

ALBEMARLE COUNTY

*Strategic Investment
& Transformation
that Reshape Our
Future
FY18*



*March 2, 2017
Work Session 3*

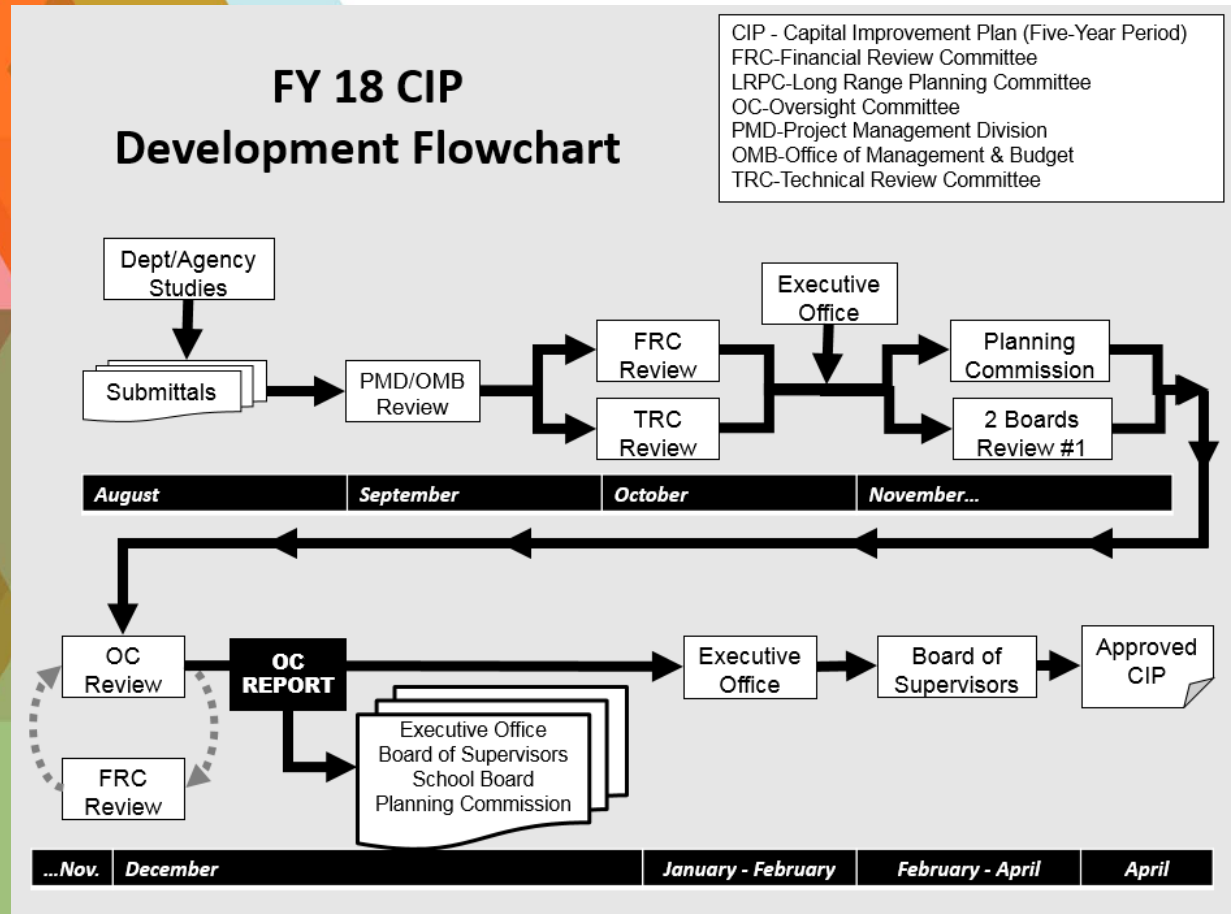
FY 18 RECOMMENDED CAPITAL BUDGET, CIP, & DEBT MANAGEMENT

DESIRED OUTCOMES

- ❖ Board members to receive and understand the County Executive's Recommended FY18 Capital Budget and FY 18-FY 22 Capital Improvement Plan (CIP) to include:
 - Revenues and expenditures
 - Summary of projects
 - Financial policies and goals
 - County debt and debt service
- ❖ Board members input on staff recommendations:
 - Incorporation of actual interest rates
 - Approach to rising construction costs
 - Appropriation/timing adjustments for School Projects
 - Upcoming long-range planning meeting

AGENDA

- CIP Process
- Recommended CIP Projects
- Recommended CIP Revenues
- Total County Debt
- Recommended Debt Service
- Staff Recommendations:
 - Incorporation of actual interest rates
 - Approach to rising construction costs
 - Appropriation/timing adjustments for School Projects
 - Upcoming long-range planning meeting
- Questions/Comments



CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Plan (CIP) and the Capital Needs Assessment (CNA) – collectively referred to as the **Capital Improvement Program**- represent a statement of the County of Albemarle's policy regarding long-range physical development for the next five-year and ten-year periods respectively.

