VIRGINIA: A SCHEDULED WORK SESSION MEETING OF THE SURRY COUNTY BOARD OF SUPERVISORS HELD IN THE GENERAL DISTRICT COURTROOM OF THE SURRY COUNTY GOVERNMENT CENTER ON MONDAY, MAY 8, 2023, AT 6 PM.

PRESENT: SUPERVISOR ROBERT ELLIOTT, JR.
SUPERVISOR JUDY LYTTLE
SUPERVISOR WILLIAM (TIM) CALHOUN
SUPERVISOR BRENTON BYRD
SUPERVISOR BREYON PIERCE

ABSENT:

ALSO
PRESENT: MS. LOLA PERKINS, COUNTY ATTORNEY
MS. MELISSA ROLLINS, COUNTY ADMINISTRATOR
MR. DAVID HARRISON, DEPUTY COUNTY ADMINISTRATOR
MS. DOREATHA PIERCE, COUNTY ADMINISTRATION
MR. DELON BROWN, NETWORK ADMINISTRATOR, IT DIRECTOR
MR. HORACE WADE, PLANNING & COMMUNITY DEVELOPMENT DIRECTOR
MR. RAY PHELPS, CHIEF OF EMERGENCY SERVICES
MR. JONATHAN JUDKINS, COMMISSIONER OF THE REVENUE
SHERIFF CARLOS TURNER, SURRY COUNTY SHERIFF'S DEPARTMENT

CALL TO ORDER/MOMENT OF SILENCE/PLEDGE OF ALLEGIANCE

The work session was called to order by Chair, Robert Elliott, Jr., who then explained that this budget work session stemmed from the previous regularly scheduled Board of Supervisors meeting. He advised that information and discussion on topics of interest would occur, and then the meeting would adjourn. He clarified this meeting would not have a public comments session, as this work session was to discuss what was brought to the Board from the comments of the previous meeting.

<u>Discussion Topic</u>

1. **FY 23-24 Proposed Budget**

Ms. Rollins, County Administrator briefed the Board on the previous discussion as it pertains to financing of certain capital projects utilizing in part two cents on the tax rate for the major parks and recreational initiatives in the proposed budget.

She invited Mr. Kyle Laux, Senior Vice-President of Davenport and County's financial advisor, to present information to the Board that would be helpful during further deliberations of the budget.

Mr. Laux gave an overview to the board on the County's financial position to include a debt service analysis, bond rating process, and proposed policy recommendations for the board to consider. (The presentation is attached as an integral component of the discussion).

Further discussion ensued amongst board members and staff on the capital improvement budget and the proposed planning for parks and recreation pool and other amenities.

Adjournment

There being no further business before the Board, Supervisor Pierce made a motion that the Board continues their meeting to Tuesday, May 16, 2023, at 7 pm. The motion was seconded by Supervisor Lyttle and unanimously approved.

The meeting Adjourned at 8:55 pm

Davenport & Company

Surry County, Virginia

Financial Advisory Update

May 8, 2023

Introduction

- On March 2nd, 2023, Davenport & Company LLC ("Davenport"), in our role as Financial Advisor to Surry County (the "County"), prepared and presented a Comprehensive Financial Update & Capital Planning Analysis to the Board of Supervisors and the public concerning the County's overall financial condition.

- Davenport examined, amongst other topics, the following:

    1. Current Financial Status of the County;
    2. Peer Comparatives;
    3. Financial Policies;
    4. Capital Funding Analysis;
    5. Existing Debt Profile; and
    6. Capital Improvement Needs & Funding Sources.

- At the March 2nd meeting, the over-arching goal of the discussion was to identify strategies to maintain and enhance the financial strength and stability of the General Fund, while also funding the County's important capital needs in a sustainable and financially responsible manner.

- In anticipation of the FY 2024 Budget, coupled with the recent results of the reassessment, Davenport has been asked to address the Board of Supervisors to recommended strategies and other financial considerations.

Current Financial Status of the County

- The County compares favorably to other neighboring Virginia Counties with respect to key demographic and economic indicators.

- While these demographic and economic indicators aren't directly within the County's immediate control, they are important to outside lenders/rating agencies/investors when deciding whether to lend to or otherwise invest in the County.

- Based on the past five years of audited financial statements, the County has had solid cash-flow in the General Fund which has provided the flexibility to cash-fund most of its capital needs during the prior five year period.

- Unlike many of its peers, the County is unique in that its tax base and revenue stream are highly dependent on a single entity (i.e. the Dominion Surry Power Station, the "Power Plant").

- That being said, the County should continue to ensure it maintains substantial reserves given the uncertainty behind this single large tax payer.

Current Financial Status of the County (cont.)

- As presented at the March 2nd meeting, Davenport is recommending that the County memorialize a Fund Balance Policy that "maintains a minimum level of Unassigned Fund Balance at 15% of Governmental Expenditures(1) " to safeguard the County's financial strength and resilience for the future.

- Per the County's FY 2021 Audit, the Unassigned Fund Balance was roughly 31.6% of General Government Expenditures. However, per the FY 2022 Audit, the Unassigned Fund Balance level was slightly lower at 21.5%.
  - As such, the "cushion" relative to the 15% Unassigned Fund Balance Policy is at / below $2 million.

- The County's Unassigned Fund Balance is critical for a variety of reasons including (but not limited to) providing an ample buffer against potential revenue volatility in a downturn and helping the County to maximize its capital funding potential while minimizing the associated need for recurring revenues.

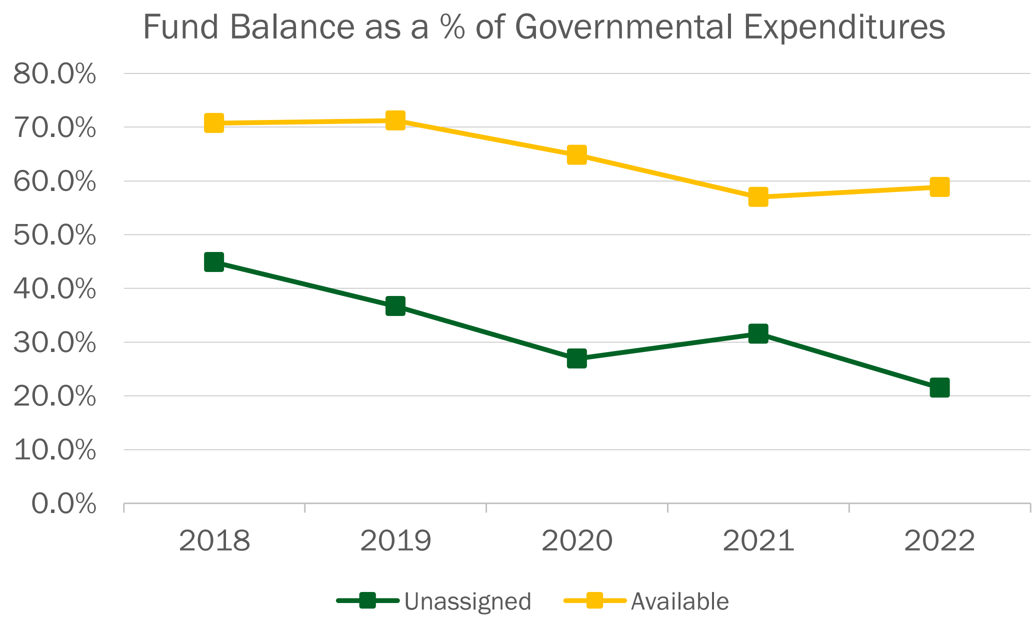
- The County has highly competitive Real Estate Tax Rates relative to peer Local Governments.

