VIRGINIA: A SPECIAL MEETING OF THE SURRY COUNTY BOARD OF SUPERVISORS HELD IN THE CONFERENCE ROOM OF THE SURRY COUNTY EMERGENCY OPERATIONS CENTER ON WEDNESDAY, FEBRUARY 21, 2024, AT 6:00 PM.

PRESENT: SUPERVISOR ROBERT ELLIOTT, JR.
SUPERVISOR BREYON PIERCE
SUPERVISOR WILLIAM (TIM) CALHOUN
SUPERVISOR AMY DREWRY
SUPERVISOR WALTER HARDY

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. STEVEN MORRIS, DIRECTOR OF FINANCE
MS. RENEE CHAPLINE, ECONOMIC DEVELOPMENT

CALL TO ORDER

The meeting was called to order by Chairperson Elliott.

PRESENTATIONS

1. Financial Advisory Presentation - Davenport Public Finance

   a. Kyle Laux, Senior Vice President
   b. Gregor Bates, Analyst

(A copy of Davenport's report is attached as an integral component of these minutes)

DISCUSSION TOPICS

1. Budget / Financial Discussion - Steven Morris, Director of Finance

2. Strategic Planning Discussion - Melissa Rollins, County Administrator

   a. Mr. Harrison and Ms. Chapline discussed interests in the County in having a YMCA to conduct a proposed feasibility study for a location in Surry County. The Board of Supervisors consented to having staff proceed.

ADJOURNMENT

There being no further business before the Board, Supervisor Calhoun made a motion that the Board continue their meeting to Thursday, March 7, 2024, at 6 PM. The motion was seconded by Supervisor Pierce. All present voted affirmatively. ***(Approved)***

The meeting was adjourned at 8:00 pm.

Financial Status Update & Capital Planning Analysis

Surry County, Virginia

February 21, 2024

DAVENPORT & COMPANY
Member NYSE | FINRA | SIPC

Introduction

- Davenport & Company LLC ("Davenport"), in our role as Financial Advisor to the County of Surry (the "County"), was asked to provide a Financial Status Update for the County's General Fund.

- At this time, the County is in the preliminary planning stages for the FY 2025 Budget and a series of potential upcoming capital projects.

- As further described on the following page, the over-arching goal of the discussion presented herein is 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.

- Davenport will also provide a series of updates with respect to recently adopted Financial Policies and Financial Planning for the FY 2025 Budget.

Goals and Objectives

- As part of the discussion presented herein, Davenport intends to accomplish the following:

1. Review historical trends in General Fund revenues and expenditures;
2. Provide a Peer Comparative Analysis of key financial and demographic metrics between the County and neighboring localities;
3. Present a preliminary debt capacity and affordability analysis to evaluate the County's ability to fund its identified capital needs in a financially responsible manner (per direction from County Staff); and,
4. Evaluate current standing with respect to recently adopted Financial Policies.

Historical Financials

Historical Financials - Key Observations

- The County has historically been well run from a financial perspective. The County has a history of producing annual operating surpluses, maintaining strong reserve levels, and cash funding a portion of its capital program.

- Fund Balance is arguably the most important financial metric when assessing the financial strength and stability of a local government such as the County.

- The County is in compliance with all of its recently adopted financial policy guidelines.

- Additionally, the County's financial metrics compare favorably to other well run local governments and neighboring peers.

Historical Financials - Key Observations (cont.)

- 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”).

- This dependence on a single entity and concentration of tax base makes Fund Balance an even more critical component of the County’s finances.

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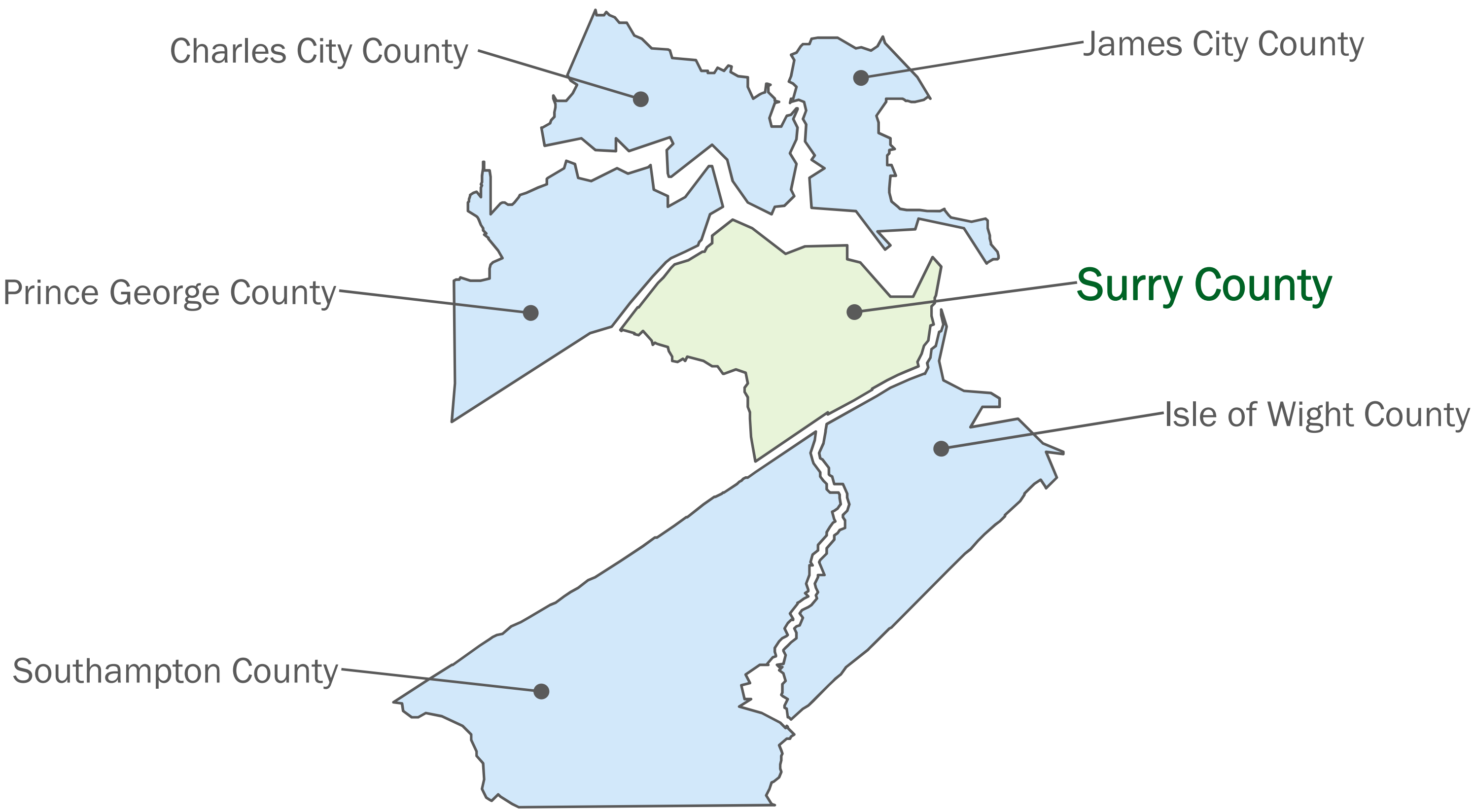
Peer Comparative Group - Overview