TERMINOLOGY

- Capital Improvement Plan (CIP) = FY 18 – FY 22 Plan
- Capital Needs Assessment (CNA)= Longer-range horizon - FY 23-28 (Updated every other year)
- Capital Budget = First year of the Plan, appropriation authority (FY18)
- CIP Two Year Request Process
 - Year One – All Dept./Agency Requests/Needs including CNA (10 year look)
 - Year Two – Amendment year, urgent requests/updates only
- Multi-Year CIP Budget = Includes previously Board approved projects that are expected to carry over into FY 18

FUNDING PRIORITIES

The funding priorities of the Capital Program are as follows:

1. Debt Service: Existing & New
2. Mandates
3. Obligations
4. Maintenance/Repair & Replacement Project or Programs of Existing Facilities / Equipment to **maintain the core County infrastructure investment.**
5. Continuing in-progress or planned projects in the current Adopted CIP
6. Other “new” projects are included based on ranking by the Technical Review Committee, the recommendation by the Oversight Committee, and/or by the Board of Supervisors. These projects are related to **facility enhancements, additions, acquisitions, etc.**

SUMMARY OF FY18–22 PROJECTS

43 REQUESTS TOTALING \$175M

Requests As compared to FY 17 Adopted CIP	Mandates	Obligations	Maint/Repl	Non Maint/Repl	Total
Adopted Projects with No changes	0	3	10	3	16
Adopted Projects with Administrative Changes	2	4	6	6	18
Adopted Projects with Eligible Amendments	0	0	4	0	4
New Funding for Current Projects	0	0	0	2	2
New Projects	0	0	0	3	3
Total Eligible Requests Submitted	2	7	20	14	43

Totals \$175M (five-year period) for a \$3.9M increase over the FY 17 adopted plan

FY 18 RECOMMENDED PROJECTS

Scoring Matrix for CIP Requests (FY 18-22)

- Priority projects not ranked:
 - Mandates
 - Obligations
- Maintenance/Replacement Requests
- Non-Maintenance/Replacement Requests

** Page 286: Prioritized Projects by Scoring Classification*

CIP PROJECTS – SENIOR CENTER AT BELVEDERE



- 60K Square Foot New Senior Center in the Belvedere development
- Request and recommendation reflects \$500K/year starting in FY19 for 4 years (\$2Mil total) as County's investment into the center

CIP PROJECTS - PVCC



- 45K Square Foot Advanced Technology Center (site work share)
- Request and recommendation reflects \$140K/year starting in FY18 for 3 years (\$420K total) as County's contribution to the share of the site work. (project building funded via state)

CIP PROJECTS – TRANSPORTATION REV SHARING + ACQUISITION OF CONSERVATION EASEMENTS (ACE)