- The County's existing debt is very modest and is paid down quickly.

(1) General Government Expenditures are calculated as follows: General Fund Expenditures plus School Operating Expenditures less Local Government Revenue.

Unassigned Fund Balance – Historical Results

- The County's Unassigned Fund Balance level decreased in FY 2022.
- At the 15% recommended Unassigned Fund Balance Policy Level, the County will only have approximately $2 million in excess funds available for unforeseen expenses / cost increases. (Note: 15% of FY 2022 Governmental expenditures is equivalent to approximately $4.94 million)

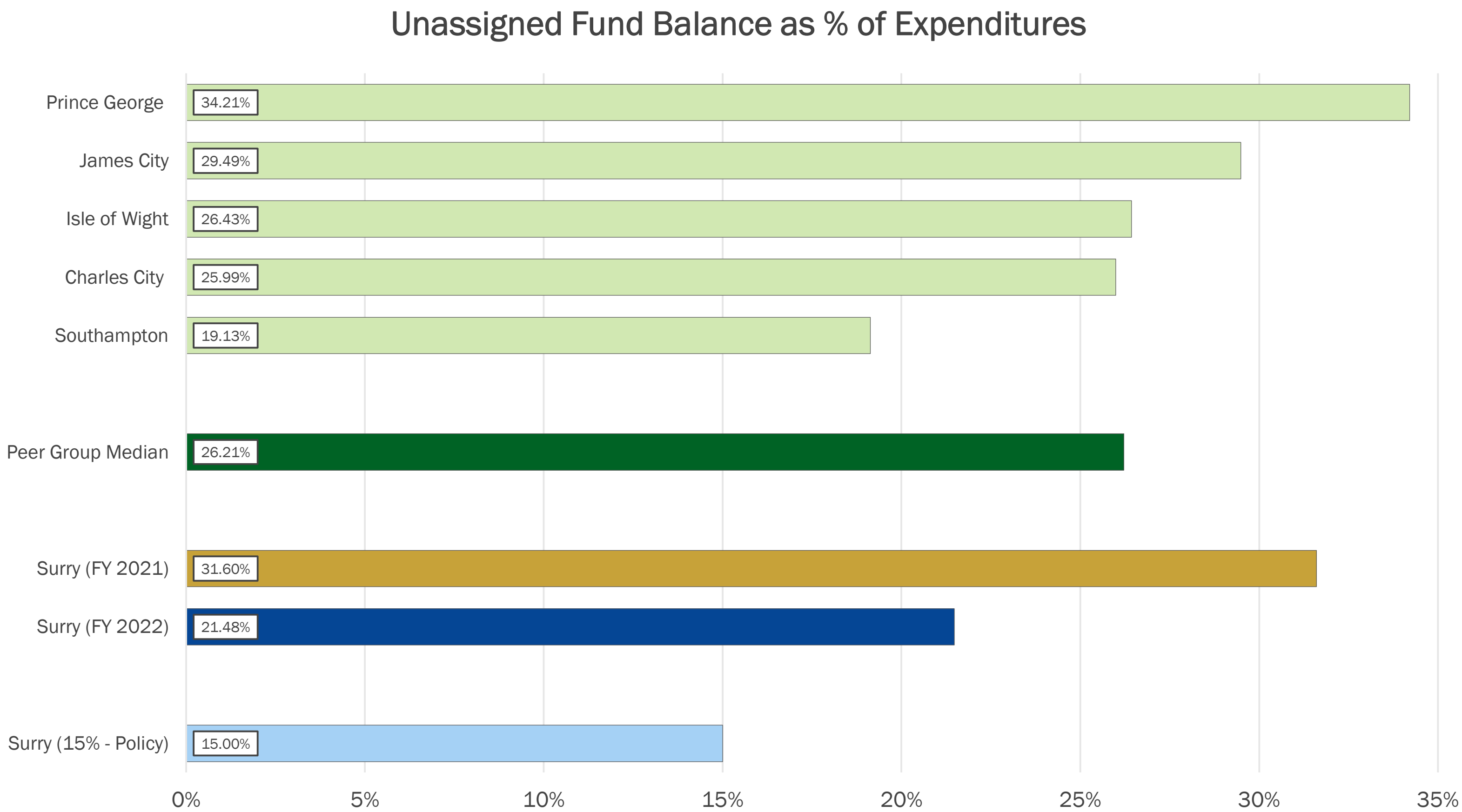


	Fiscal Year	2018	2019	2020	2021	2022
1	Governmental Expenditures	$28,500,289	$28,624,054	$29,271,466	$31,994,733	$32,946,715
2						
3	General Fund Balance					
4	Committed	$7,372,426	$9,900,350	$11,093,362	$8,130,065	$12,313,115
5	Unassigned	12,783,307	10,494,377	7,881,289	10,096,160	7,077,703
6	Total Available	$20,155,733	$20,394,727	$18,974,651	$18,226,225	$19,390,818
7						
8	General Fund Balance Ratios					
9	Unassigned as a % of Expenditures	44.9%	36.7%	26.9%	31.6%	21.5%
10	Available as a % of Expenditures	70.7%	71.3%	64.8%	57.0%	58.9%

(1) General Government Expenditures are calculated as follows: General Fund Expenditures plus School Operating Expenditures less Local Government Revenue.

Source: County Audits

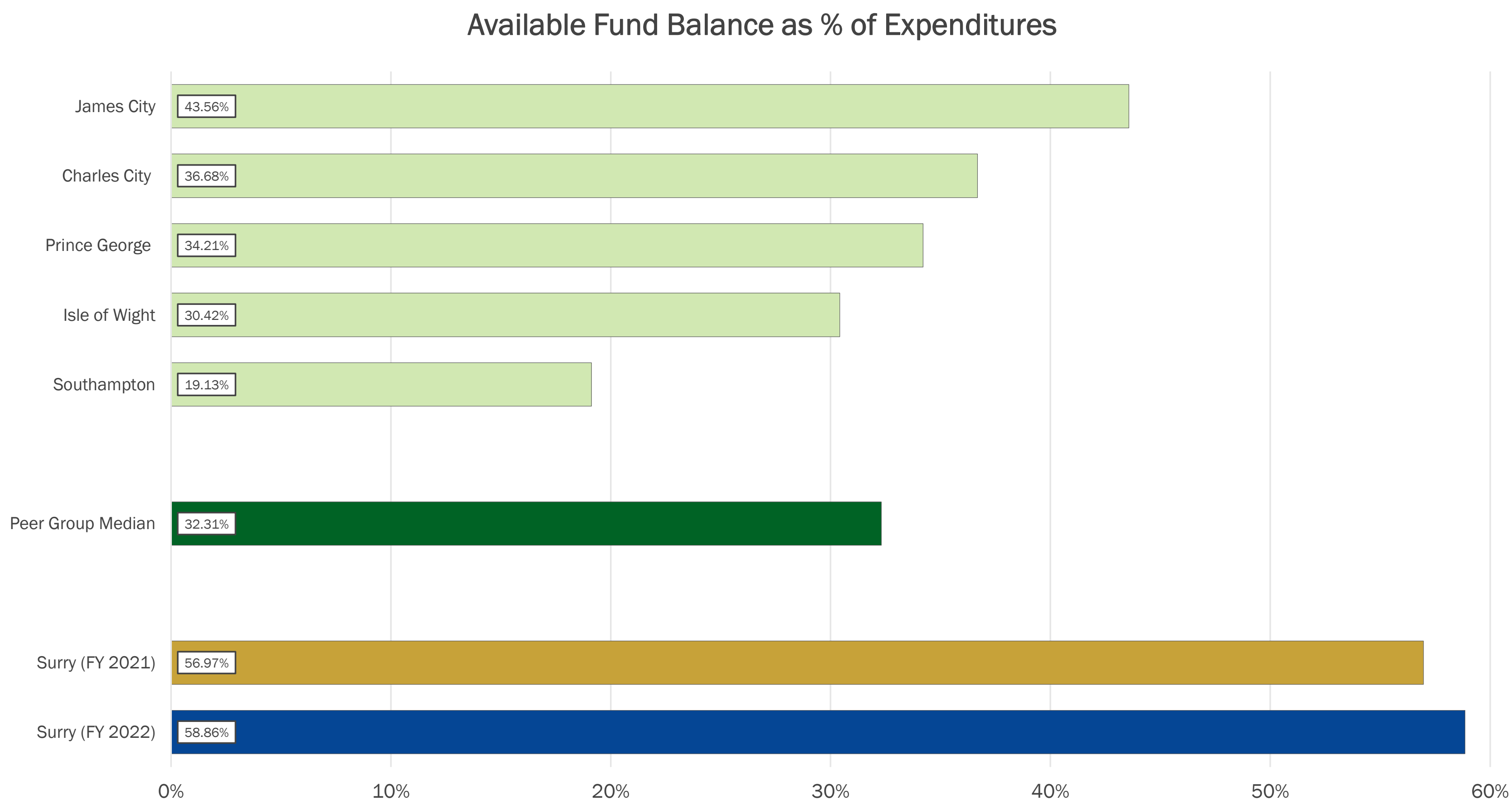
Unassigned Fund Balance as a % of Expenditures