- 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.



Operating Overview | General Fund

		2019 Audited	2020 Audited	2021 Audited	2022 Audited	2023 Audited
1	**Revenues**					
2	General Property Taxes	$21,600,237	$22,023,784	$23,138,148	$24,650,281	$26,112,350
3	Other Local Taxes	1,126,200	1,118,145	1,057,335	1,445,077	1,701,749
4	Permits, Privilege Fees, and Regulatory Licenses	57,890	38,408	79,962	185,901	482,391
5	Fines and Forfeitures	59,254	31,272	35,900	42,752	51,006
6	Revenue from the Use of Money and Property	538,259	314,222	137,296	159,770	576,921
7	Charges for Services	266,638	229,217	225,173	243,449	199,025
8	Miscellaneous	100,120	158,822	145,039	221,791	404,639
9	Recovered Costs	23,781	35,967	58,622	65,545	155,742
10	Intergovernmental Revenue					
11	Commonwealth	2,393,823	2,629,458	2,606,002	2,762,364	2,933,368
12	Federal	921,798	1,107,833	2,081,867	1,192,346	1,206,052
13	**Total Revenues**	$27,088,000	$27,687,128	$29,565,344	$30,969,276	$33,823,243
14	Growth	2.28%	2.21%	6.78%	4.75%	9.22%
15	**Expenditures**					
16	Current Operating:					
17	General Government Administration	$1,815,006	$1,858,332	$2,030,298	$2,658,554	$3,205,228
18	Judicial Administration	625,561	660,930	707,203	747,537	779,714
19	Public Safety	3,398,314	3,543,384	3,557,728	3,807,481	4,229,664
20	Public Works	1,554,097	1,564,133	1,650,682	1,596,296	1,613,048
21	Health and Welfare	2,433,879	3,029,935	3,573,667	3,024,030	3,043,022
22	Education	12,138,405	12,106,306	11,926,855	12,429,222	12,864,200
23	Parks, Recreation, and Cultural	692,578	628,855	515,986	468,228	538,986
24	Community Development	697,807	728,830	681,520	851,757	922,539
25	Capital Projects	23,976	0	0	0	0
26	Debt Service:					
27	Principal Retirement	1,055,000	1,165,000	1,225,000	1,510,000	1,565,000
28	Interest and Other Fiscal Charges	840,248	933,265	2,282,753	770,040	720,505
29	**Total Expenditures**	$25,274,871	$26,218,970	$28,151,692	$27,863,145	$29,481,906
30	Growth	0.59%	3.74%	7.37%	-1.02%	5.81%
31	**Revenues Over (Under) Expenditures**	$1,813,129	$1,468,158	$1,413,652	$3,106,131	$4,341,337
32						
33	**Other Sources (Uses)**					
34	Transfers In	$0	$0	$96,450	$0	$0
35	Transfers Out	(1,574,135)	(2,888,233)	(3,708,528)	(1,941,538)	(3,261,193)
36	Net Issuance of Bonds	0	0	1,450,000	0	0
37	**Total Other Sources (Uses)**	($1,574,135)	($2,888,233)	($2,162,078)	($1,941,538)	($3,261,193)
38						
39	**Change in Fund Balance**	$238,994	($1,420,075)	($748,426)	$1,164,593	$1,080,144
40						
41	**Fund Balance Beginning**	$20,155,733	$20,394,726	$18,974,651	$18,226,225	$19,390,818
42	**Fund Balance Ending**	$20,394,727	$18,974,651	$18,226,225	$19,390,818	$20,470,962

FY 2023 Net increase in Fund Balance of roughly $1 million.

Source: 2019-2023 Audits.

General Fund Balance Trends

- The County adopted the following financial guidelines in regard to Fund Balance ("FB"):

  1. Establish a General Fund Assigned Fund Balance equal to or greater than 25% of the following fiscal year's budgeted General Fund and School Operating budgets, net of transfers.

  2. Maintain a General Fund Unassigned Fund Balance in an amount equal to or greater than 15% of the following fiscal year's budgeted General Fund and School Operating budgets, net of transfers.

- The County is currently in compliance with its FB policies and increased its Total FB in FY 2023.