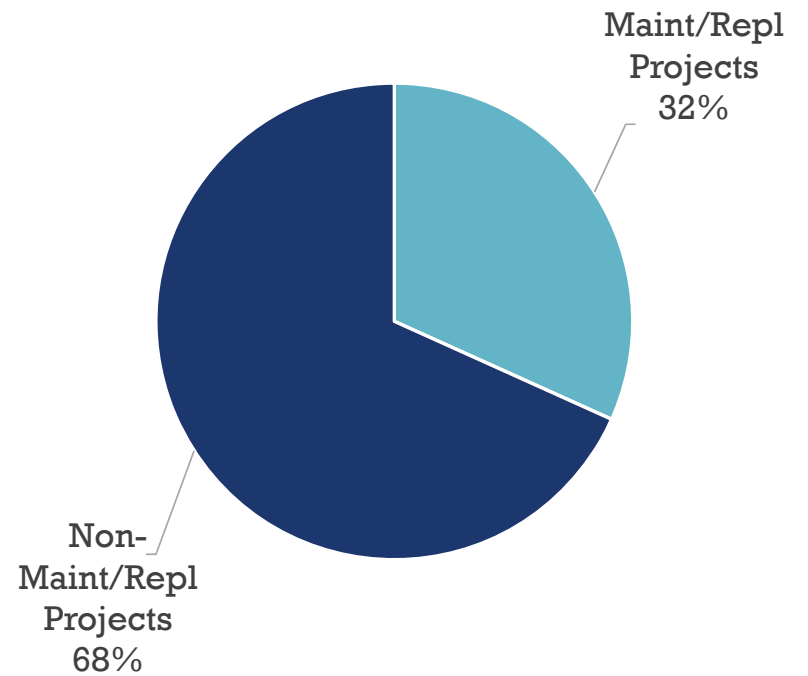
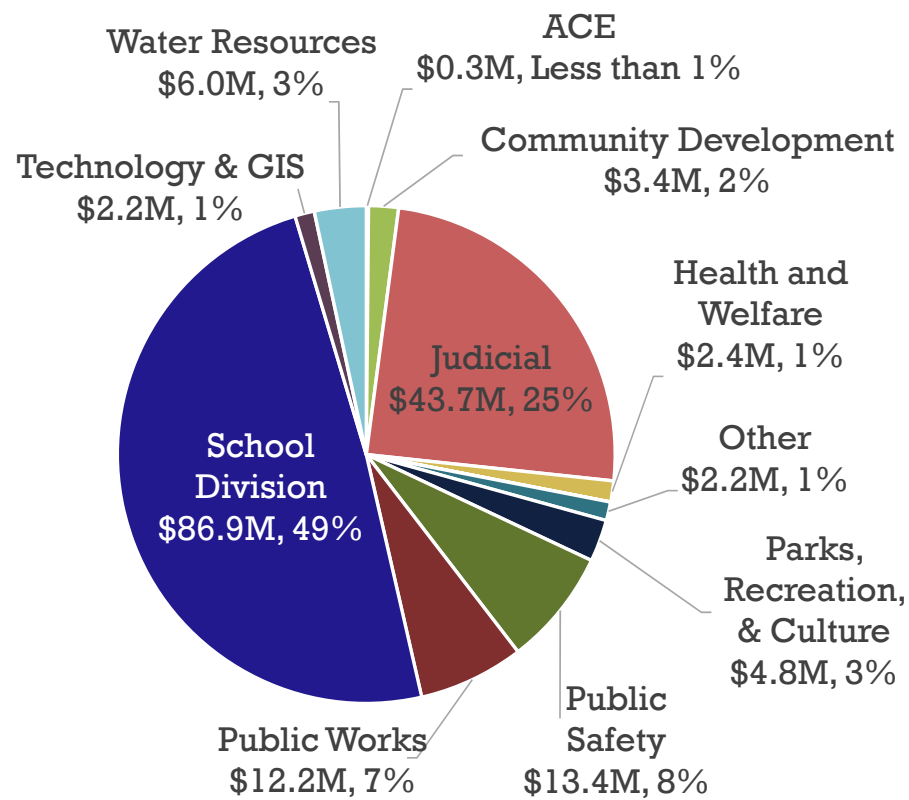


