MINUTES
BOARD OF SUPERVISORS
COUNTY OF YORK

Adjourned Meeting
April 30, 2013

6:00 p.m.

Meeting Convened. An Adjourned Meeting of the York County Board of Supervisors was called to order at 6:01 p.m., Tuesday, April 30, 2013, in the East Room, York Hall, by Chairman Walter C. Zaremba.

Attendance. The following members of the Board of Supervisors were present: Walter C. Zaremba, Sheila S. Noll, Donald E. Wiggins, George S. Hrichak, and Thomas G. Shepperd, Jr.

Also in attendance were James O. McReynolds, County Administrator; J. Mark Carter, Assistant County Administrator; Vivian A. Calkins-McGettigan, Deputy County Administrator; and James E. Barnett, County Attorney.

WORK SESSION

PROPOSED FISCAL YEAR 2014 BUDGET

Mr. McReynolds started his presentation with a recap of some of the information that had previously been presented to the Board. He stated both he and staff were prepared to answer any questions the Board might have. He noted that based on the Board's previous discussions, staff had tried to pull together some information that hopefully the Board would find to be useful. The proposed budget that had been presented in March was $131.2 million along with a proposed tax rate increase of 2.3 cents which would bring the rate as proposed to 76.45 cents per $100 of valuation. He reviewed the proposed tax rates, stating that only the real estate tax, which also applies to mobile homes, was proposed to change.

Chairman Zaremba asked Mr. McReynolds to explain the information regarding disabled veterans.

Mr. McReynolds stated that disabled veterans were entitled to a lower rate on one vehicle which was the rate of $1.00 per each $100 of value instead of $4.00 per $100 of value.

Chairman Zaremba asked if the 100 percent disability requirement was determined by the Veterans Administration.

Mr. Barnett stated there was a state statute that authorized local governments to exercise discretionary authority, but it was not a requirement.

Mr. Shepperd asked if the figures were available for the amounts that the County received on the personal property, the machines and tools, mobile homes, and boats and watercraft based on these rates.

Mr. McReynolds stated the personal property figure was somewhere in the neighborhood of $14 or $15 million, and machinery and tools was about $4 million.

Mrs. Sharon Day, Controller, stated the machinery and tools tax had been the one tax that took a big hit from the closing of the Yorktown refinery so that was down quite a bit. She stated Mr. McReynolds was correct in that it has previously been about $4 million, but at this point it was closer to $300,000.

Discussion followed on the County's boat and watercraft tax rate in comparison with other localities.

Mr. McReynolds then reviewed the FY2014 Proposed Budget General Fund Expenditure Summary with school funding increasing by $2.3 million from FY2013 and all other functions only increasing by $1.7 million from FY2013.

Mr. Shepperd asked if the Capital Improvements Program (CIP) funding was included in the figures.

Mr. McReynolds stated the capital money for the schools was included in what was in the school funding, and the County's $150,000 contribution to the capital fund was also included. He stated the other functions included the debt payment as well as the $150,000 cash payment to the schools.

Mrs. Noll stated only $150,000 had been added for the other capital projects, and she asked if that was all that would be going into the CIP.

Mr. McReynolds stated the CIP has several million dollars that had accumulated and was available to apply so that the proposed capital program was at about $2 million, with $150,000 of that being pay as you go money. He stated the rest of the money was from the capital reserves.

Mrs. Noll asked Mr. McReynolds to translate the meaning of "pay as you go" money.

Mr. McReynolds stated that it was money that was not being borrowed and was funded out of the current 2014 budget.

Mr. Shepperd stated that in the past few years the normal contribution to the capital fund had only been $150,000 to $200,000 a year.

Mr. McReynolds noted that in years before that it had at times been over a $1 million, but over the last four years it had been cut back to the $150,000.

Chairman Zaremba asked how much of the $72.2 million and $59 million were for debt service.

Mr. McReynolds stated of the $59 million about $7.5 million was debt service for the schools, and a little over $2 million of the $72.2 million was debt service for the County.

Chairman Zaremba asked for what purpose most of the $7.5 million for the schools was allocated.