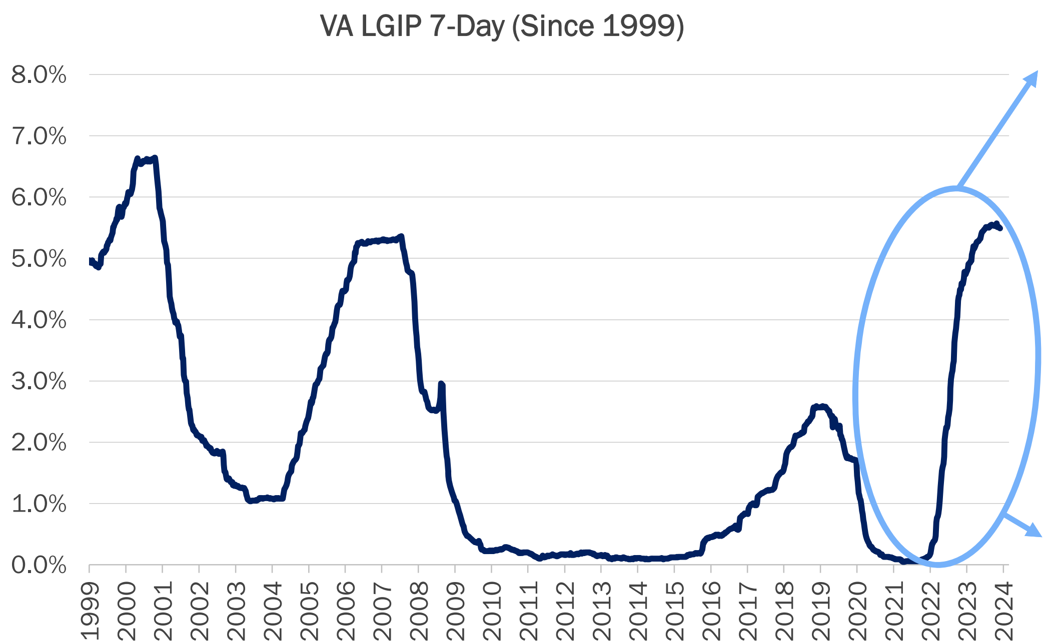
	Fiscal Year	2019	2020	2021	2022	2023
1	Governmental Expenditures	$32,121,428	$32,795,696	$32,565,483	$37,045,903	$35,634,057
2						
3	General Fund Balance					
4	Committed	$9,900,350	$11,093,362	$8,130,065	$12,313,115	$ -
5	Assigned	-	-	-	-	9,700,787
6	Unassigned	10,494,377	7,881,289	10,096,160	7,077,703	10,700,901
7	Total Fund Balance	$20,394,727	$18,974,651	$18,226,225	$19,390,818	$20,401,688
8						
9	General Fund Balance Ratios					
10	Unassigned as a % of Expenditures (15% Policy)	32.7%	24.1%	31.0%	19.1%	30.0%
11	Assigned / Committed as a % of Expenditures (25% Policy)	30.8%	33.8%	25.0%	33.2%	27.3%
12	Total FB as a % of Expenditures	63.5%	57.9%	56.0%	52.3%	57.3%

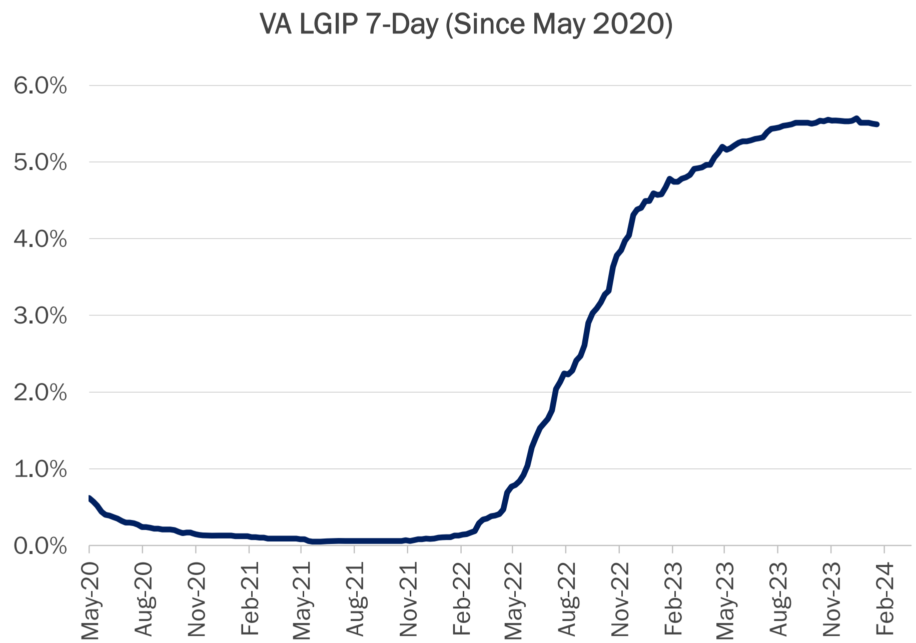
Note: General Government Expenditures are calculated using the following Fiscal Year's Budgeted General Fund Expenditures plus School Operating Expenditures less Local Government Contributions.

Source: 2019-2023 Audits, 2020-2024 Budgets,.

Reinvestment Rate Trends | LGIP 7-Day Rate

- Given the current interest rate environment, the County has the potential to generate substantial interest earnings on its Fund Balance.

