yield curve in the bond market that is potentially inverting. Mr. Allshouse said that in looking to the long term, things could change rapidly and dramatically, so his optimism is tempered by the possibility of a recession or downturn. He added that one assumption the County would be using going forward is revenue growth of about 2.5% per year -- which is slightly less than he predicted a year ago, due to indicators that may impact this. He said that there was a survey done at the conference that revealed a median estimate for the next recession of calendar year 2020 or 2021, but no one wanted to be pinned down.

Ms. Mallek commented that no one wants to be the self-fulfilling prophecy. Mr. Allshouse agreed, stating that Federal Reserve Chairman, Mr. Jerome Powell, gave a one-half-hour talk at the conference and "said everything without saying anything."

Mr. Gallaway stated that he appreciates the information, adding that the revenue forecasting done in February needs to factor into the normal process ongoing. He asked if the qualitative part is just getting mixed back into the mathematical analysis. Mr. Allshouse confirmed this and noted that models do not know about things like trade wars, so he has to factor that in as a variable and make a judgment call as to the level of impact it would have. He noted that it is all subjective, but it does impact the forecast.

Mr. Gallaway referenced the Government Finance Officers Association "Elected Officials' Guide to Revenue Forecast" booklet. Mr. Allshouse said the booklet explains different techniques used for forecasting revenues. He added that there is a book released recently that goes into greater detail as to how that is done.

Mr. Gallaway said they could make copies of the booklet available to the School Board. He commented that every year they give scrutiny to how they spend money, and he appreciates the level of scrutiny on how they are forecasting what is available to allocate.

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Agenda Item No. 10. **Work Session:** School Division's Five-Year Financial Plan.

Ms. Schmitt stated that she would present the School Division's five-year financial forecast to inform their long-range financial planning. She thanked the Schools' Fiscal Services Department team, with Mr. Jackson Zimmerman leading the work on the plan. She said she would start by discussing their strategic plan. Ms. Schmitt stated that the strategic plan includes their mission to establish a community of learners and learning, a vision that every learner takes ownership of his or her future; values of excellence, young people, community and respect; and their sole strategic goal that all learners graduate with the skills they need to be successful in life. She said that in support of their mission, vision, values and student center goal, the Division is focused on three strategic priorities: 1) create a culture of high expectations for all, 2) identify and remove practices that perpetuate the achievement gap, and 3) ensure that students identify and develop personal interests.

Ms. Schmitt said that equity has been a strong central theme for the last two budget cycles and will continue because they have significant work to do in this area. She referenced a slide with the definition of equity, stating that they believe a key mission of schools is to end the predictive value of race, class, gender and special capacities on student success by working together with families and communities to ensure each individual success. She said that to achieve this, they must direct their focus and resources -- as does continued development of a contemporary high school model. Ms. Schmitt presented a slide on career and workplace skill development, noting that it is a slight departure from the strictly academic agenda they have historically promoted, and this change in focus will have financial impacts that have yet to be quantified.

Ms. Schmitt reported that in the last 10 years, federal and state funding for schools have declined and have not returned to pre-recession levels, and in contrast local revenues have increased. She said they are grateful for the ongoing support of the Board of Supervisors, with local funds now supporting more than 70% of the budget. Ms. Schmitt presented additional revenue considerations for this financial forecast, stating that at the federal level they anticipate consistent funding from federal sources but remain watchful of possible reductions and program changes. She said that at the state level, the County is in year two of their biennial budget. Last year the local composite index increased, which poses a challenge, and that change will affect them again this year. Ms. Schmitt added that the year two budget includes partial funding for teacher raises, which is supplemental funding for 3% over two years, equating to $800,000 for FY20, with the 2% raise last year costing $1.5 million.

Ms. Palmer asked if the $1.4 million provided through the 2.3-cent increase was minus this amount of money the state is giving. Mr. Koleszar responded that this was just County employees.

Ms. Schmitt reported that revenue projections are increasing at the local level, but are projected to have lower revenue growth than the prior three years. She said that the financial plan's primary drivers include compensation and benefits assumptions, continued enrollment growth and changing demographics of the student population. Ms. Schmitt referenced compensation and benefits assumptions over five years, stating that they are based on commonality with local government's budget office, reflecting a 2.3% increase in salary. She said that the health insurance number is slightly different at 5.4%, but that begins in January 2020 so it is just one-half the fiscal year at 2.7%. She stated that the second primary driver is enrollment growth, as schools continue to grow, noting actual and projected enrollment over five years. Ms. Schmitt mentioned that they added 59 students this year and project adding another 97 next year.

Ms. Schmitt reported that the third primary driver is a changing demographic; and over the last 10 years the data continues to show that they are serving more children with disabilities overall, as well as more English learners. She said that the charts presented illustrate economically disadvantaged students, with benchmarks at 10 years ago, last year, and the current year -- with consistent growth in the number of students qualifying for free and reduced meals through 2017-18. She noted that this year they experienced their first drop in the number of economically disadvantaged students, which is very different by school.