Mr. McReynolds stated he thought part of the allocation was still paying for the Grafton High/Middle School, so basically it had been for bricks and mortar, with some equipment and furnishings for the schools.

Discussion followed regarding concerns about the completion of Grafton High/Middle School construction.

Mr. McReynolds then reviewed the County and School Operating Budgets showing a perspective of how the components of the County's operating budget versus the Schools operating budget had changed since FY2009.

Chairman Zaremba asked what the primary drivers causing the school budget to increase from $115 million in FY2011 to $124 million as proposed for FY2014.

Mr. McReynolds stated he thought the bulk of it was the VRS cost and health insurance costs.

Mrs. Noll noted the schools had not added that many more employees.

Mr. McReynolds stated the School Division currently had fewer employees.

Mr. Shepperd stated when the County's operating budget was compared to the Schools' operating budget, the County budget was being bled dry, and the Board was starting to see where problems with some of the activities have become apparent to the community such as maintenance of the corridors and the lack of pay adjustments for the employees. He also addressed his concerns with professional staff having to take on administrative functions and the toll it has taken on the County. He indicated what he had taken away from the past two work sessions was that a huge amount has been taken from County funding to shore up all the mandates unfunded from the state on the School side.

Mr. Shepperd stated the bottom line was that the money had gone backwards in the County's operating budget that has to provide for increasing services from functions such as Fire and Life Safety, the Sheriff's deputies, and the people who provide accounting services. What is reversed never reverses, and adverse impacts were being felt in the Capital Improvements Program and other portions of the County operating budget.

Chairman Zaremba spoke of how the operating budgets had come down from 2009 until 2011, and he asked what had driven the drop. He also asked what was driving the schools operating budget back up again as he thought the school population had remained relatively stable at 12,500 students more or less.

Mr. McReynolds stated the number of students was down slightly, yet the County population had grown by a couple of thousand citizens.

Chairman Zaremba stated Mr. McReynolds had said that the growth in the operating budget for the schools from 2011 to 2014 was driven principally by VRS and health insurance costs, but he did not see the same growth on the County side. He realized the schools have more employees, and he asked what the ratio was between the schools and the County.

Mr. McReynolds stated the schools have about 1,700-1,800 employees, and the County has about 585 employees or so in the general fund.

Chairman Zaremba stated his recollection was that health care cost had increased by $2.8 million.

Mr. McReynolds stated that in 2014 the health insurance increase was a bigger portion than the VRS if the phase in of the VRS required contribution by employees was excluded; but if it was included, then the VRS cost was larger.

Chairman Zaremba asked if the schools' budget included a 5 percent contribution.

Mr. McReynolds stated the schools did 1 percent last year and still had the 4 percent remaining.

Discussion followed regarding the County's self-insured health program and the program's $2 million reserve fund.

Chairman Zaremba stated he did not know how the municipalities could continue to provide health care for its employees if the cost continues to increase at the rate it has.

Mr. Shepperd stated the bottom line was that the citizens were going to provide the funding if the County maintained what it was currently doing, and the Board will have to keep raising taxes. He stated the whole problem was that the County had decreased its budget while still trying to provide the same services, and the County's costs were continuing to increase. He felt that over time what had happened was the County had continued to fund what the elected school officials asked for, and now the schools were going to have to take on that responsibility.

Mr. Wiggins stated the citizens were adamant that they did not want the Board to cut the Sheriff's Department or the Fire and Life Safety Department, so that left 30 percent of the revenue for the rest of County after the schools took its cut. He stated the only way to reduce further cuts from the County's 30 percent was to reduce services.

Mr. Shepperd stated the County had already cut services, and his constituents were saying they wanted those services back. He stated he did not have enough visibility into the school funding.

Mr. McReynolds stated the County did everything it could to try and keep health insurance costs down. Deductibles had been increased, copays had been increased for medical services, and prescription copays had increased. He noted the County had looked at plans designed to hold down the cost as much as possible and had also looked at being fully insured as compared to being self-insured. He noted the costs were constantly monitored to keep them down, but it was not only governmental insurance rates that were going up, but it was across the board health insurance costs. Mr. McReynolds stated that over the past two years the County had passed on a proportionate share of the health insurance increases to the employees. The

School Division had not passed any of the increased costs to its employees, and it was his understanding that it did not have any increased cost to employees included in the FY2014 budget. The County had maintained the respective shares at 70/30, plus or minus, depending on the year. The increase for the School Division had been picked up by the employer, and none of that cost had passed to the Schools' employees.