Unassigned Fund Balance as a % of Expenditures is below peer medians as of FY 2022.

Source: Respective Locality Audits.

Available Fund Balance as a % of Expenditures



Available Fund Balance as a % of Expenditures is above all of its peers.

Source: Respective Locality Audits.

Capital Funding Analysis

- The County is refining its capital funding priorities as it finalizes the FY 2024 Budget.
- The County has identified a series of funding sources for capital including grants, recurring revenues, and borrowings.
- Given the positive impact of the most recent assessment, the County has an opportunity to proactively identify recurring revenues to responsibly fund these projects.

Reassessment

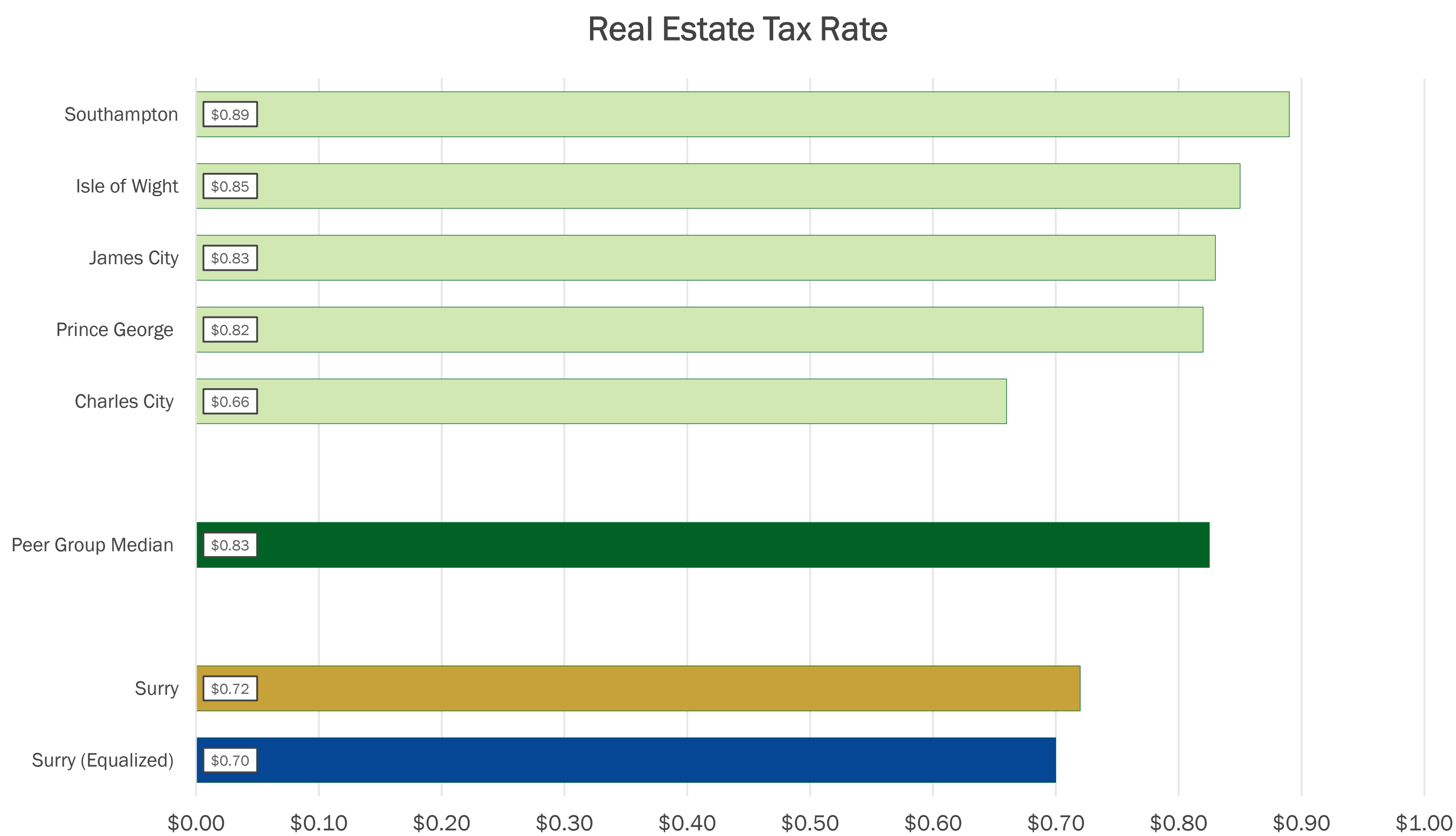
- The County's most recent reassessment will take effect in FY 2024.

- The increase in Assessed Values would result in the current 72 cent tax rate equalizing to 70 cents.
  - Surry County's current Real Estate Tax rate is the second lowest of all of its peer counties.

- Per the March 2nd Presentation, Davenport identified that 2 cents of the Real Estate Tax rate will give the County the ability to borrow approximately $8 million.

- With both the 2 cents of Real Estate Tax and the $8 million potential financing, the County still remains in-line with peer localities and key financial metrics.

