A SPECIAL WORK SESSION WAS HELD BY THE NEW KENT COUNTY BOARD OF SUPERVISORS ON THE 19TH DAY OF OCTOBER IN THE YEAR TWO THOUSAND SIXTEEN IN THE BOARDROOM OF THE COUNTY ADMINISTRATION BUILDING, NEW KENT, VIRGINIA, AT 9:00 A.M., HAVING BEEN CONTINUED FROM OCTOBER 11, 2016.

IN RE: CALL TO ORDER

Chairman Stiers called the meeting, continued from October 11, 2016, back to order.

IN RE: ROLL CALL

Thomas W. Evelyn	Present
C. Thomas Tiller, Jr.	Present
Patricia A. Paige	Absent
Ron Stiers	Present
W. R. Davis, Jr.	Present

All members with the exception of Ms. Paige were present at roll call. Ms. Paige joined the meeting at 9:40 a.m.

IN RE: SCHOOL CAPITAL PROJECT FUNDING STRATEGIES DISCUSSION

County Administrator Rodney Hathaway opened the discussion with a brief recap of the September 28th joint meeting with the New Kent School Board. He indicated the meeting had been very productive and plans were for the two boards to continue to meet for future discussions. With the current school division enrollment level at one hundred more than projected, all parties were well aware of the strain being placed on school facilities. Enrollment at both elementary schools was at or above capacity and fourth and fifth grade enrollments were currently the highest of all grades in the division which would result in space issues at the middle school level in the near future. Identified capital needs had included:

- construction of a new elementary school estimated to cost $25,000,000;
- expansion at New Kent Middle School estimated to cost $2,000,000 and
- renovations at New Kent Elementary School estimated to cost $14,000,000.

The County's financial advisors with Davenport & Company had been asked to work on strategies for funding these as well as other capital needs. The two boards would meet again once some funding strategies were identified. Mr. Hathaway turned the discussion over to Davenport & Company Senior Vice President Ted Cole.

Mr. Cole distributed copies of discussion materials providing details on Davenport's work in response to the County's request. He pointed out that New Kent County did not have a bond rating such as would be issued by Moody, Standard and Poor (S&P), or Fitch. He indicated many counties were not rated and suggested that if New Kent were to be rated, it would receive an "AA".

Mr. Cole reported the County's existing tax supported debt was just over $53,000,000, $43,000,000 of which was school debt. He also reported on the County's current status in regard to three key debt ratios: Tax Supported Payout Ratio, Debt to Assessed Value Ratio and Debt Services vs. Expenditures Ratio.

- The County's financial policy established a minimum 10-year Tax Supported Payout Ratio of 50% and the current level was 77.9%. Mr. Cole noted that a higher level indicated the County was retiring debt more quickly than policy required. The payout ratio could come down significantly and still be in compliance.

- County policy had set the maximum Debt to Assessed Value Ratio at 4.5% and the current level was 2.07%. Mr. Cole indicated the County had the capacity to take on more debt and still be in compliance with this policy.
- The maximum Debt Service to Expenditures Ratio was set at 12% and New Kent's level was currently 11.13%. Mr. Cole noted compliance with this ratio would be the most difficult for the County to maintain. He pointed out S&P considered a ratio between eight and fifteen percent to be strong.

Mr. Cole presented a Debt Affordability Analysis on existing County and school debt. Option 1 was based on an annual transfer to the debt service fund equal to the existing County and school debt service. This option indicated a 5.7 million dollar transfer for the current year's debt service. This transfer would decrease annually until reaching a level of 3.7 million dollars in 2029. Option 2 was based on an annual transfer to the debt service fund equal to the FY 2017 budgeted level. This option proposed holding the annual debt service transfer level at 5.7 million dollars well into the future. Both options had been based on the 2017 value of a penny equal to $257,847 and an assumed growth rate of zero. Both options included an annual school construction set aside of $515,694 and would result in the generation of surplus revenue which could be used to fund additional debt or to fund other areas in the budget. Option 2 would result in a larger surplus.

Discussions shifted to funding of specific identified projects including a new fire station, a new elementary school, a middle school expansion and an elementary school renovation.

