

VIRGINIA: AT THE SPECIAL JOINT MEETING OF THE DINWIDDIE COUNTY BOARD OF SUPERVISORS, THE SCHOOL BOARD AND THE DINWIDDIE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY HELD IN THE MULTI-PURPOSE ROOM OF THE PAMPLIN ADMINISTRATION BUILDING IN DINWIDDIE COUNTY, VIRGINIA, ON THE 31st DAY OF MAY 2006 AT 5:30 P.M.

BOARD OF SUPERVISORS

PRESENT: DORETHA E. MOODY – CHAIR ELECTION DISTRICT #4
MICHAEL W. STONE - VICE CHAIR ELECTION DISTRICT #5
ROBERT L. BOWMAN IV ELECTION DISTRICT #3
DONALD L. HARAWAY ELECTION DISTRICT #2
HARRISON A. MOODY ELECTION DISTRICT #1

SCHOOL BOARD

PRESENT: CHARLES J. FRIEDL – CHAIR DISTRICT #5
WILLIAM R. HANEY – VICE CHAIR DISTRICT #2
JAMES C. MAITLAND DISTRICT #1
JAMES E. HARRISON, SR. DISTRICT #3
LEGERT HAMILTON DISTRICT #4
DR. MARAZZANO, SCHOOL SUPERINTENDENT
LYNNE VENTER, DIRECTOR OF FISCAL OPERATIONS

INDUSTRIAL DEVELOPMENT AUTHORITY

PRESENT: CHARLES R. JOHNSON – CHAIR
WAYNE C. BARNES
ROBERT A. WALLACE
PAUL W. WALK, JR.
VICKIE HELLER
SAMUEL JOHNSON, III – ATTORNEY

ADMINISTRATION

PRESENT: KEVIN MASSENGILL, INTERIM COUNTY ADMINISTRATOR
MICHAEL DREWRY, COUNTY ATTORNEY
ANNE HOWERTON, FINANCE DIRECTOR

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Ms. Moody called the Board of Supervisors meeting to order at 5:30 p.m. The chairs of the respective Boards called their meetings to order right after.

1. ROLL CALL:

BOARD OF SUPERVISORS

PRESENT: Mr. Moody
Mr. Haraway
Mr. Bowman
Mr. Stone
Ms. Moody

Dr. Maranzano, School Superintendent, thanked everyone for their participation. He said that he and Mr. Massengill were instructed to find a way to build a new elementary school and a new high school, and that he believed that after several meetings in the past week that they had done that. He said that thanks to the work of County Attorney Michael Drewry, Finance Director Anne Howerton, Director of Finance for the Schools, Lynne Venter and County Administrator Massengill, the gap in funding has been significantly narrowed, and the solution is at hand.

Kevin Massengill, County Administrator, thanked everyone for coming back for this meeting. He stated that also in attendance were Roland Kooch, Jr., Vice President Public Finance, and Kyle Laux, Associate Vice President Public Finance, of Davenport & Company, LLC. Mr. Massengill presented the following to the Boards.

• **Summary of Last Meeting:**

- After receiving bids on the construction projects, Dr. Maranzano presented (4) four options on May 23rd to the IDA/BOS/SB:

- **Option 1A: Two Complete Buildings**

- 1,600 Student High School
- 600 Student Elementary School
- **Option 1B: Two Buildings (Reduced Elementary and High Schools)**
 - 1,600 Student High School (ROTC/Tech wing removed)
 - 480 Student Elementary School
- **Option 2: Reduced High School and Partial Elementary School**
 - 1,600 Student High School (ROTC/Tech wing removed)
 - 160 Student Elementary School
- **Option 3: High School and No Elementary School**
 - 1,600 Student High School
- Staff and I expressed concerns regarding:
 - County’s capacity to acquire additional debt
 - The financial security of the “Strong A” bond rating with additional debt
 - Creation of a new revenue stream to pay for the additional borrowing (i.e. increase in Real Estate Taxes)
 - Effect of additional debt on other Capital Improvements identified by the School Division and County
- After receiving comments from the Board of Supervisors, School Board and IDA it was suggested that Dr. Maranzano and I develop a proposal for a 2 school solution that was mindful of the County’s current and projected financial wellbeing.