Peer Comparative – Real Estate Tax Rate



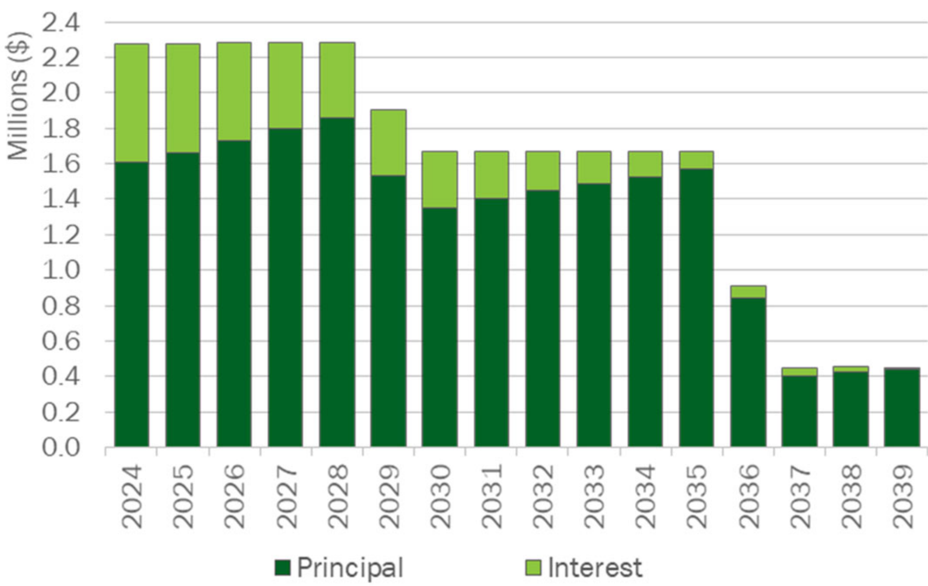
The Equalized Real Estate Tax Rate is 70 cents, and would still be the second lowest of all its peers.

Source: Most Recently Available Rates from Locality Websites/Budgets.

Existing Tax-Supported Debt Profile

- The County's Existing Tax-Supported Debt Service is shown as of 06/30/2023 (FY 2024).

- The County pays off its debt quickly, with a 10 Year Payout Ratio of 75%.

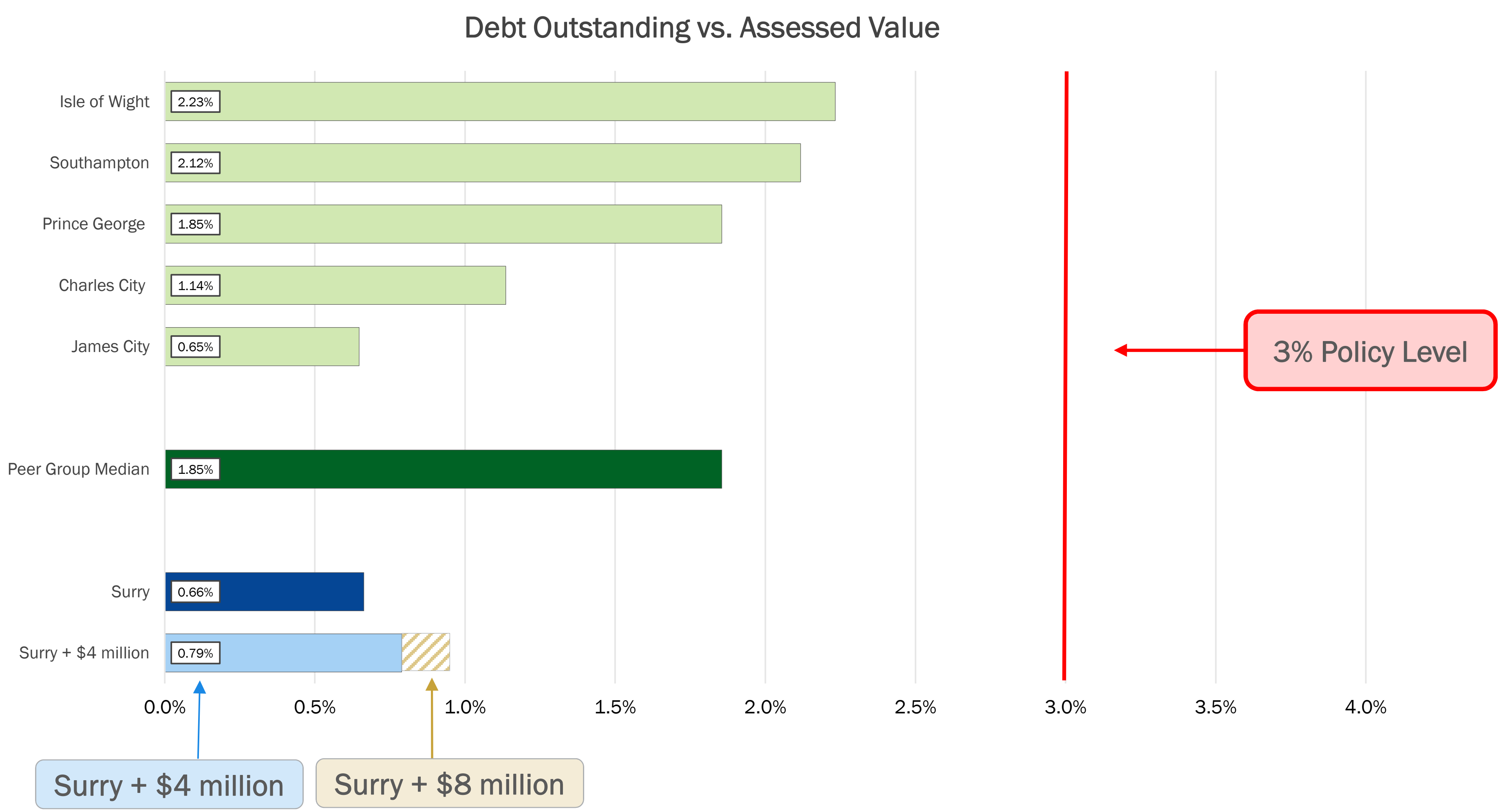


Total Tax-Supported Debt Service

FY	Principal	Interest	Total
Total	$21,075,000	$4,486,007	$25,561,007
2024	1,610,000	667,944	2,277,944
2025	1,660,000	612,024	2,272,024
2026	1,730,000	552,167	2,282,167
2027	1,795,000	489,997	2,284,997
2028	1,855,000	425,660	2,280,660
2029	1,535,000	365,201	1,900,201
2030	1,350,000	315,098	1,665,098
2031	1,400,000	268,179	1,668,179
2032	1,445,000	222,582	1,667,582
2033	1,485,000	181,485	1,666,485
2034	1,525,000	141,314	1,666,314
2035	1,570,000	99,265	1,669,265
2036	845,000	65,066	910,066
2037	405,000	44,034	449,034
2038	425,000	26,916	451,916
2039	440,000	9,075	449,075

Source: 2022 Audit / Davenport Debt Model.

