

AT A BUDGET RETREAT OF THE BOARD OF SUPERVISORS OF THE COUNTY OF JAMES CITY, VIRGINIA, HELD ON THE 26TH DAY OF JANUARY 2013, AT 9:20 A.M. IN THE COUNTY GOVERNMENT CENTER BOARD ROOM, 101 MOUNTS BAY ROAD, JAMES CITY COUNTY, VIRGINIA.

A. CALL TO ORDER

B. ROLL CALL

John J. McGlennon, Chairman, Roberts District
Mary K. Jones, Vice Chairman, Berkeley District
James G. Kennedy, Stonehouse District
James O. Icenhour, Jr., Jamestown District

Robert C. Middaugh, County Administrator

C. UPDATES

Mr. Middaugh stated that this is the beginning of the budget process and he has not yet formulated a recommended budget. He said this retreat is an opportunity for the Board to ask questions and provide guidance.

Mr. John McDonald, Director of Financial and Management Services, reviewed current Federal fiscal trends. He noted that the initial fiscal cliff has passed and that sequestration and decisions on the debt ceiling had been postponed. He said there also had not been any reforms to entitlement programs. He stated that the social security tax holiday had expired and that the Navy was implementing budget cuts that would have an estimated \$1.5 billion impact on Hampton Roads. Mr. McDonald explained that the Federal government had not approved an official budget since 2009. He said that the Federal government has been operating on a series of continuing resolutions and is borrowing money to pay operating expenses. He further said this was in contrast to the County, which borrows only for capital projects that last longer than the debt. He said there is an opportunity to borrow now because interest rates are low.

Mr. Kennedy asked about the impact of the worst case scenario of sequestration on the County.

Mr. McDonald said it would affect agencies that the County funds, such as education, health, and transit. Mr. McDonald shared several other trends at the national level. He stated that the Dow Jones Industrial Average is at a five-year high and that housing starts have increased 37 percent from December 2012 compared to December 2011. He also said that Gross Domestic Product is forecasted to grow 2.62 percent in 2013 and 4.15 percent in 2014. He also noted that unemployment in Virginia is 5.5 percent, which is the lowest level since December 2008.

Ms. Sue Mellen, Assistant Director of Financial and Management Services, reviewed current State fiscal trends. She said that the Governor's budget amendments keep intact the pay raise of 2 percent, increase estimates for the State Sales Tax for Education, eliminate locality aid to State Government, and include new transportation and education proposals. Ms. Mellen noted that the 2 percent State pay raise applies to teachers, but only to those covered by the Standards of Quality, which is about 60 percent of the Williamsburg-James

City County (WJCC) school teachers. The composite index also applies. As a result, the pay raise amounts to \$2 million, but only \$300,000 would be funded by the State.

Mr. Middaugh provided an overview of local fiscal trends. He stated that the County is in a relatively strong financial position because of conservative fiscal management. He noted that the expenditures in the FY 14 planned budget are less than the FY 08 budget. He also said that per capita expenditures in the FY 14 planned budget are less than the FY 01 budget.

Mr. Middaugh provided a brief overview of the FY 14 plan, which includes:

- Modest increase in revenues
- Support position for the Police Department
- Set aside for salary increases for County employees
- Funds for Stormwater
- Capital Improvement Program
- No New Debt

Mr. Middaugh noted that he does not think the County will need to spend as much on stormwater as was believed last year, because previous actions had positioned the County well to address mandates. He said, however, that there is still work that must be done and it is not an option.

Mr. McGlennon asked how much debt the County retires this year.

Mr. McDonald replied \$16 million. He also stated that the County's debt has declined over the past four or five years.

Mr. Middaugh shared with the Board that the budget guidance he gave to the departments this year was that compensation was a high priority and there should be few changes to the plan. He reviewed that the FY 13 budget was \$165,630,000, the FY 14 Plan was \$167,950,000, and the FY 14 estimate is \$170,900,000. He stated that revenue estimated for recordation taxes had been adjusted up slightly since the November 2012 work session and the revenue estimated for sales, meals, and lodging had been adjusted down slightly.

Ms. Mellen stated that close sales are up by almost 19 percent.

Mr. Kennedy asked for the raw numbers and where the County was before the economic downturn. He also asked how many realtors there are in the County.

Mr. McDonald noted that the County's population was increasing faster than any other locality in the Hampton Roads region since the Census, the school enrollment continues to grow, and new construction is increasing.

Mr. Kennedy asked how much the school enrollment grew.

Mr. McDonald said that enrollment grew by 120 students this year.

Mr. Kennedy asked if staff had looked at sales tax increases and the relationship to Christmas Town and the Pottery.

Mr. Middaugh reviewed General Fund issues for FY 14. He said the plan included funds for a salary increase and the plan can be adjusted to provide a 3 percent salary increase without impact to the rest of the

budget. He said that he expects the School to ask for a 3 percent salary increase as well. He also stated that he expects them to request to complete the Virginia Retirement System (VRS) implementation of the transfer to employee contribution.