Over the last week...

- County and School Staff have met on several occasions to discuss project scope and concerns, revenue streams, legal implications, and procedural changes
- Davenport & Company, the original Financial Advisors during the bond issuance, was asked to provide the following:
 - Debt Capacity (at 10% maximum)
 - Debt Affordability
 - Bond rating impacts (Above 5M not recommended)
 - Financial forecast and impacts to future CIP
 - Funding Recommendations

Funding Requirements:

Two Complete Schools (Option 1A)

• High School (1,600)	\$46,416,630
• Elementary School (600)	<u>\$17,344,085</u>
	Total \$63,760,715
• <u>Two School Discount</u>	<u>\$ 1,200,000</u>
	Total \$62,560,715
• DCWA/VDOT Costs	<u>\$ 2,200,000</u>
	Total \$ 64,760,715

Available Funds:

– 2004 Bond Issuance	\$54,522,640
– Interest Earnings: Current	\$ 2,500,000
– School Construction Fund	\$ 1,000,000
– School Debt Service Fund	\$ 800,000
– <u>School Year End (FY05/06)</u>	<u>\$ 300,000</u>
	Total: \$59,122,640

• Funding Requirements	
2 complete schools	\$ 64,760,715
• <u>Current Available Funds</u>	<u>\$ 59,122,640</u>
	Total Funds Needed \$ 5,637,535

Source of Needed Funds:

New Bond Issuance \$5-6M

- Davenport & Company will present Funding Strategies later in the presentation
 - County Attorney will need to consult with Bond Counsel for all options presented tonight
- **In an effort to minimize the impact of additional debt, the following are potential future repayment streams**
 - Interest Earnings: Projected \$ 2,900,000
 - Reduction of 2008 School Budget \$ 500,000
 - Sale of Hart Road School Site \$ 350,000
 - Prorating Personal Property Tax \$ 300,000
 - Total: \$ 4,050,000**
- **Specific Concerns Addressed:**
 - **Is the Contingency amount of 2.85% sufficient?**
 - Jim Copeland: Moseley Experience
 - State DOE, Chesterfield County, and Henrico
 - Inflationary Clause – Contract
 - **Who will be performing the Construction Management?**
 - Team A: Daily Oversight with Weekly Project Meetings
 - Construction Committee:
 - » Gene Jones (part time)
 - » Jimmy Davis (part time)
 - » Claude Shell (full time)
 - » Superintendent of Schools and County Administrator-Optional
 - Team B: Daily Oversight (Including weekly project meetings)
 - Construction Management (Provided by Moseley)
 - County Building Inspector (contracted)
 - Team C: Monthly Oversight
 - New Construction “Stakeholders” Committee
 - Executive Director of Finance
 - County CFO
 - School Board Representative
 - BOS/IDA Representative
 - Principals
 - SB Directors
 - SB Supervisors, Department Heads
 - Teachers
 - Ad Hoc Representation
 - **What impact will this additional debt have on future County and School Projects?**
 - CIP expenditures will be limited to revenue available at the time of budget development.
 - Future financing of CIP projects will be restricted by debt capacity limits
 - **What happened to the \$4M identified in the original bond issuance for School Renovations?**
 - Less impact on the Existing High School
 - Original proposed to move entire Middle School population (1,300 students) to Existing High School.
 - 6th Grade will remain in Middle School.
 - Limited impact on Rohoic Elementary School:
 - Head Start
 - Pre-K (Bright Stars)
 - Pre-School Special Needs (Creates space at Southside Elementary)

Mr. Massengill asked Mr. Drewry to address his perception of the contracts.

Michael Drewry, County Attorney, stated that there was no inflationary clause, but there were allowances for such things as site prep, etc. He said it was a fairly typical contract.