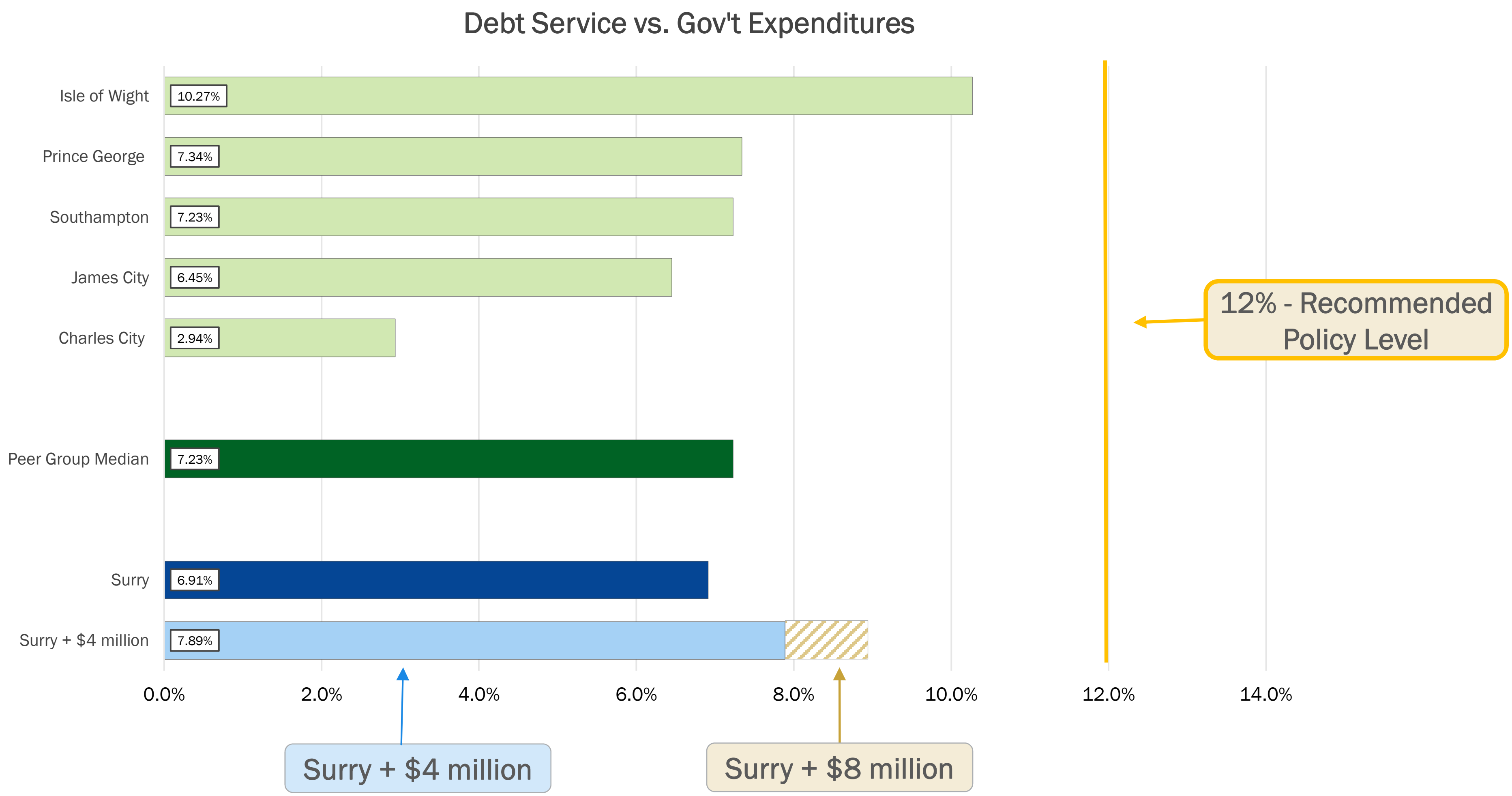
Peer Comparison – Existing Debt vs. Assessed Value



The County has minimal outstanding debt relative to its peers even with the $8 million financing.

Source: Respective Locality Audits.

Peer Comparison – Debt Service vs. Expenditures



The County's Debt Service vs. Expenditure Ratio is in-line with peer counties.

Source: Respective Locality Audits.

Credit Ratings - Introduction

- Surry County has been historically well-run from a financial perspective.

- The County is contemplating a series of capital investments into the future.

- Credit ratings provide local governments, like Surry, with the widest variety of financing options for capital projects.

- The County may want to consider obtaining one, or more, credit ratings as part of its CIP process during the balance of the calendar year.

- The following pages describe in summary form the rating agency criteria (i.e. how the rating agencies arrive at their credit ratings).

Rating Agency Criteria
(Moody's)

Methodology Update

- On November 2, 2022, Moody's updated its US Local Governments General Obligation Debt methodology and assumptions. Under the new methodology, an initial indicative rating is calculated from a weighted average of four key factors. Below the line qualitative adjustments can be made after the initial indicative rating.

Previous Scorecard		New Scorecard		Difference
1. Economy		1. Economy		
Full Value	10%	Resident Income	10%	
Full Value Per Capita	10%	Full Value Per Capita	10%	
Median Family Income	10%	Economic Growth	10%	
Subtotal	30%	Subtotal	30%	0%
2. Finances		2. Financial Performance		
Fund Balance % of Revenue	10%	Available Fund Balance Ratio	20%	
5-Yr $ Change Fund Balance % of Rev.	5%	Liquidity Ratio	10%	
Cash Balance as a % of Revenue	10%	(All Governmental and Enterprise Funds)		
5-Yr $ Change Cash Balance % of Rev.	5%			
Subtotal	30%	Subtotal	30%	0%
3. Management		3. Institutional Framework		
Institutional Framework	10%	Institutional Framework	10%	
5-Yr Avg. (Operating Rev./Operating Exp.)	10%			
Subtotal	20%	Subtotal	10%	-10% ⬇
4. Debt/Pensions		4. Leverage		
Net Direct Debt/Full Value	5%	Long-term Liabilities Ratio	20%	
Net Direct Debt/Operating Rev.	5%	Fixed-Costs Ratio	10%	
3-Yr Avg. ANPL/Full Value	5%	(All Governmental and Enterprise Funds)		
3-Yr Avg. ANPL/Operating Rev.	5%			
Subtotal	20%	Subtotal	30%	10% ⬆
Grand Total	100%	Grand Total	100%	

Source: Moody's Methodology published 11/02/22.

Rating Agency Methodology
(S&P)

- Standard & Poor's US Local Government General Obligation Ratings methodology is shown below.
  - An initial indicative rating is calculated from a weighted average of seven key factors:

	US Local Governments General Obligation Ratings Methodology	
1	Institutional Framework	10%
	Legal and practical environment in which the local gov't operates	
2	Economy	30%
	Total Market Value Per Capita	
	Projected per capita effective buying income as a % of US projected effective buying income	
3	Management	20%
	Impact of management conditions on the likelihood of repayment	
4	Budgetary Flexibility	10%
	Available Fund Balance as a % of Expenditures	
5	Budgetary Performance	10%
	Total Government Funds Net Result (%)	
	General Fund Net Revenue	
6	Liquidity	10%
	Total Gov't Available Cash as a % of Total Gov't Funds Debt Service	
	Total Gov't Cash as a % of Total Gov't Funds Expenditures	
7	Debt and Contingent Liabilities	10%
	Net Direct Debt as a % of Total Governmental Funds Revenue	
	Total Governmental Funds Debt Service as a % of Total Governmental Funds Expenditures	

Notes
- Rating Agency Criteria from Standard & Poor's.

Advantages of a Credit Rating

- From a financial and capital perspective, the County is well positioned to meet future challenges.

- As such, obtaining strong inaugural Issuer Credit Rating(s) from the National Credit Rating Agencies (i.e. Moody's, S&P, and Fitch) could produce multiple benefits for the County including, but not limited to:

  - Improving the favorability of interest rates and terms that the County could achieve for any potential future borrowings or refinancings;

  - Acting as a signal of strength to the business community about the governance, management, and financial health of the County, which can help further drive economic development opportunities;

  - Providing a basis of comparison between the County and other localities within the region and nationally;

  - Serving as an external and independent validation of the strength of County operations; and,

  - Acting as a "check and balance" in the event a future Board(s) move in a direction(s) that does not follow industry standard "best practices."

Observations

- Recognize that the substantial amount of economic growth that helped drive the increase in revenues and tax base during the last several years is unlikely to continue.