- New Fire Station – Mr. Cole noted the County had been considering constructing a new fire station through a lease revenue bond. A bid had been received from BB&T for a fifteen-year loan with a principal amount of 2.2 million and a 2.13% interest rate. He noted if this was something the Board wished to pursue, a formal decision would be needed to move forward with the closing. Mr. Hathaway indicated if the Board said "yes" today, the process could move forward and the loan could be closed by the end of the month. Mr. Cole noted approvals from the Board of Supervisors and the Economic Development Authority were in place. Mr. Evelyn asked for confirmation that prior approvals would allow the Board to come down from the 2.2 million dollar figure but not to go above that level. Mr. Cole confirmed this and suggested any funds beyond the actual cost of the fire station could possibly be used to fund other projects. He asked County Attorney Brendan Hefty for an opinion on the Board having the authority to use funds beyond the fire station costs. Mr. Hefty indicated he was not aware of any reason they could not but suggested it would be better to rely on Bond Counsel Dan Siegel for a definitive answer. Several Board members questioned why the County would consider borrowing more than was needed for the fire station if they would not have the discretion to use the balance on other projects. Mr. Cole noted he would follow up with Sands Anderson bond counsel and report back to the Board. Discussion continued and turned toward the possibility of the Board not making a decision until the October 26th work session. Mr. Cole suggested that if the Board did not authorize moving forward prior to the October 26th meeting, there may not be sufficient time to prepare the necessary documents. Mr. Hefty suggested the Board could give Bond Counsel the indication to move forward with preparing the documents in advance. The Board was in agreement to move forward if funds not used for the fire station could be used at the Board's discretion for other projects.
- New Elementary School – The County was also considering constructing a new elementary school at an estimated cost of $25,000,000. The projected funding date

for this project would be spring 2019 for a period of twenty-five years at an estimated 4% interest rate. Completion would be needed in time for the start of the fall 2021 school year. This project was expected to generate additional operating costs estimated to be $1,200,000 annually beginning in FY 2022.

- Middle School Expansion – The County was also considering an expansion at New Kent Middle School at an estimated cost of $2,000,000. The projected funding date would also be spring 2019 for a period of twenty-five years at an estimated 4% interest rate. Completion would also be needed in time for the start of the fall 2021 school year. This project was expected to generate additional operating costs estimated to be $250,000 annually beginning in FY 2022.
- New Kent Elementary School Renovation - The County was also considering a renovation of New Kent Elementary School at an estimated cost of $14,000,000. This project was expected to have no additional operating impacts.

Mr. Cole reported that Davenport had analyzed two possible capital project cases, one which included all four of the above referenced projects (Case 2) and another which included all of the above projects with the exception of the elementary school renovation (Case 1). Four funding scenarios (A, B, C and D) had been developed for each of the two cases.

- Scenario A was based on Debt Affordability Option 1 and included an annual transfer to debt service equal to the existing County and school debt service and no additional school set aside funds.
- Scenario B was based on Debt Affordability Option 2 and included an annual transfer to debt service equal to FY 2017 budgeted level and no additional school set aside funds.
- Scenario C was based on Debt Affordability Option 1 and included an annual transfer to debt service equal to the existing County and school debt service plus additional school set aside funds.
- Scenario D was based on Debt Affordability Option 2 and included an annual transfer to debt service equal to FY 2017 budgeted level plus additional school set aside funds.

Mr. Cole provided a review of the three key debt ratios for each of the two cases. He noted both cases would maintain compliance with the minimum 10-year Tax Supported Payout Ratio of 50% and the maximum Debt to Assessed Value Ratio of 4.5%. Neither of the cases would be able to maintain compliance with the maximum Debt Service to Expenditures Ratio of 12%. He reminded the Board these figures had not taken into account any additional growth and, assuming there would be growth, the maximum Debt Service to Expenditures Ratio would go down. He also noted that although the Board had an established policy setting the maximum Debt Service to Expenditures Ratio at 12%, they did have the latitude to make an exception. A review of each of the four scenarios for the two cases was also provided. These scenarios included debt service figures for each of the proposed projects as well as operating impact figures. Based on the 2017 value of a penny equal to $257,847 and an assumed growth rate of zero, all scenarios suggested the need for varying tax rate increases at varying points in time.