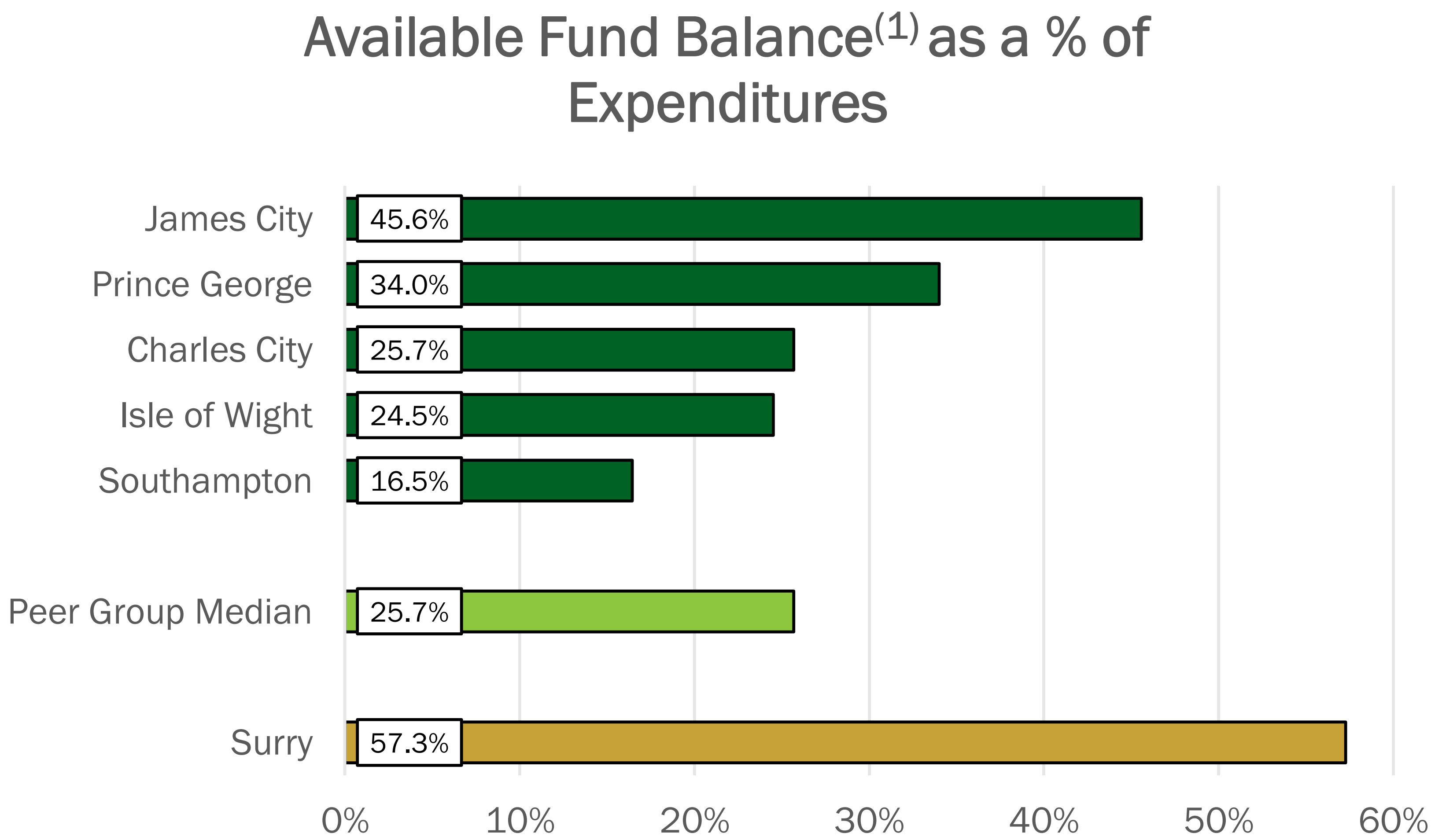




Short-term reinvestment rates have increased to levels last seen over a decade ago.

The above charts show VA LGIP 7 Day rate data as of February 14, 2024.

Peer Comparative – Available Fund Balance as a % of Expenditures



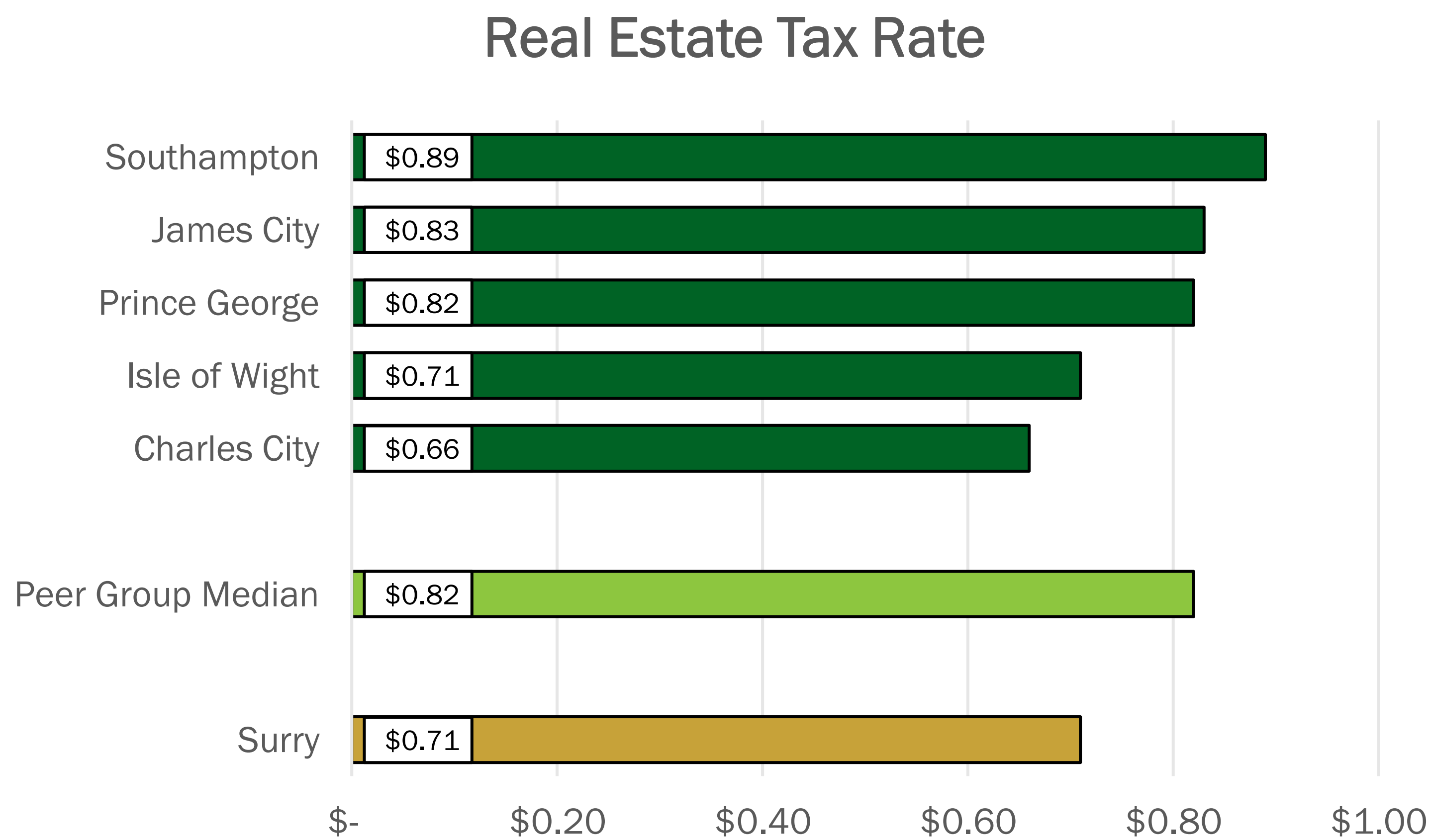
(1) Available FB consists of Unassigned, Assigned, and Committed FB.