Mr. Randolph asked if it was possible that some of those families were deported. Ms. Schmitt responded that it is certainly possible, but the schools do not have that information.

Mr. Koleszar stated that it is also possible that people are working more hours, given low unemployment rates.

Ms. Schmitt said that special programs that support the student populations have increased to support this growth, and over the last nine years they added a $15.5-million or 62% increase, with the programs including the Children's Service Act (CSA), differentiated staffing model based on free and reduced lunch populations, ESOL programming, the SEED Team initiative, special ed programs and special ed preschool.

Ms. Schmitt presented the five-year financial forecast, noting projected expenses and revenues, with expenses including common salary, inflation and benefit assumptions, and teacher growth -- but no new initiatives or program changes. She stated that even with no new additions, the schools are expecting anticipated needs to exceed projected revenues, creating a gap of $2.3 million in the first year that balloons to $14 million in year five. Ms. Schmitt noted that factors increasing the gap further includes additional teacher compensation strategies beyond the market raise; targeted classified compensation strategies for hard-to-fill positions such as bus drivers; and initiatives around equity, school safety, mental health, or additional initiatives aligned with strategic priorities.

Mr. Koleszar commented that the gap seems bigger when the graph was presented last year. Ms. Schmitt stated that in the first year, the gap was greater than the starting point last year.

Ms. Mallek asked if reduced state requirements for the number of SOL tests freed up any funds. Ms. Schmitt responded that instructional staff indicated that it did not.

Mr. Gallaway noted that the schools also received increased mandates that have not been funded in terms of staffing classes, etc.

Ms. Mallek commented that it seems to have just shifted assignment from one obligation to another.

Mr. Randolph asked Ms. Schmitt to send a copy of this presentation to the Board.

Mr. Gallaway pointed out that the state falls short of paying for what falls under their SOQ requirements and what would be required to service a school population.

Mr. Koleszar added that the state also based teacher compensation on the average 50th percentile division, for example, Highland County with 50 teachers is equal to Fairfax County with 10,000 teachers -- and that is the average salary calculated for the state.

Mr. Randolph said it would be helpful to have this information shared with the Community Advisory Councils, as it is important to have it out before budget season so people are aware of the trend lines.

Ms. McKeel said that she would like to have someone from the schools come to her January CAC meeting to give this presentation. Ms. Acuff said she would be happy to attend.

Ms. Mallek noted that Mr. David Oberg attended her September Crozet CAC meeting and was pelted with questions.

Ms. Acuff commented that the media often portrays the schools as big spenders, but the trend lines are obligated to be covered. She added that one possible factor is that there seems to be some significant interest in the General Assembly for funding SOQs for mental health counselors, and the schools have added mental health staffing over the past year. She noted that the students who posed it to the state got special recognition for that, but the schools are having to pick up 100% of those costs.

Mr. Dill asked if there was any trend on school security. Ms. Acuff responded that the mental health counselors fit under that umbrella, which typically involves fortifying the school buildings themselves with things such as darkening windows and locking doors. She clarified that they have put shades on windows, ensuring that all interior and exterior windows have shades in the event of a lockdown. She added that four years ago, they had 900 classrooms and almost 100 without natural light, and they are chipping away at that.

Mr. Dill said that for safety reasons it would be better to have the light coming from up high.

Mr. Koleszar stated that schools are still the safest places for children to be, despite the media playing up school shooting incidents.

Ms. Acuff commented that people passing school busses is an even bigger risk.

Agenda Item No. 11. Wrap Up/Next Steps.

Ms. Schmitt stated that the School Board will have additional budget input at its meeting on November 8, 2018, and will receive Dr. Matt Haas' budget request on January 17, 2019, with a finalized budget needed by February 7, 2019.

Ms. Allshouse thanked staff, the Clerks, and the Boards for their work. She said that staff will start looking at scheduling another joint meeting to discuss P3s. She stated that on December 5, 2018, the Board of Supervisors will hold another five-year fiscal planning work session, and at that time they will look deeper into revenues and the local government side of the five-year plan. She said the plan will be finalized on December 12, 2018, at which time the Board will provide guidance for the annual budget. Lastly, the County Executive's recommended budget will be presented on February 15, 2019. She again thanked everyone for their attendance at today's meeting, and stated that staff will be providing the Boards with materials they requested at the meeting.

Ms. Acuff thanked Ms. Allshouse for all her work in putting together today's presentation.

Agenda Item No. 12. Adjourn.

At 5:54 p.m., Ms. Mallek adjourned the Board to November 7, 2018, 1:00 p.m., Room 241.

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Chairman

Approved by Board
Date 02/06/2019 Initials CKB