Mr. Shepperd noted he understood that VRS was mandated, but health insurance and life insurance were something else. He asked what was mandated under health and life insurance provision.

Mr. McReynolds stated the County was mandated to provide life insurance, but there was more choice in how it was paid. He noted the County did not have to provide health insurance, except under the Patient Protection and Affordable Care Act the County would have to pay a penalty if it did not provide health insurance.

Mr. Shepperd stated in an earlier briefing regarding health insurance, it was made very clear that the value of health insurance and salary-related costs in the County's compensation package was a huge piece of the compensation package. He stated he would not be comfortable being the lone ranger removing health insurance leaving the other communities offering a more attractive compensation package.

Chairman Zaremba stated the presentation had been a very good review of the health program to include how the County's neighbors were doing—basically, everybody was doing the same thing with some variant selections. He asked if he was correct in saying the County has a policy that pays an employee for their unused vacation and sick days up to a cap and what the cap was based on.

Mr. McReynolds stated if an employee has been with the County for 15 years or more, the employee was entitled to 288 hours of annual leave paid out, which was the lowest payout in the region. Employees are entitled to up to $7,500 of sick leave paid out, which was not the lowest in the region, but it was in the lower end.

Discussion followed regarding the policy that allowed school employees to be paid for unused leave prior to their leaving School Division employment, as well as inequities between the budgets regarding employee compensation and on the extent of Board of Supervisors involvement in the School Board's budget.

Mr. Shepperd stated his sense was that the 2.3 cents that Mr. McReynolds had proposed was too much of an increase, but he was not saying it should be zero. He also felt that, looking at the CIP, if the Board took 1.5 to 2 percent from last year, it would probably be reasonable to increase the tax rate 1 cent which would give the schools about $1 million, and the County employees would still get a 2 percent pay raise.

Mr. Hrichak stated looking at the economic indicators from ODU's Economic Summit, the outlook for the Hampton Roads region was not expected to reach 2009 levels until the fourth quarter of 2014. He felt there was still a lot of uncertainty in the budgets with the sequestration and cuts at the federal level, so he would have a hard time approving a tax rate increase because of the unknown for all citizens and the schools this year. He stated if a salary increase was imperative, he thought it should be taken from the fund balance rather than from a tax increase.

Chairman Zaremba asked Mr. McReynolds to review the plan that called for no tax increase that had been presented to the Board early on in the budget cycle.

Mr. McReynolds reviewed the plan that would require about a $2.0 million dollar decrease in the budget which would roughly equate to 22 or so fewer County employees.

Discussion followed on the "no tax rate increase" plan.

Mrs. Noll stated she wanted the County budget to be maintained, and she did not want to see it cut anymore. She stated if the Board wanted to reduce the amount to the schools so that there was no tax increase, it would be fine as long as the County budget was maintained.

Mr. Shepperd stated he was proposing still giving over $1 million more to the schools than last year. He stated the 1 cent increase would give the County employees a 2 percent pay raise. He

stated the reason the 2 percent was important to him was because James City County was giving a 3 percent raise. York County and James City County employees sit side by side in the E911 Center; and if the County was going to be able to compete in those positions that have a big turnover, the County has to be able to be competitive in all areas of government.

Mr. Hrichak stated the County has a backlog of applicants for vacancies.

Mr. Shepperd agreed but stated he did not know their qualifications. He stated the County needed to be able to have an employee who has a fair wage and is going to be able to live up to a certain standard, and that was what his expectation and employees' expectations were. He stated the County needed to be able to attract qualified employees, and that was part of the reason why the 2 percent pay raise was important to him. His understanding was that since 2009 there has been about a 10 percent loss in the value of the employees' salaries, and that was why the 2 percent pay raise was important. He noted County employees had started losing value before the federal government froze salaries and before sequestration.