Note: Surry County General Government Expenditures are calculated using the following Fiscal Year's Budgeted General Fund Expenditures plus School Operating Expenditures less Local Government Contributions. Peer locality Expenditures are calculated using their FY 2023 Audit.

Source: FY 2024 Surry County Budget, FY 2023 County Audits.

Real Estate Tax Rate – Peer Comparative

- The County's Real Estate Tax Rate is competitive with its neighbors.



Source: County Audits / Budgets / Websites.

Assessed Value Trends

- The County's Assessed Value increased by roughly 13% in Taxable Property excluding Public Service values, and Total Assessed Value in the County grew approximately 10% as a result of the recent reassessment.

	A		B		C = A + B	
Fiscal Year	Public Service Assessed Value and Personal Property (1)	*Growth*	Real Property Assessed Value	*Growth*	Total Assessed Value	*Growth*
2019	1,951,900,468	*-2%*	949,954,600	*2%*	2,901,855,068	*0%*
2020	1,997,767,048	*2%*	960,993,500	*1%*	2,958,760,548	*2%*
2021	2,112,648,814	*6%*	964,999,000	*0%*	3,077,647,814	*4%*
2022	2,066,387,391	*-2%*	1,112,727,900	*15%*	3,179,115,291	*3%*
2023	2,249,912,877	*9%*	1,252,461,000	*13%*	3,502,373,877	*10%*

(1) Includes Machinery and Tools, and Aircraft Assessed Values.

Source: County Audits.

Real Estate Tax Rate – Historic Trend

- The County reduced its Real Estate Tax Rate from 77¢ to 72¢ in FY 2023 with an additional reduction of 1¢ in FY 2024.

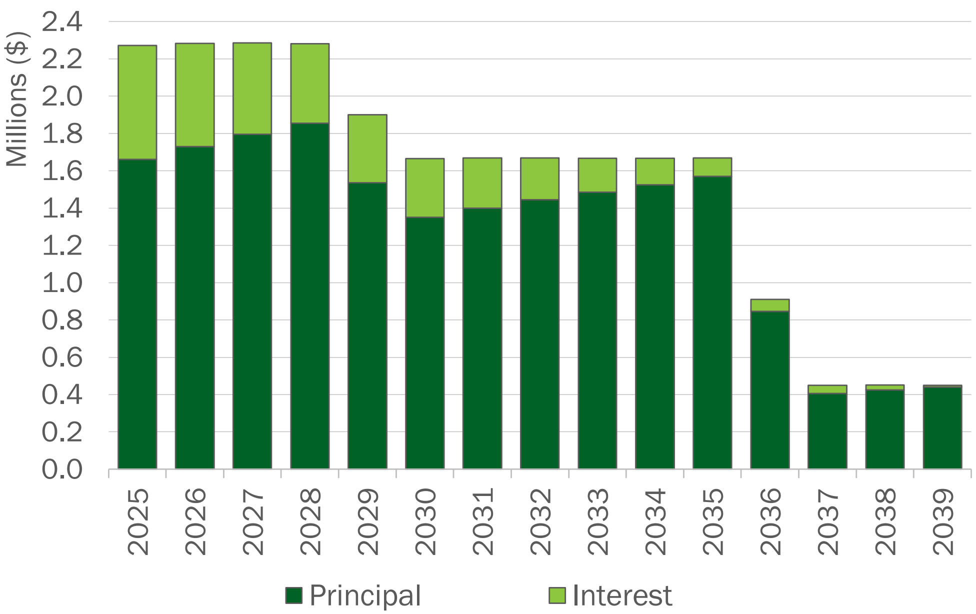
Fiscal Year	Tax Rate (per $100 of AV)
2015	0.73
2016	0.71
2017	0.71
2018	0.71
2019	0.71
2020	0.71
2021	0.71
2022	0.77
2023	0.72
2024	0.71

Source: Information from County Staff and County Audits.