- Added via Two Year Fiscal Plan process
- \$1.5 Mil recommended in FY 19

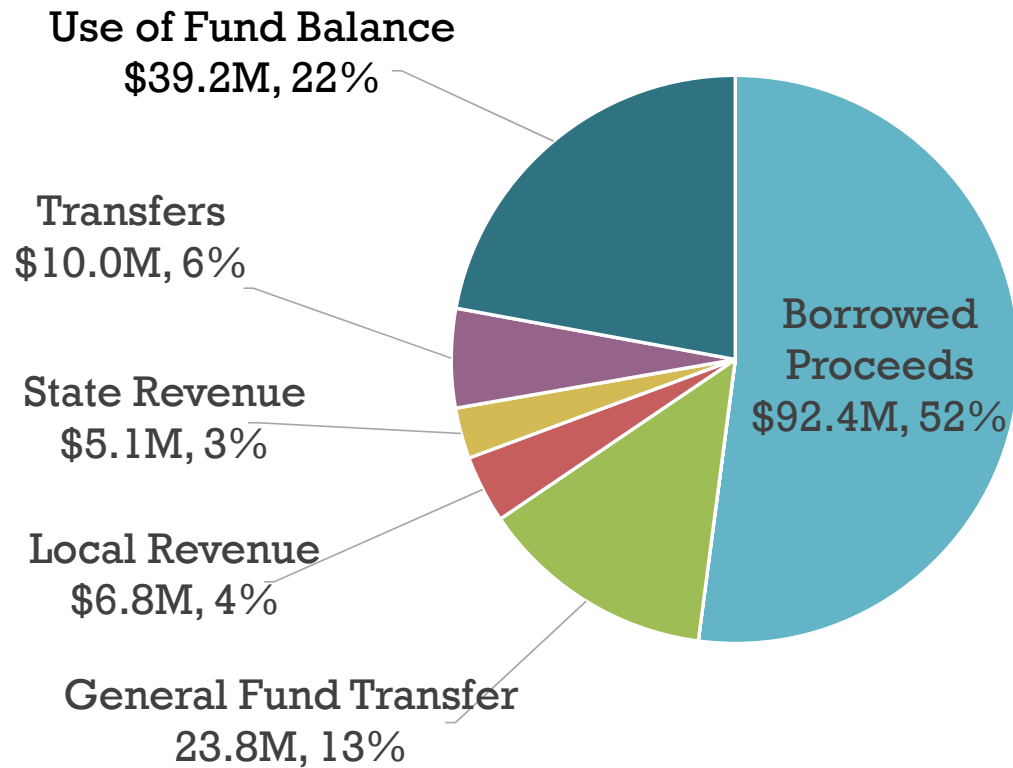


- Added via Two Year Fiscal Plan process
- \$250K recommended in FY 18

FY 18 – FY 22 RECOMMENDED CIP EXPENDITURES TOTAL \$177.4M



FY 18 – FY 22 RECOMMENDED CIP REVENUES
TOTAL \$177.4M **PAGE: 250**



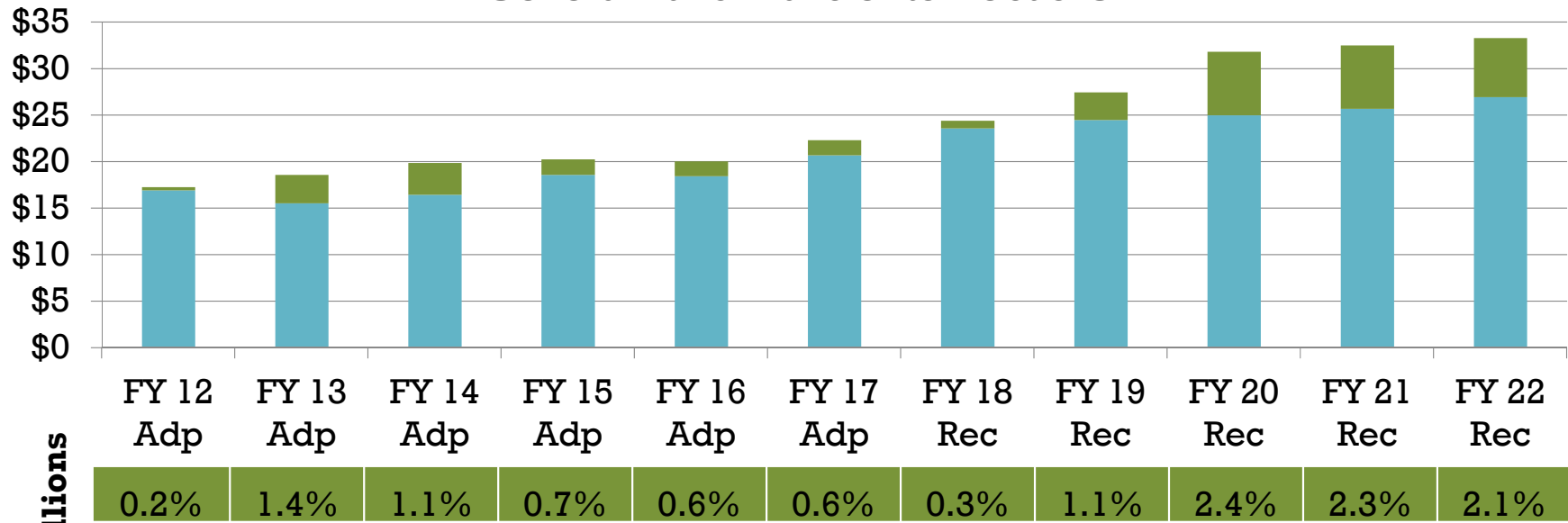
CIP - PRACTICES/POLICIES/GOALS

- Policies (page 31)

- ✓ - **i.e. The County coordinates the development of the capital budget with the development of the operating budget.**
- **Goal: The County believes in funding a significant portion of capital improvements on a cash basis.**
 - **“Pay- Go” - The County’s goal is that the budgeted net transfer to Capital after debt service would be 3% of General Fund Revenues.**
- ✓ **Fiscal Practice: The CIP Five Year Program Model to include a remainder of \$2 million in CIP Fund Balance at the end of its Five Year time period.**

GOAL: CIP EQUITY "PAY GO" FUNDING

General Fund Transfer to Debt & CIP



General Fund Transfer to CIP as a % of General Fund Revenues

■ Debt Service (Priority)