Discussions moved to revenue growth in recent years. Mr. Hathaway indicated he believed the growth had averaged one million dollars per year in the four years he had been involved with the budget. Mr. Stiers indicated he had discussed the possibility of setting aside a percentage of new growth funds for capital projects. He noted he was optimistic that an additional two cents ($257,847 per cent) of revenue could come from new growth and not from a tax increase. Mr. Evelyn reported he had recently spoken with School Superintendent Dr. David Myers regarding the challenges they were facing due to the fourth and fifth grade student population. He suggested the County may want to consider moving forward with the middle school expansion estimated to cost two million dollars and further suggested this could be done without a tax increase. Mr. Hathaway reported that Dr. Myers had indicated he was hopeful this project could be completed for less than two million dollars. Mr. Hathaway asked the Board if they were comfortable with providing preliminary funding for engineering work to begin on the middle school expansion. Mr. Evelyn suggested this project could be completed by the time the current fourth and fifth grade students reached the middle school if the Board chose to move forward with the project now. Mr. Hathaway also reported that several computer labs could be converted to regular classroom space as a result of the Chromebook® initiative. Mr. Davis stated the Board needed to be good stewards of taxpayers' money and noted his support of providing funds for engineering to begin. Mr. Hathaway noted funds were available in contingency.

Mr. Evelyn moved to appropriate funds not to exceed $25,000 from contingency to the School Board for an engineering study to be conducted on middle school expansion. The members were polled:

Thomas W. Evelyn	Aye
C. Thomas Tiller, Jr.	Aye
Patricia A. Paige	Aye
W. R. Davis, Jr.	Aye
Ron Stiers	Aye

The motion carried.

Mr. Hathaway distributed a draft project schedule for a new elementary school. He noted that although this school was being projected for five years down the road, work would need to begin soon to meet a FY 2022 opening date. The proposed schedule included seven steps commencing with identifying potential sites starting in May, 2017 and culminating with a two-year construction period ending in August, 2021. The School Board and the Board of Supervisors would need to work closely together throughout the process. Mr. Evelyn noted the importance of the Supervisors' input and approval. Mr. Hathaway agreed and noted that citizen input would also be important. This input would be used in the development of a final plan that would be necessary prior to procuring a contractor and obtaining financing. Mr. Evelyn also noted the importance of the Board of Supervisors being involved in the middle school expansion project. Mr. Hathaway agreed and reminded the Board that it would be necessary to begin work on the new elementary school project in the near future in order to have the school ready to open by FY 2022. He noted the first step would be to begin working with the School Board to identify potential sites which would need to be approximately twenty acres in size. Mr. Stiers suggested the possibility of finding a private individual who may be interested in donating land to the County for a new school. He further suggested a private/public partnership may be an option. Mr. Hathaway suggested there would be a great deal of work involved in identifying a site for the new school and pointed out it would be necessary for the School Board to begin looking at redrawing school lines to keep the three elementary schools equal.

Mr. Hathaway confirmed the Board was comfortable with setting a goal of identifying two pennies each year from new money to be designated as set aside for school construction. He cautioned that if revenues were not coming in as expected, it may be necessary to come back to the Board with a request for one to two additional pennies to make up the difference. He also confirmed that the Board was in agreement to expedite the middle school expansion. He also reminded the Board that Mr. Cole's presentation had indicated if the Board moved forward with the elementary school renovation, a tax increase would be necessary. Mr. Cole pointed out that when and if this project became more of a reality, the Board could consider shortening the term of the debt and save significantly. He noted this was not something the Board needed to discuss now and although this suggestion would save, it would increase the burden in the short term.

Mr. Hathaway asked Board members when they would like to plan to meet with the School Board again. After some discussion, the general consensus was to have the School Board begin working on the engineering for the middle school expansion and plan to get back together for a meeting once there was a better understanding of what would be required for this project.

Mr. Hathaway requested confirmation from the Board that they were in agreement to move forward with the fire station financing if Mr. Cole determined funds in excess of the actual fire station cost could be used for other projects. The Board noted agreement. The Board would conduct a public hearing at the November regular meeting concerning the negotiation of an agreement and other documents required to establish a public-private partnership between the County and a contractor for the construction of the new fire station. The Board would then be required to wait an additional thirty days after the public hearing before entering into a contract.

IN RE: ADJOURNMENT

Mr. Stiers announced that the next regularly scheduled meeting of the Board of Supervisors would be held at 6:00 p.m. on Wednesday, November 16, 2016. The next work session would be held at 9:00 a.m. on October 26, 2016. Both meetings would be held in the Boardroom of the County Administration Building.

Mr. Tiller moved to adjourn the meeting. The members were polled:

C. Thomas Tiller, Jr.	Aye
Patricia A. Paige	Aye
W. R. Davis, Jr.	Aye
Thomas W. Evelyn	Aye
Ron Stiers	Aye

The motion carried.

The meeting was adjourned at 10:25 a.m.