Existing Debt Profile

Existing Tax-Supported Debt Service

- The County's Existing Tax-Supported Debt Service is shown as of 06/30/2024 (FY 2025).
- The County pays off its debt quickly, with a 10 Year Payout Ratio of 81%.



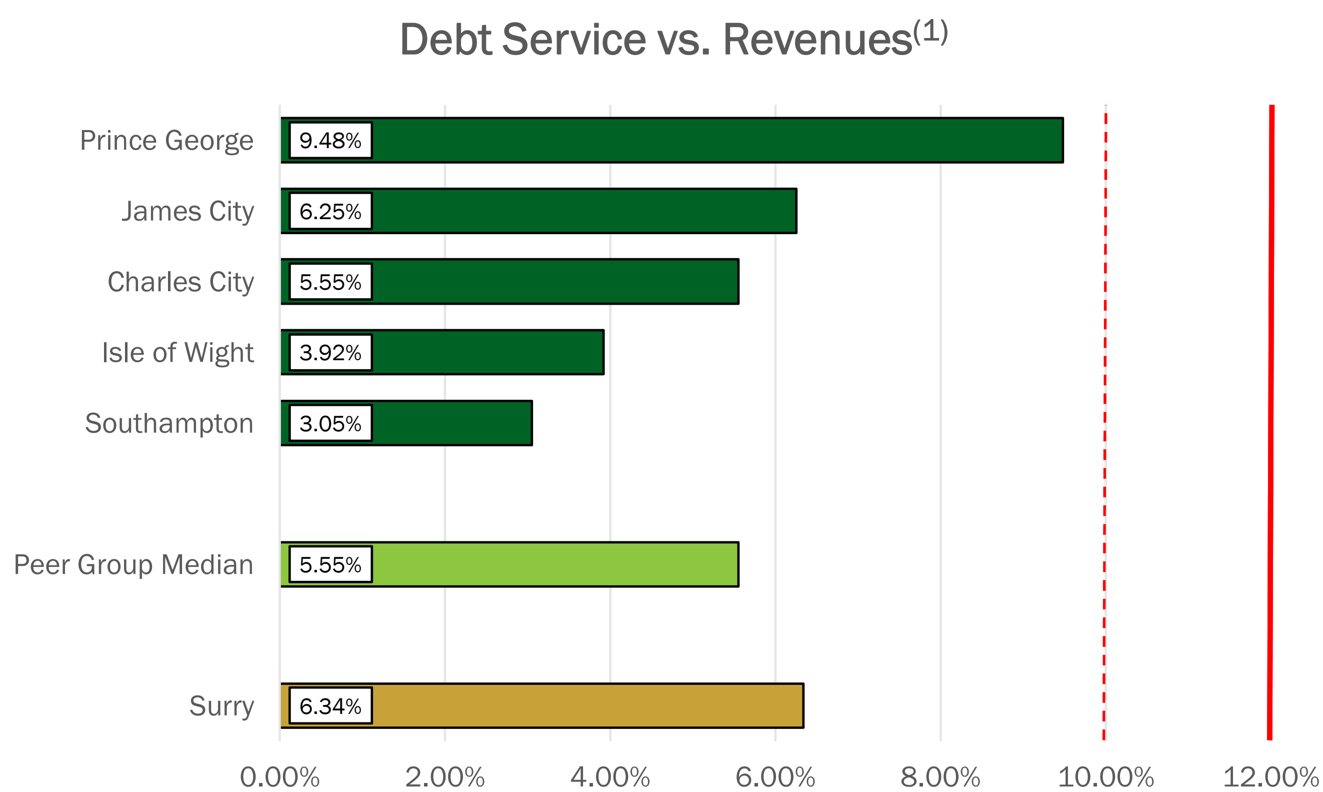
Total Tax-Supported Debt Service

FY	Principal	Interest	Total
Total	19,465,000	3,818,063	23,283,063
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: 2023 Audit / Davenport Debt Model.

Peer Comparative – Debt Service vs. Revenues

County Policy: Annual debt service requirements should target 10% or less and shall not exceed 12% of total operating revenues, including revenues allocated to Surry County for public education.