- Furthermore, the impact of inflation on operating and capital costs is likely to be felt for years to come.

- As such, consider setting the budget and tax rate in such a manner as to anticipate the need to ensure revenues keep pace with expenditures into the future and provide a margin for error.

- Also, recognize that Fund Balance is a critical safeguard to the County's financial well-being <u>and</u> has the ability to earn significant interest income compared to prior years.

- Interest rates for long-term borrowing remain favorable and are equal to or less than the amount that can be earned on investment funds.

- Borrowing for all or a portion for anticipated capital project while rates remain favorable can help the County to conserve its Fund Balance that can in-turn generate interest income.

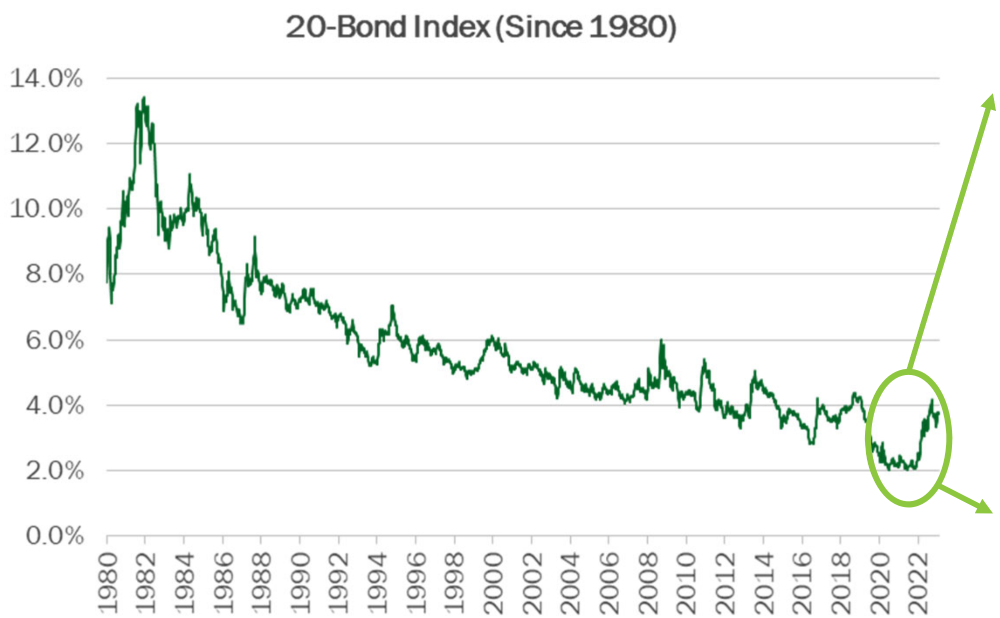
Next Steps

■ Monday, May 8, 2023	- Davenport to present the Financial Advisory Update to the Board of Supervisors.
■ Balance of Spring, 2023	- The County adopts the FY 2024 Budget. - The County adopts the new recommended Fund Balance Policy.
■ Summer / Fall, 2023	- County plans on initial financing for Capital Projects. - County considers taking initial steps to obtain a Credit Rating from the National Rating Agencies.

Appendix

Surry County, Virginia

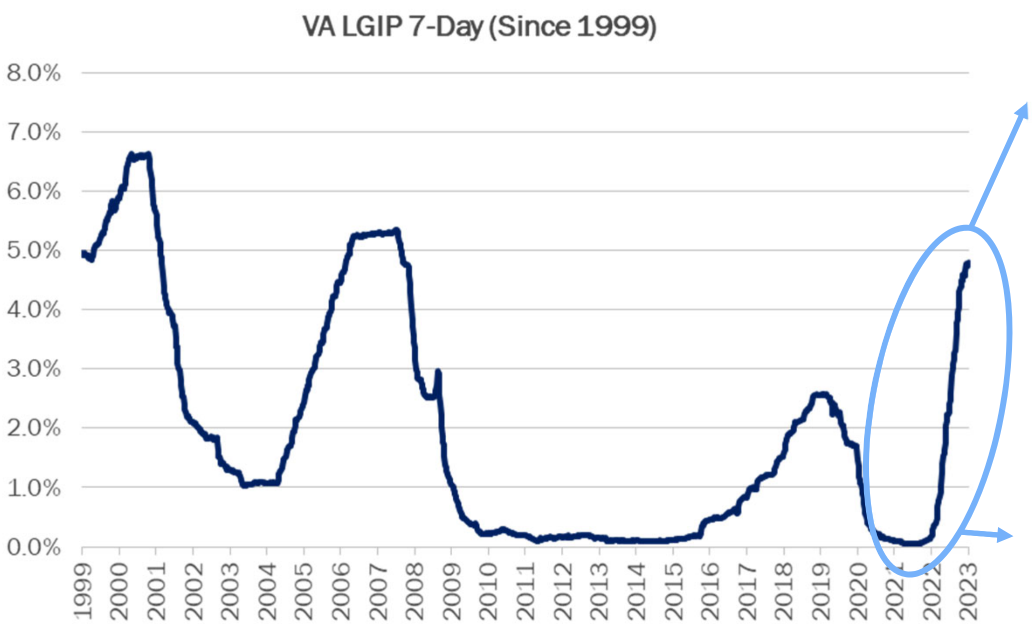
Interest Rate Trends | Tax-Exempt

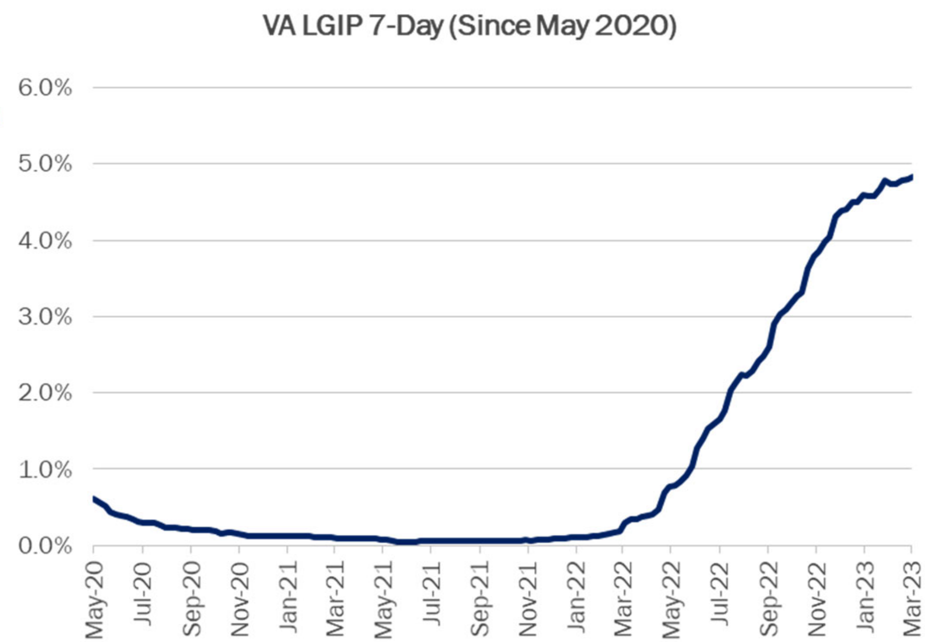


Interest rates have increased but remain at historically favorable levels.