■ Net General Fund Transfer (CIP Pay-Go)

FY 18-FY 22

RECOMMENDED
BUDGET

CIP/DEBT
MODEL

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Financial Summary <i>Net of Transfers</i>	FY 17	FY 18 Recommended Debt and CIP					Total
	Projected	FY 18	FY 19	FY 20	FY 21	FY 22	FY 18-22
General Fund Transfers							
<i>Estimated Additional Pennies Required</i>							
<i>CIP</i>			0.20	2.00			
<i>'16 Referendum for School Projects^</i>			1.30				
Total General Fund Transfer (\$22.3	\$24.3	\$27.4	\$31.8	\$32.4	\$33.2	\$149.2
^The operating impacts associated with the '16 Referendum school projects is already reduced from the transfer							
DEBT SERVICE OBLIGATION							
GFT to Debt Service	\$20.7	\$23.5	\$24.4	\$24.9	\$25.6	\$26.9	\$125.4
CAPITAL PROGRAM REVIEW							
CIP Pay-Go (GFT)	\$1.6	\$0.8	\$3.0	\$6.8	\$6.8	\$6.3	\$23.8
Other CIP Revenues	\$18.6	\$3.0	\$5.6	\$8.7	\$2.3	\$2.3	\$22.0
Borrowed Proceeds	\$59.3	\$13.0	\$11.5	\$32.0	\$12.4	\$23.4	\$92.4
Total CIP Revenues	\$79.5	\$16.9	\$20.1	\$47.6	\$21.6	\$32.0	\$138.2
Beginning CIP Fund Balance	\$36.8	\$41.2	\$17.7	\$1.4	\$2.0	\$2.8	
Total Available CIP Revenue	\$116.3	\$58.2	\$37.8	\$49.0	\$23.6	\$34.9	
Projects	\$75.1	\$40.5	\$36.4	\$47.0	\$20.7	\$32.9	\$177.4
CIP Fund Balance* Estimate	\$41.2	\$17.7	\$1.4	\$2.0	\$2.8	\$2.0	

* A portion of the Fund Balance is restricted/ reserved for specific uses

DEBT MANAGEMENT

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- Supports the principle that projects are paid for over the useful life of the asset over time by those taxpayers who enjoy the use of the asset or improvement.
- The County can employ various types of debt vehicles, including lease/revenue bonds, General Obligation (GO) Bonds through Economic Development Authority (EDA); Virginia Public School Authority (VPSA) Pool funding, and GO Bonds issued through referendum.
- The County strictly adheres to its debt service financial policies.
- The Chapter includes long-term debt obligations, Debt Service Funds, and the Amortization Schedule.

DEBT SERVICE MANAGEMENT

KEY DEBT POLICIES/GOALS

- ✓ **Payout Ratio:** The County intends to maintain a 10 year payout ratio at or above 60% at the end of each adopted five-year CIP for tax-supported debt and lease payments.

The payout ratio as of 2026 is 67.80%.

- ✓ **Useful Life:** When the County finances capital improvements or other projects through bonds or capital leases, it will repay the debt within a period not to exceed the expected useful life of the projects.