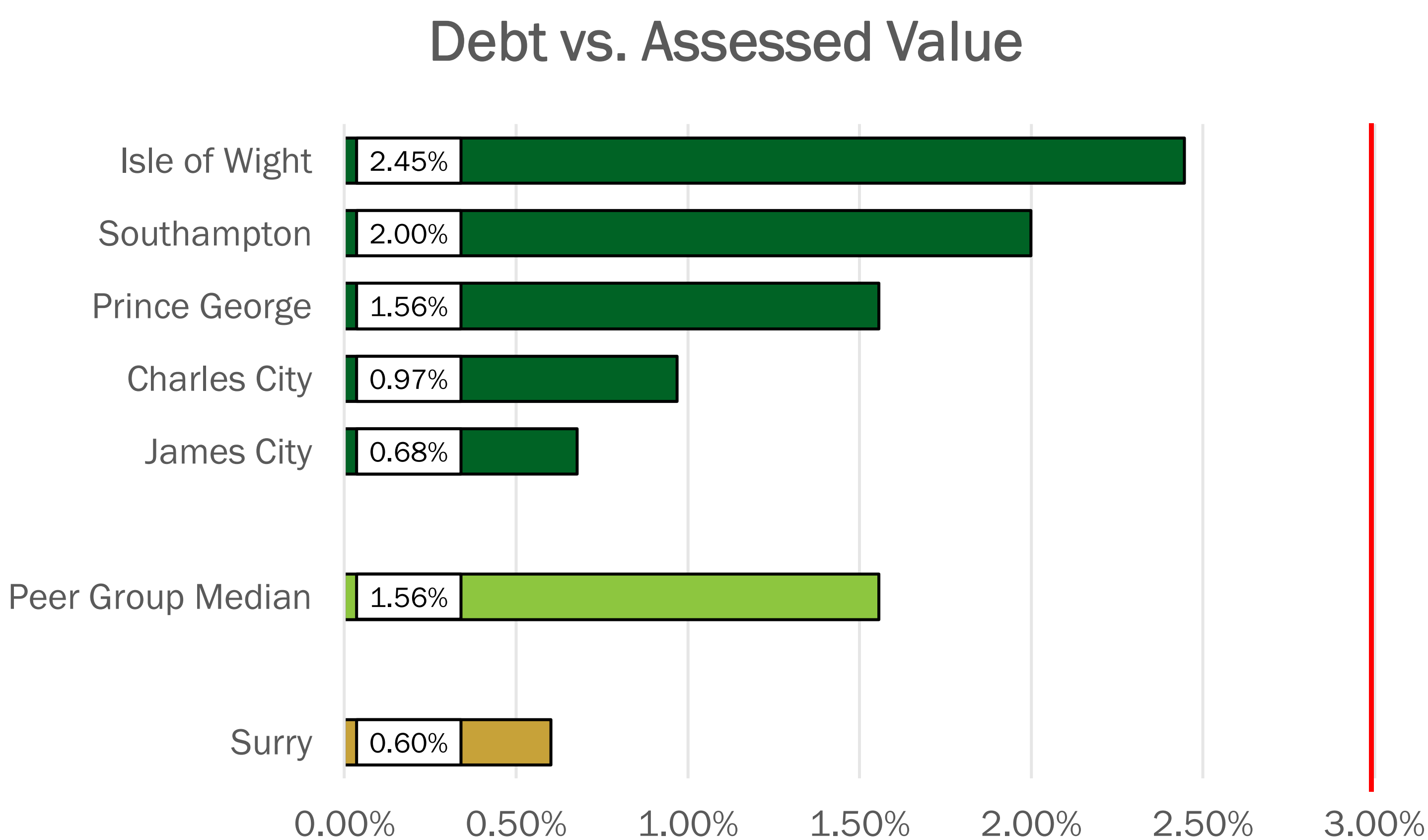


(1) Revenues are calculated by using General Government Revenues plus School Operating Revenues less Local Contributions.

Source: FY 2023 County Audits.

Peer Comparative –Debt Outstanding vs. Assessed Value

County Policy: Outstanding debt shall not exceed 3% of the assessed valuation of real and personal property.



Source: FY 2023 County Audits.

Capital Funding Analysis

Capital Funding Analysis - Overview

- The County has identified potential borrowing needs of up to $5-10 million for future capital projects related to:
  - Community / Recreational Facility that could be expanded to accommodate a senior citizen facility;
  - Various capital maintenance projects; and,
  - Other capital projects.
- Davenport has undergone the following analysis to prepare the County for various scenarios given the future capital needs mentioned above.

Note: Potential borrowings are contingent upon Board of Supervisors' final decisions.

Capital Funding Analysis – Scenarios

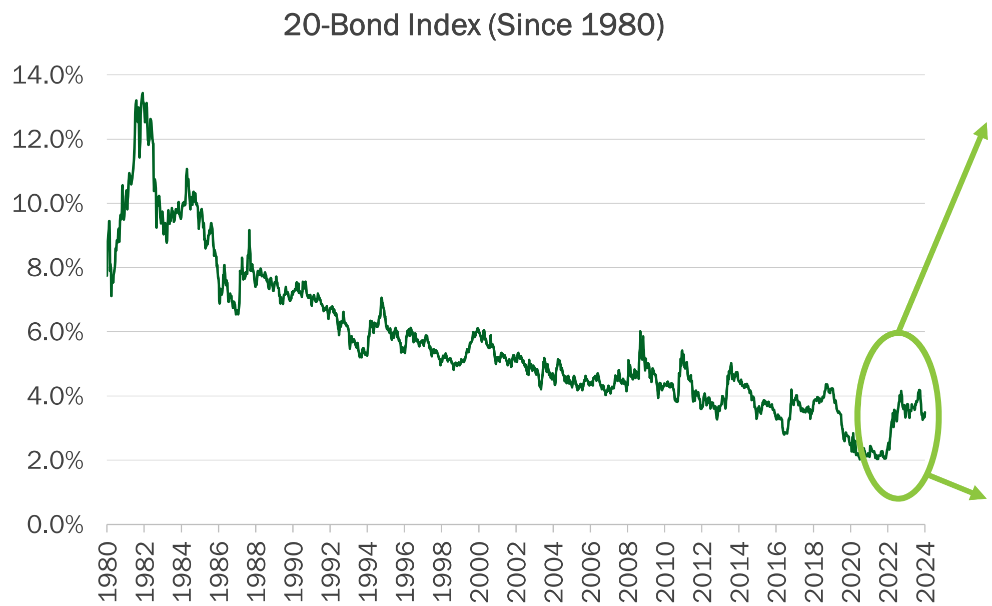
- The analysis herein assesses the County's ability to incur additional debt by evaluating the impact borrowings may have on key financial metrics as well as any required additional revenues (over and above budget).

- The following scenarios have been analyzed to provide perspective on the County's ability to finance the projects identified on the previous page, as well as some contingency for any additional costs / identified projects:

Scenario 1: $5 million - (Capital Projects, $5 million)

Scenario 2: $10 million - (Capital Projects, $10 million)

Interest Rate Environment | Tax-Exempt



Despite increasing from Pandemic Era lows, Interest Rates for Tax-Exempt borrowings 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 02/15/2024.

Capital Funding Analysis – Borrowing Overview

- For both Scenarios described on page 20, the following assumptions were used for planning order of magnitude estimates:
  - 20-year repayment term;
  - Fixed 5.0% interest rate; and
  - Level Annual Debt Service.