The 20-year interest rates above show the Bond Buyer's "20-Bond Index" which consists of 20 tax-exempt bonds with an average rating of 'Aa2'/'AA' (Moody's / S&P) that mature in 20 years. The 20-Bond Index serves as a general indicator of prevailing interest rates for tax-exempt borrowers. Updated as of 03/23/2023.

Reinvestment Rate Trends | LGIP 7-Day Rate





Short-term reinvestment rates have increased to levels last seen over a decade ago.

The above charts show VA-LGIP 7 Day rate data as of March 23, 2023.

General Fund – Historical Results
Detailed

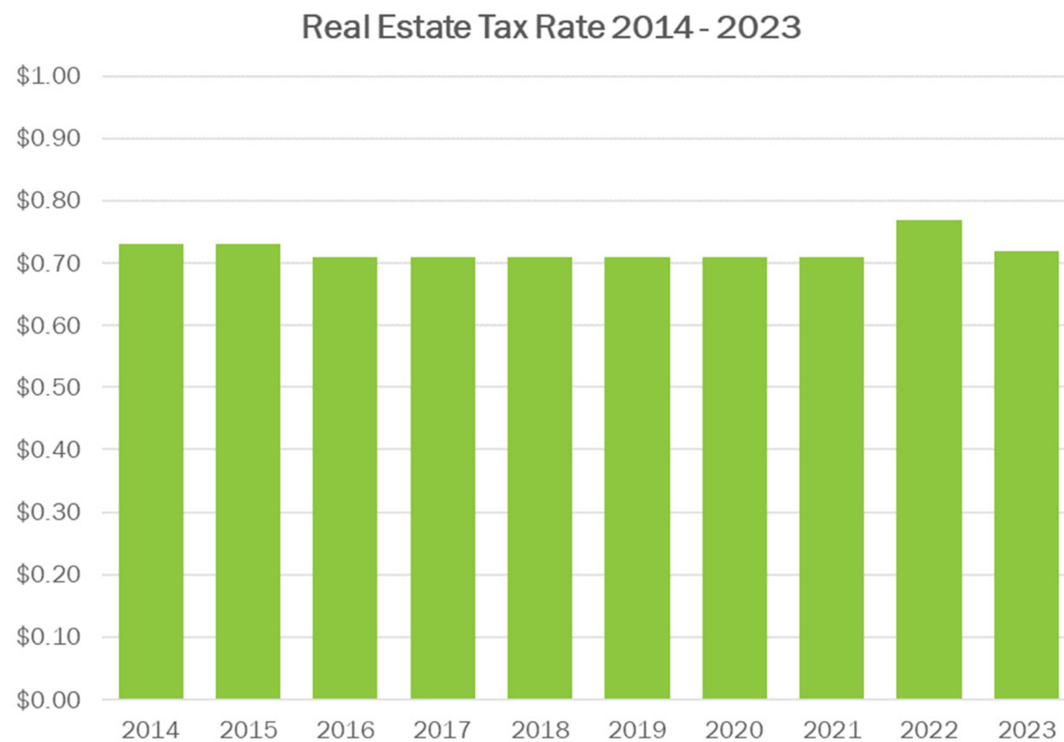
		2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Audited
1	**Revenues**					
2	General Property Taxes	$21,670,403	$21,600,237	$22,023,784	$23,138,148	$24,650,281
3	Other Local Taxes	780,408	1,126,200	1,118,145	1,057,335	1,445,077
4	Permits, Privilege Fees, and Regulatory Licenses	49,723	57,890	38,408	79,962	185,901
5	Fines and Forfeitures	34,210	59,254	31,272	35,900	42,752
6	Revenue from the Use of Money and Property	325,583	538,259	314,222	137,296	159,770
7	Charges for Services	97,301	266,638	229,217	225,173	243,449
8	Miscellaneous	157,052	100,120	158,822	145,039	221,791
9	Recovered Costs	95,520	23,781	35,967	58,622	65,545
10	Intergovernmental Revenue					
11	Commonwealth	2,345,813	2,393,823	2,629,458	2,606,002	2,762,364
12	Federal	929,239	921,798	1,107,833	2,081,867	1,192,346
13	**Total Revenues**	**$26,485,252**	**$27,088,000**	**$27,687,128**	**$29,565,344**	**$30,969,276**
14	Growth		2.28%	2.21%	6.78%	4.75%
15	**Expenditures**					
16	Current Operating:					
17	General Government Administration	$1,655,924	$1,815,006	$1,858,332	$2,030,298	$2,658,554
18	Judicial Administration	565,128	625,561	660,930	707,203	747,537
19	Public Safety	3,289,980	3,398,314	3,543,384	3,557,728	3,807,481
20	Public Works	1,407,940	1,554,097	1,564,133	1,650,682	1,596,296
21	Health and Welfare	2,301,035	2,433,879	3,029,935	3,573,667	3,024,030
22	Education	12,758,905	12,138,405	12,106,306	11,926,855	12,429,222
23	Parks, Recreation, and Cultural	597,532	692,578	628,855	515,986	468,228
24	Community Development	486,837	697,807	728,830	681,520	851,757
25	Capital Projects	171,970	23,976	0	0	0
26	Debt Service:					
27	Principal Retirement	1,125,000	1,055,000	1,165,000	1,225,000	1,510,000
28	Interest and Other Fiscal Charges	766,759	840,248	933,265	2,282,753	770,040
29	**Total Expenditures**	**$25,127,010**	**$25,274,871**	**$26,218,970**	**$28,151,692**	**$27,863,145**
30	Growth	6.00%	0.59%	3.74%	7.37%	-1.02%
31	**Revenues Over (Under) Expenditures**	**$1,358,242**	**$1,813,129**	**$1,468,158**	**$1,413,652**	**$3,106,131**
32						
33	**Other Sources (Uses)**					
34	Transfers In	$0	$0	$0	$96,450	$0
35	Transfers Out	(524,997)	(1,574,135)	(2,888,233)	(3,708,528)	(1,941,538)
36	Net Issuance of Bonds	0	0	0	1,450,000	0
37	**Total Other Sources (Uses)**	**($524,997)**	**($1,574,135)**	**($2,888,233)**	**($2,162,078)**	**($1,941,538)**
38						
39	**Change in Fund Balance**	**$833,245**	**$238,994**	**($1,420,075)**	**($748,426)**	**$1,164,593**
40						
41	**Fund Balance Beginning**	**$19,322,488**	**$20,155,733**	**$20,394,726**	**$18,974,651**	**$18,226,225**
42	**Fund Balance Ending**	**$20,155,733**	**$20,394,727**	**$18,974,651**	**$18,226,225**	**$19,390,818**

Source: Surry County Audits.