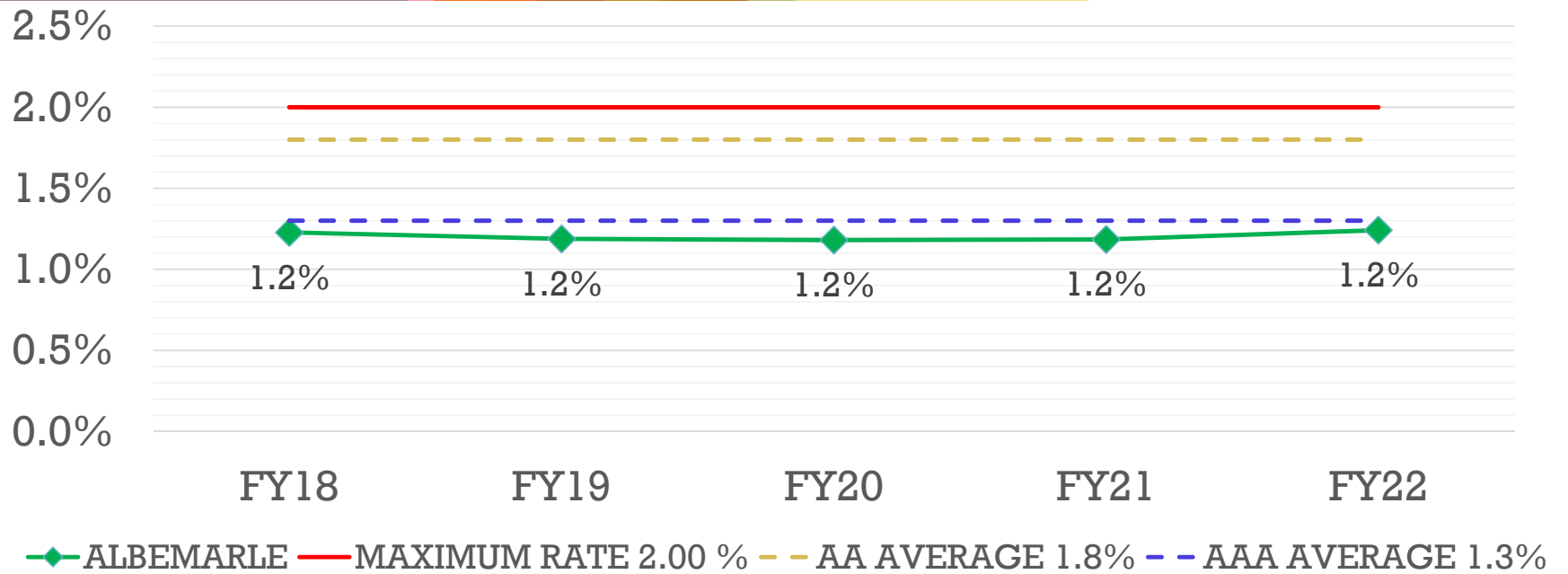
- ✓ **The County's target debt ratios are calculated annually:**

- Debt as a percentage of the estimated market value of taxable property should not exceed 2%; and
- The ratio of debt service expenditures to General Fund and School Fund revenues should not exceed 10%

DEBT SERVICE MANAGEMENT

KEY DEBT POLICIES/GOALS

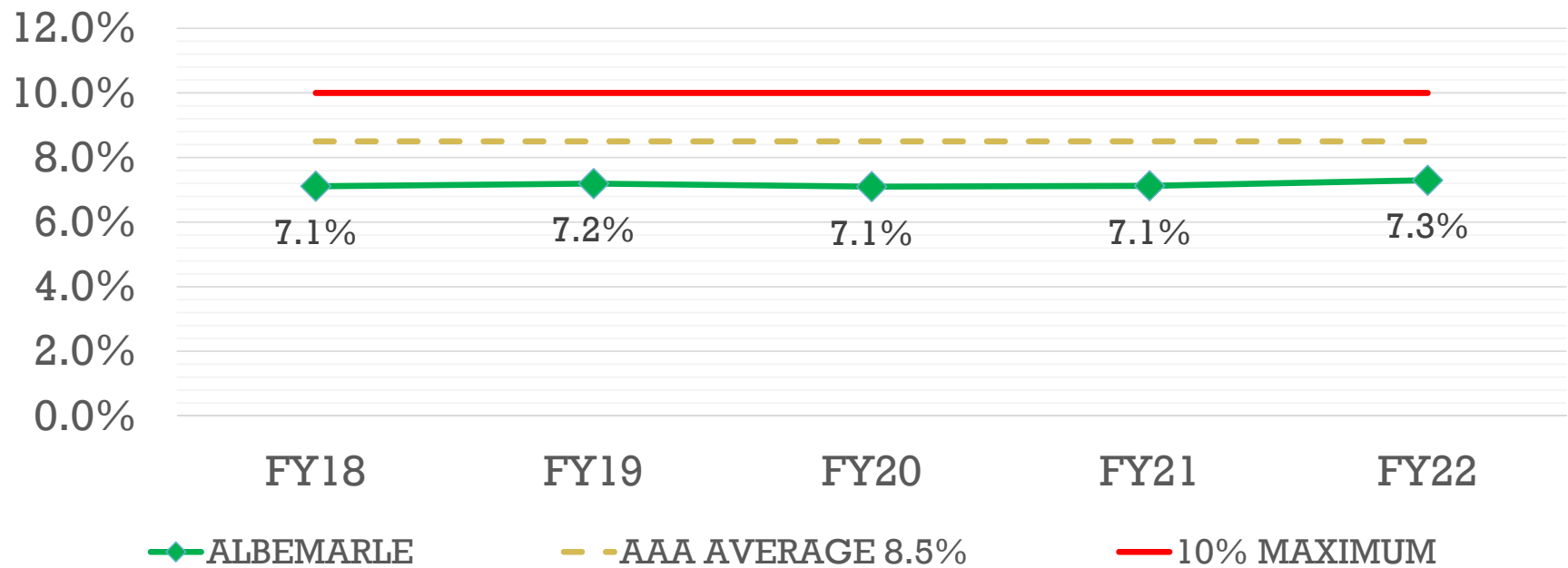
Outstanding Debt as Percentage of Market Value of Taxable Property Does Not Exceed 2%