Chairman Zaremba stated he did not feel any of the Board was opposed to a 2 percent pay raise, but the issue was how to fund it. He stated if the tax rate increase could be dropped from 2.3 cents to 1 cent, then why not eliminate the increase entirely.

Mr. Shepperd stated cutting the tax rate increase completely would cut services.

Discussion followed on the future potential difficulties of filling County positions with qualified people if the County's pay scale falls below the regional norm and the current warning signs for filling qualified firefighter/EMT positions. It was also pointed out that there were County employees who were hired in 2009 who have not had a raise and are making the same salary as new employees in the same grades, causing compression issues.

Mr. Shepperd asked how much funding the proposed 2.3 cents tax increase would generate.

Mr. McReynolds stated it would generate about $2 million.

Mr. Shepperd noted the Board had already decreased the Superintendent's proposal by $600,000, and he asked if he was correct in saying the revenue generated by the 2.3 cents tax increase would all go to funding the schools.

Mr. McReynolds stated that was correct and then some.

Mr. Shepperd stated that was going in the wrong direction.

Chairman Zaremba asked where the County's 2 percent pay raise would come from since it would take the whole 2.3 cents increase to satisfy the School Division's 2 percent pay raise.

Mr. McReynolds stated the 2 percent pay raise for the County would come from the reductions that had been made along with 2 positions that were eliminated when the budget build started. He stated that, along with some revenue growth other than the real estate tax increase, would fund the County's pay raise and share of health insurance.

Mr. Shepperd stated with the 1-cent tax increase he was proposing, the money raised could be split with half going to the County and the other half to the School Division. He noted the money on the County side would be used to fill some holes that needed filling.

Mr. Hrichak asked about using the County's fund balance to provide the employee 2 percent pay increase.

Mr. McReynolds stated if the fund balance was used for a permanent pay increase, then it becomes a recurring cost. While he was optimistic the economy would continue to progress, he stated he was not optimistic that the County would see that much revenue growth. He noted the Board would still be facing the same cost increases.

Mr. Wiggins stated he felt if anything else were to be cut from the County's 30 percent side of the budget, the Board needed Mr. McReynolds to let them know where the cuts would have to be made and what services to the citizens it would affect. Mr. Wiggins stated he felt the County budget had been cut as far as it could be.

Discussion followed on the possibility of the Board voting on the proposed FY20 14 budget on May 2.

Mr. Shepperd suggested the Board members have a little one-on-one discussion, but he would be ready to vote on Thursday.

Mr. McReynolds stated that, based on the discussion this evening, he would send the Board some information on going with a 1-cent tax increase and how it could be handled.

Mrs. Noll asked if that would include a reduction in services to citizens because that was something she did not want to see happen.

Mr. McReynolds stated he would work with staff to see where there might be any room to maneuver without reducing services. He stated staff was constantly monitoring and making sure they squeeze out every penny.

Mr. Shepperd asked Mr. McReynolds to find out and share with the Board if the Schools' proposal was for 4 percent for VRS plus a 2 percent pay raise. He stated it was originally on track for the 1 percent as the Board had discussed last year.

Mr. McReynolds stated when the state adopted the legislation that required the employees to contribute 5 percent of their pay, it also mandated a 5 percent salary increase. He stated there was an option to do a 1 percent over 5 years or any increment thereof. He stated last year the School Division implemented the first 1 percent, so they are required this year to implement at least another 1 percent. He stated the proposal this year included the full 4 percent so if the Supervisors choose to go with just the 1 percent they could reduce the schools budget by about $450,000.

Mr. McReynolds reminded the Board of the work session on Thursday, May 2, stating the members would have the opportunity that night, if they so chose, to adopt the FY2014 budget, tax rates, and the CIP. He noted if the Board chooses not to adopt the budget on May 2, then it could be addressed on May 7.

Meeting Adjourned. At 7:48 p.m. Chairman Zaremba declared the meeting adjourned to 6:00 p.m., Thursday, May 2, 2013, in the East Room, York Hall, for the purpose of conducting a work session.

James O. McReynolds, Clerk
York County Board of Supervisors

Walter C. Zaremba, Chairman
York County Board of Supervisors