Roland Kooch of Davenport & Company, LLC presented updated School capital funding strategies for Dinwiddie County to the Boards. The information provided by Davenport & Company LLC included the following:

Background

In October of 2004 Dinwiddie County issued \$41.04 million of Lease Revenue Bonds and \$15 million of Lease Revenue Literary Loan Anticipation Notes to fund identified School capital needs totaling approximately \$55 million.

1. The County obtained strong investment grade (i.e. "a range") credit ratings in conjunction with the 2004 borrowings.
2. Projects included at least two schools for which 2.0% interest monies were available from the State Literary Loan Program.
3. Davenport understands that to date the majority of the bond proceeds have not been spent.
4. Davenport understands that additional funding for the School projects may be required above the \$55 million initially borrowed. This additional funding is currently estimated to be approximately \$5.0 million.
5. Given these considerations, Davenport was asked to examine the potential impact that additional funding for School projects may have on the County's debt affordability (i.e. budgetary impact) and debt capacity (i.e. key debt ratios).

Since the 2004 Bond Issuance:

1. The School Board has completed the Literary Loan application process but as of March 2006 the County has not yet been placed on the first priority waiting list.
2. As such, the earliest that permanent Literary Loan Funding will likely be available from the State is the Fall of 2007 (FY 2008).

Goals and Objectives

Recognizing the impact an additional \$5 million of School funding may have on the County's existing credit ratings:

- Structure a plan of finance for the additional \$5 million of School capital needs that does not negatively impact the County's existing strong investment grade credit ratings.
- Determine the potential impact that the additional \$5 million of School funding may have on the County's overall debt capacity.
- Determine the potential budgetary impact of the additional School funding, taking into account future growth and use of Debt Service Fund (i.e. Capital Reserve) monies.

Key Assumptions

Amount borrowed = \$5 million

- Literary Loan borrowing rate = 2.0%
- Estimated Non-Literary Loan borrowing rate = 5.50%

Fiscal Year 2007 Debt Service Fund balance = \$8,144,931

- Estimated reinvestment rate = 5.00%

Existing County debt outstanding equal to approximately \$90

- Includes 2004 borrowings and anticipated Literary Loan funding
- Fiscal Year 2007 budgeted Debt Service includes County obligations, School obligations, Airport Authority obligations, and Water Authority obligations

Funds identified to offset Debt Service include:

- ¼ of the growth in value of Penny (Real Estate revenues)
- Meals and Gate Tax revenues
- School Construction Fund monies
- Lottery Fund monies

Debt Affordability – Cases Analyzed

Three Capital Funding options analyzed assuming \$5 million borrowed in summer of 2006 (FY 2007) structured as follows:

Case One – 25 years of Level Debt Service at estimated 5.50% borrowing rate.

Case Two – Five year Interest Only Bond Anticipation Note ("BAN") taken out with 20 year level debt permanent borrowing (25 year final maturity).

Case Three – One year of Capitalized Interest, followed by three years of Interest Only payments, followed by 21 years of Level Debt Service (25 year final maturity).

PROPOSED DEBT SERVICE – CASE ONE

Estimated debt on \$5 million borrowing assuming a 25 year level debt service obligation **total from 2007 to 2032:**

<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$5,100,000	\$4,427,867	\$9,527,867

DEBT AFFORDABILITY – CASE ONE

- 25 year Level Debt Service obligation.
- No tax impact.
- Capital Reserve Fund monies used = \$6.626 million.
- Total estimated Debt Service paid on \$5 million borrowing (P+I) = \$9.527 million.

DEBT AFFORDABILITY – CASE TWO

- 5 Year Interest Only BAN.
- 20 Year Level Debt Service obligation (25 Year final maturity).
- No tax impact.
- Capital Reserve Fund monies used = \$6.339 million.
- Total estimated Debt Service paid on \$5 million borrowing (P+I) = \$9.673 million.