DEBT SERVICE MANAGEMENT

KEY DEBT POLICIES/GOALS

Ratio of Debt Service Expenditures to General Fund and School Fund Revenues Does Not Exceed 10%



LOOKING AHEAD - STAFF RECOMMENDATIONS

1. Incorporate actual interest rates
2. Approach to rising construction costs
3. Appropriation/timing adjustments for School projects
4. Upcoming long-range planning meeting

INCORPORATE ACTUAL INTEREST RATES

	General Obligation Bond Issuance \$33M	Lease Revenue Bond Issuance \$24M	Total Impact
Interest Rate Reductions	Model: 4.25% Actual: 2.88%	Model: 4.50% Actual: 2.94%	
Annual Impact	-\$0.3M	-\$0.2M	-\$0.5M
Five-year Impact	-\$1.4M	-\$1.1M	-\$2.5M
Term of Loan Impact	-\$5.7M	-\$3.7M	-\$9.4M

Recommendation 1: include these updates in the FY 18 *Proposed* Budget, and hold these savings as a reserve at this time.

CONSTRUCTION COSTS

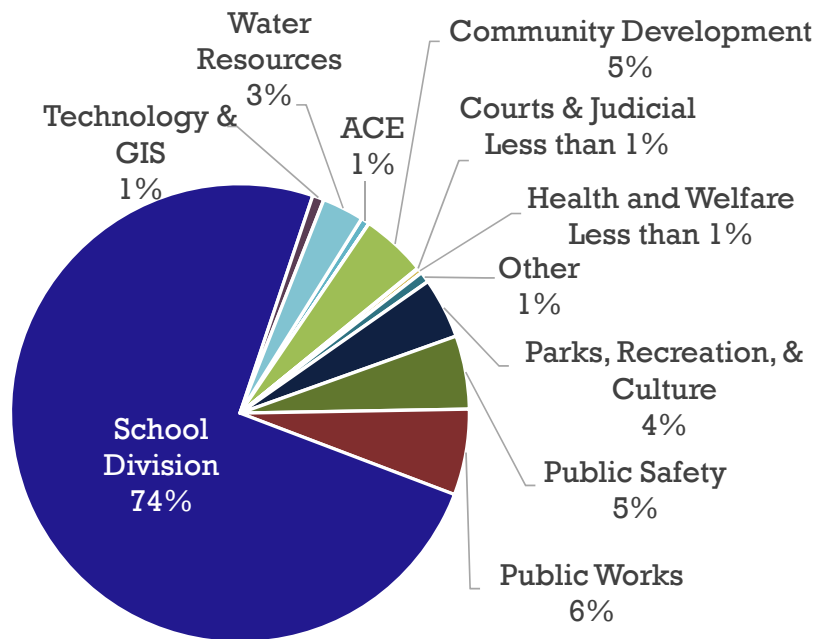
- Rising Construction Costs
 - Anticipating increased costs over the next year
 - Recent County experiences
 - Feedback from architects on other VA projects
 - Rising Construction Costs driven by shortages in sub contractor pools
 - The industry lost more than 40% — or 2.3 million members — of its workforce from April 2006 to January 2011*
 - 6 in 10 construction workers who lost their jobs during the recession went to work in another sector or left the job market entirely by 2013, according to data from the Bureau of Labor Statistics*
- Value Engineering, bid strategies with bid alternatives, bid deductions and ample fund balance needed to account for rising costs

*Source: 4 ways builders are working around the labor shortage, 2/8/17

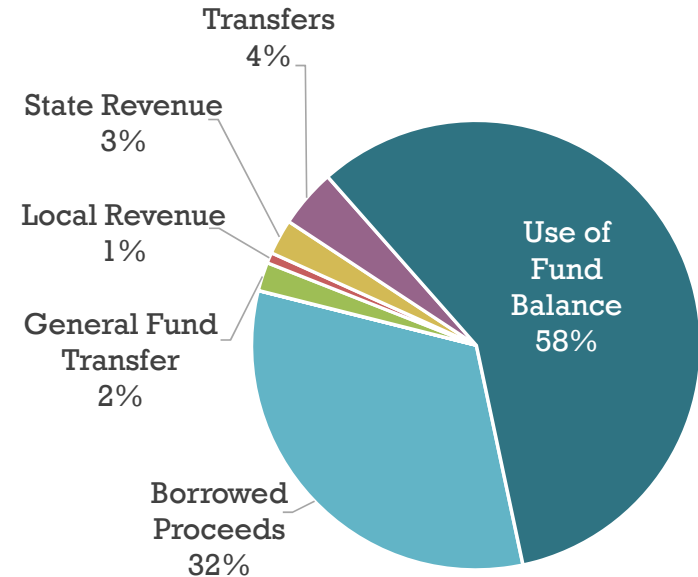
Recommendation 2: Restrict or prioritize the use of interest savings reserved in Recommendation 1