Real Estate Tax Rates

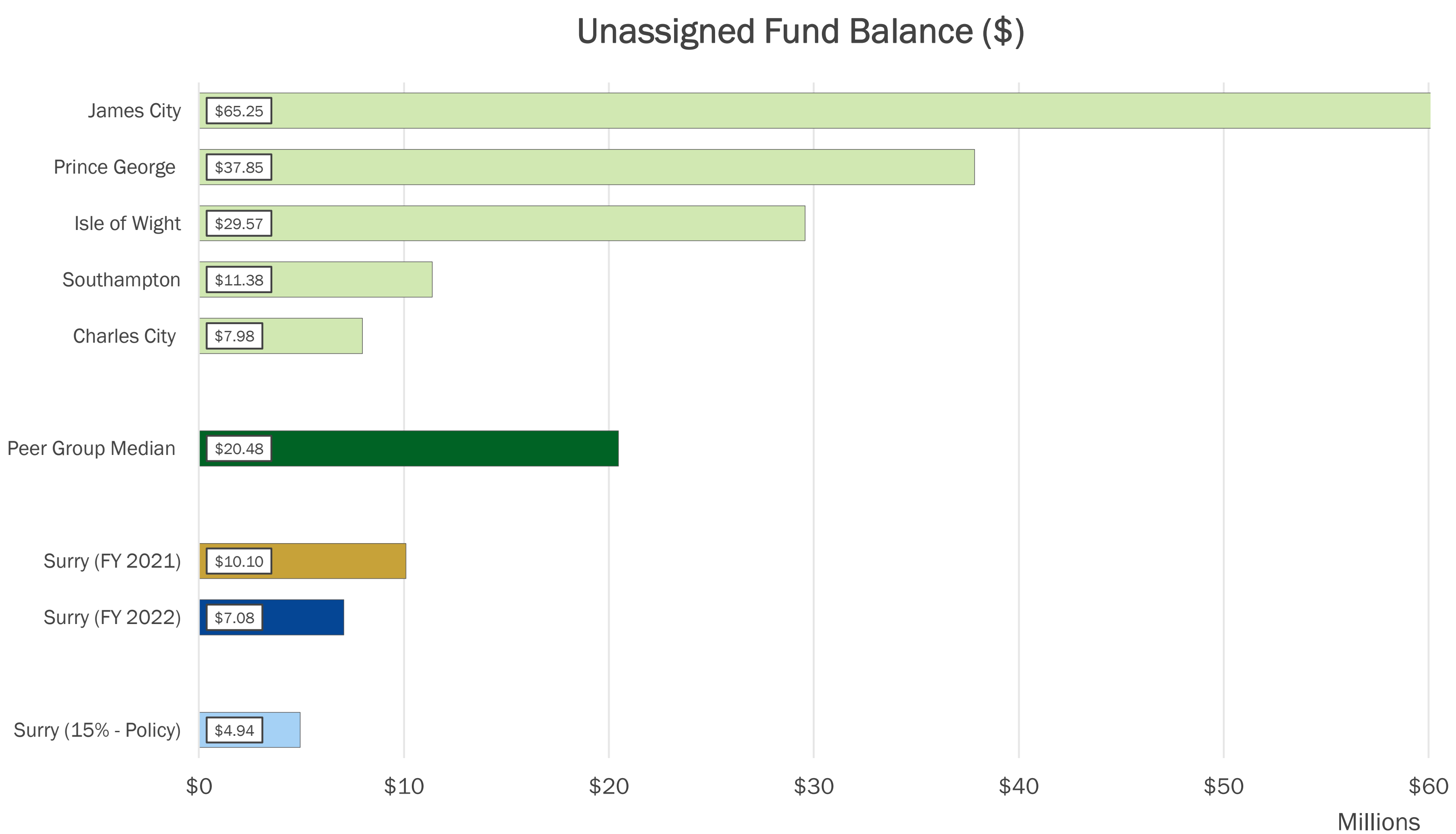
- The County reduced its Real Estate Tax Rate from 77¢ to 72¢ in FY 2023.

Fiscal Year	Tax Rate (per $100 of AV)
2014	0.73
2015	0.73
2016	0.71
2017	0.71
2018	0.71
2019	0.71
2020	0.71
2021	0.71
2022	0.77
2023	0.72



Source: County Staff / Audits.

Peer Comparison – Unassigned Fund Balance



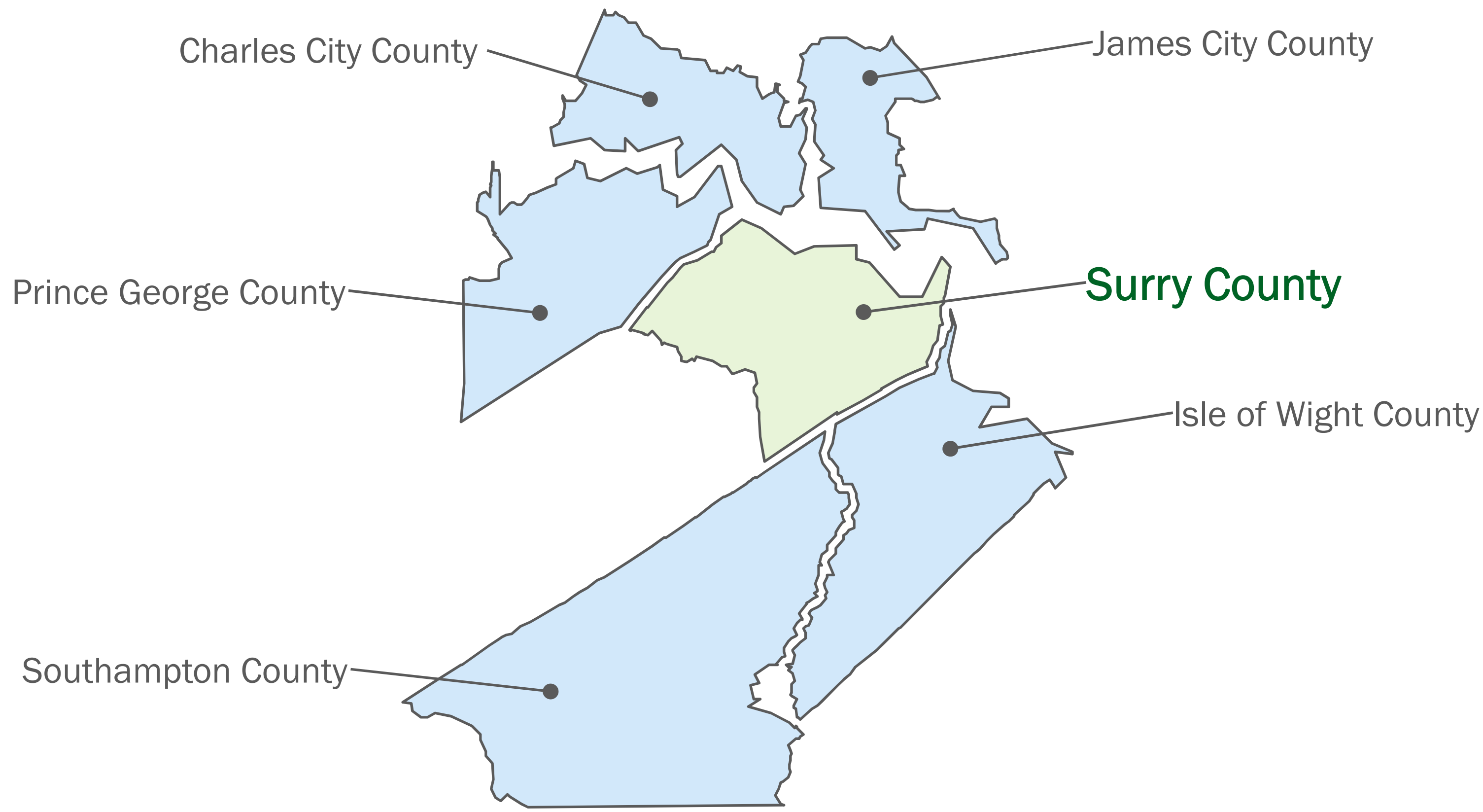
Unassigned Fund Balance Levels are below peer medians.

Source: Respective Locality Audits.

Peer Comparative Group - Overview

- Davenport has served as Financial Advisor to all of Surry County's neighboring counties.

- The highlighted localities below will be used to analyze the County's financial standing relative to its peers.



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