Mr. Middaugh provided an overview of health care issues, including Health Care Reform and insurance rates. He said that the costs associated with Health Care Reform are manageable. He stated that the biggest impact is providing health insurance to employees who work 30 hours per week and that the County was trying to limit the number of part-time employees who work as much as 30 hours per week. He stated that the plan assumes a 10 percent increase and staff currently expects the rate increase to be just below that.

Mr. Kennedy asked how much money the 10 percent increase would cost.

There was also discussion about the VRS hybrid plan, which applies to new employees hired after January 1, 2014 who have no previous VRS service. Cost to provide long and short term disability coverage for those employees will not be significant in FY 2014 and it does not apply to Police and Fire.

Mr. McGlennon suggested considering self-insuring.

Mr. Middaugh reviewed other issues. He said that he is not going to propose a change in how the County manages solid waste and recycling.

Mr. Icenhour asked about the mandate that requires a 25 percent recycling rate.

Mr. John Horne, Director of General Services, stated that the County exceeds the mandate, but not by much. This is similar to surrounding localities.

Mr. Middaugh noted that there are no initiatives for greenspace in the plan. He also said that there are currently no funds for the Virginia Department of Transportation (VDOT) revenue sharing match. He said there are three revenue sharing projects approved by the Board, but not funded in FY 14. He said that he believes localities will have to provide more funding in the future for secondary road improvements. He said that a decal fee could help fund this need.

Ms. Jones said that she thought the Board should wait before considering a decal fee. She also stated that she does not approve extending the deadline for borrowing funds for greenspace.

Mr. McGlennon said that he supports borrowing for greenspace. He asked how much match funds were needed for the three revenue sharing projects for FY 14.

Mr. Middaugh responded \$225,000, but said he thought the needed funds would grow in future years. He said there are 60,000 vehicles in the County.

Mr. Kennedy said that he would prefer to find funds for secondary road match in the General Fund without implementing a new fee.

Mr. Icenhour asked about administering these projects locally.

Mr. Horne said that the County should try to get VDOT to manage these projects, as administering them locally under VDOT regulations is daunting.

Mr. Kennedy said he is concerned that a precedent is set that the County is providing match and the State expects it. He is also concerned that these types of projects will become politicized locally with the potential for imbalance among election districts.

Mr. Middaugh said that the Schools may request additional funds for security and a central office building.

Mr. Kennedy said that he would like to see cost estimates for various options prior to the budget. He also asked for a preview of future County debt.

Mr. Icenhour asked if maintenance had been sufficient during the last few years.

Mr. Horne replied that he thought capital maintenance had been sustained.

Mr. Kennedy asked what the total average cost per employee would be of increased health care costs, including those related to health care reform and salary increases. He said he would like to know what other localities are doing about paying for health care cost increases.

Mr. Icenhour said that he would like to fund the match for the three revenue sharing projects. He said that he wanted to make sure the agenda for the joint meeting with Schools included discussion of the central office.

Mr. Kennedy asked to see historical data on pay increases and bonuses for the County and Schools since FY 2009. He asked to see health care increases since FY 2009 and the employee share of health care since FY 2009. He also asked to see historical information on VRS increases.

Mr. McGlennon asked how many employees had their hours reduced to below 30 hours per week.

Mr. Kennedy asked how many businesses closed, opened, and relocated last year. He also asked for more historical information about the Business, Professional, and Occupational License (BPOL).

Ms. Jones asked for the BPOL information that was developed for the Financial Trends work session. She stated that she shared Mr. Kennedy's concerns about delving into revenue sharing on road projects with a new fee. She asked for a current list of County memberships and their cost. She also asked for the increased cost per employee for health care.

Mr. Kennedy asked if there was any way to calculate the reduced income per household. He asked if Olde Towne Medical Center (OTMC) was seeing more patients and asked about the usage of seniors for the tax reduction program. He said that he may not support a pay increase since the bonus was approved. He said that if he did support a pay increase, he would not support a bonus at the end of this calendar year.

Mr. Middaugh said that he would not propose a bonus if a pay increase was approved.

Mr. Kennedy asked about the impact on James City County of the \$1.5 billion impact of the Navy reductions.

Mr. Middaugh said that the County should develop its budget based on an assumption that Congress will act rationally.

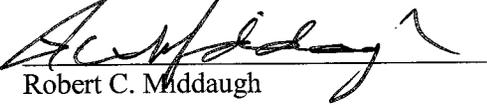
Mr. Kennedy said that he would like to see the County become more aggressive with economic development.

Mr. Icenhour made a motion to adjourn to 9:30 a.m. on January 31 in the parking lot and to 7 p.m. on February 12.

On a roll call vote, the vote was: AYE: Icenhour, Kennedy, Jones, McGlennon (4). NAY (0).

D. ADJOURNMENT

The Board adjourned at 11:05 a.m.


Robert C. Middaugh
Clerk to the Board

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