DEBT AFFORDABILITY – CASE THREE

- 1 Year Capitalized Interest.
- 3 Years Interest Only.
- 21 Years Level Debt Service (25 Year final maturity).
- No tax impact.
- Capital Reserve Fund monies used = \$6.041 million.
- Total estimated Debt Service paid on \$5 million borrowing (P+I) = \$10.771 million.

DEBT RATIO ANALYSIS

DEBT vs. TOTAL ASSESSED VALUE

- ❖ Ratio indicates that the County can support additional \$5 million of School needs but borrowing levels are on the upper end of “A” rated levels.

DEBT SERVICE vs. EXPENDITURES

- ❖ Ratio indicates that Debt Service as a percent of expenditures after the addition of \$5 million of School needs is still within strong “A” rated levels.

DEBT per CAPITA

- ❖ Ratio indicates that the County can support additional \$5 million of School needs but borrowing levels are on the upper end of “A” rated levels.

SUMMARY OBSERVATIONS

- By utilizing Debt Service Reserve (i.e. Capital Reserve Fund) monies, funding approximately \$5 million for additional School capital needs could be structured with no additional impact to the County’s budget.
- As was anticipated at the time of the 2004 bond issue, the County’s Key Debt Ratios are on the higher end of recognized “A” rated ranges.
- The County’s strong “A” rating should not be negatively impacted by borrowing an additional \$5 million of School monies although Key Debt Ratios indicate that the County’s debt burden is on the upper end of “A” rated norms.
- Annual Pay-As-You-Go Capital Outlay at levels approaching \$4 million are unsustainable without new revenue sources or budget reductions.

Discussion and questions among the Boards followed the presentation.

Mr. Drewry stated that from a legal standpoint, before the County can go into a contractual situation, funds have to be available. The County cannot contract debt.

There was discussion regarding the private placement approach and structure.

Mr. Drewry stated that it will be necessary for him to have an in depth conversation with bond counsel regarding the financing.

Mr. Massengill stated that as July 3rd is the date by which the letter of intent must be signed, the County is on a tight timeframe. He said that County Attorney Drewry will consult with bond counsel as soon as he is able to get a meeting scheduled. In that conversation he will, with bond counsel, establish the timelines for this financing to take place. There will be another meeting with the IDA, Board of Supervisors, and School Board to discuss and agree upon the funding process. He said that at that time the School Superintendent, Dr. Maranzano, should be able to send a letter of intent to the

contractor. He said the last portion is approving whatever debt instrument is decided upon as the preferred option, and then to finalize the contract.

Mr. Haraway stated that he would urge the Boards to look at this as a "temporary loan". He said he was looking at this loan as a temporary loan, and that in five years it would be paid back. He said he was not looking at this as a reserve to pay for change orders, etc. He said that he was looking at this loan to take care of what was stated as needed, and that the County and Schools would use the sources that have been outlined that total \$4 million. He said that as soon as those resources come in, that the loan would be paid off and not extended for 25 years. He said that the prorated personal property tax that was discussed would be an annual number, where the rest of the numbers are one time numbers. Mr. Haraway stated that \$300,000 for prorated personal property tax should be used every year toward paying off the loan.

Mr. Drewry said that what he needed was guidance from the Boards as to what the details should be when he talked with bond counsel. He asked for a consensus as to which avenue to go down, and then staff will come back and propose the outcome of that.

It was agreed that Mr. Drewry would pursue information from bond counsel regarding straight 25 year financing.

The next meeting will be scheduled after Mr. Drewry is able to meet with bond counsel, and Boards and staff are available.

Mr. Massengill thanked the boards and public for their attendance at the meeting. Dr. Maranzano also thanked everyone for their patience and support.

4. ADJOURNMENT

Upon motion of Mr. Moody to adjourn, seconded by Mr. Haraway,

The meeting adjourned at 7:25 p.m.

Ayes: Mr. Moody, Mr. Bowman, Mr. Haraway, Mr. Stone, Ms. Moody

Nays: None

Doretha E. Moody, Chair

ATTEST: _____

W. Kevin Massengill
County Administrator
Clerk to the Board

/wjn