FY 18 CAPITAL BUDGET

Expenditures \$40.5M



Revenues \$40.5M



APPROPRIATION TIMING ADJUSTMENTS FOR SCHOOL PROJECTS

Challenges

- The County does not have enabling authority from State (at this time) to appropriate multi-year CIP projects that exceed a fiscal year
- School Division desires to complete CIP projects in the Summer when children are out of school
- Resolution of Appropriation for a FY Budget begins on July 1
- Schools cannot enter into contracts until CIP appropriations are approved by Board and they do not have authority to expend \$ until July 1
 - √ **Long Lead Times – Delayed Project Starts**
 - √ **Concentrated Purchasing ‘Season’ - (Purchasing Department)**
 - √ **Competitive Disadvantage**
 - √ **Summer Work Crosses Fiscal Years (Accounting/OMB/PMD)**

RECOMMENDATION 3

ADJUST APPROPRIATION TIMING FOR SCHOOLS

CONSIDER REQUESTING ENABLING AUTHORITY TO BE ABLE TO APPROPRIATE CIP PROJECTS AS MULTI-YEAR PROJECTS.

- **This year:**

- Appropriate the School's FY 18 approved CIP projects that need to start in FY 17 next month – April.
- Appropriate these same CIP projects for FY 18 (July 1) and de-obligate any expenditures that occurred in April, May, or June through our current carry-forward process
 - Supports best practices for timing of contracts, ordering lead items and projects will be best positioned for success
 - More efficiently resolves the accounting issues with cross-FY spending

- **Future:**

- Plan, budget, and appropriate School CIP projects so that they begin when needed, instead of July 1
 - For example, move FY 19 projects that need to get underway in spring FY 18 into the FY 18 Budget
- Consider requesting enabling authority from the State so that the County can appropriate CIP projects as multi-year projects

NEXT YEAR, CONSIDER REQUESTING ENABLING AUTHORITY TO BE ABLE TO APPROPRIATE CIP PROJECTS AS MULTI-YEAR PROJECTS

State Code § 15.2-520 currently reads:

No money shall be drawn from the treasury of the county, nor shall any obligation for the expenditure of money be incurred, except pursuant to appropriation resolutions.

Funds appropriated for outstanding grants, however, may be carried over for one year without being reappropriated.

Accounts shall be kept for each item of appropriation made by the board. Each such account shall show in detail the appropriations made thereto, the amount drawn thereon, the unpaid obligation charged against it, and the unencumbered balance in the appropriation account, properly chargeable, sufficient to meet the obligation entailed by contract, agreement or order.

RECOMMENDATION 4: LONG-RANGE PLANNING

- To be scheduled: meeting with OSC to review over all process, including definitions and ranking matrices
- Scheduled: Joint BOS/School Board meeting - May 2017
 - Planning and Assessment of Future Capital Needs
 - Schools and General Government
 - Future Bond Referendums/timing

FY 18 RECOMMENDED CAPITAL BUDGET, CIP, & DEBT MANAGEMENT

QUESTIONS?

SUMMARY

- ❖ Board members received overview of the County Executive's Recommended FY18 Capital Budget and FY 18-FY 22 Capital Improvement Plan (CIP) to include:
 - Revenues and expenditures
 - Summary of projects
 - Financial policies and goals
 - County debt and debt service
- ❖ Board members provided input on staff recommendations:
 - Incorporation of actual interest rates
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 - Appropriation/timing adjustments for School Projects
 - Upcoming long-range planning meeting

Schedule

March 2 ✓

- CIP
- Debt

March 7

- Finalize Tax Rate for Advertising
- Begin Discussing items on "List"

March 28

- Fire Rescue Presentation/ Discussion
- Finalize Discussion on "List"
- Board approves Proposed Budget

*Work Session Placeholder
March 30th – if needed

April 11

- Public Hearing on Board's Proposed Budget
- Public Hearing on Tax Rate

April 18

- Set Tax Rate and Approve Budget