- Both Scenarios assume the County's financing occurs in second half of calendar year 2024 with principal and interest beginning the subsequent calendar year (i.e. FY 2026).

- Both Scenarios assume the County maintains and budgets for its current FY 2025 debt service payment ($2,272,024).

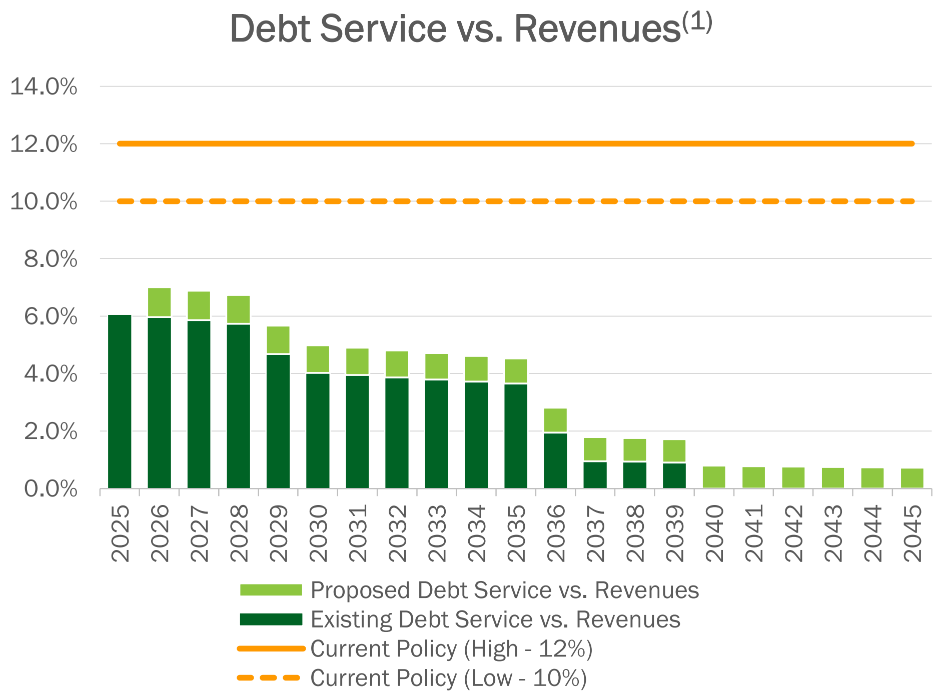
- In order to quantify revenues required over and above the budget, Davenport measured the impact in equivalent pennies on the Real Estate Tax Rate. The value of 1¢ on the Real Estate Tax rate is assumed to equal approximately $321,000. No growth in the value of 1¢ is contemplated in this analysis.

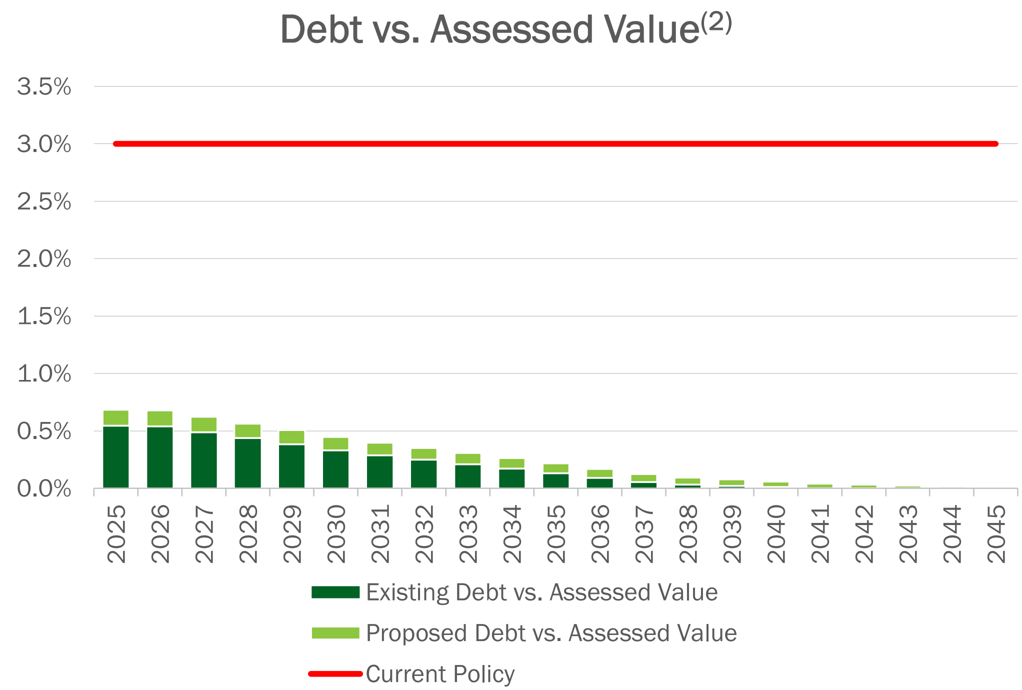
Capital Funding Analysis – Summary

- The estimates below do not incorporate any grant revenues or additional funding sources outside the cost of borrowing:

	Scenario 1	Scenario 2
Estimated Interest Rate	5.00%	
Project Size	$5 million	$10 million
Loan Structure	20 Year Level Debt Service	
Final Maturity / Term	FY 2045 (20 Years)	
Approximate Avg. Annual Payment	$401 Thousand	$802 Thousand
Real Estate Tax Rate Equivalent Impact	**1.5¢** (FY 2026)	**2.5¢** (FY 2026)
(Max) Debt Service vs. Revenues Current Policy (10% - 12%)	7.01% (FY 2026)	8.06% (FY 2026)
(Max) Outstanding Debt vs. Assessed Value Current Policy (3%)	0.68% (FY 2025)	0.82% (FY 2025)

Debt Ratios – Scenario 1 ($5 million)

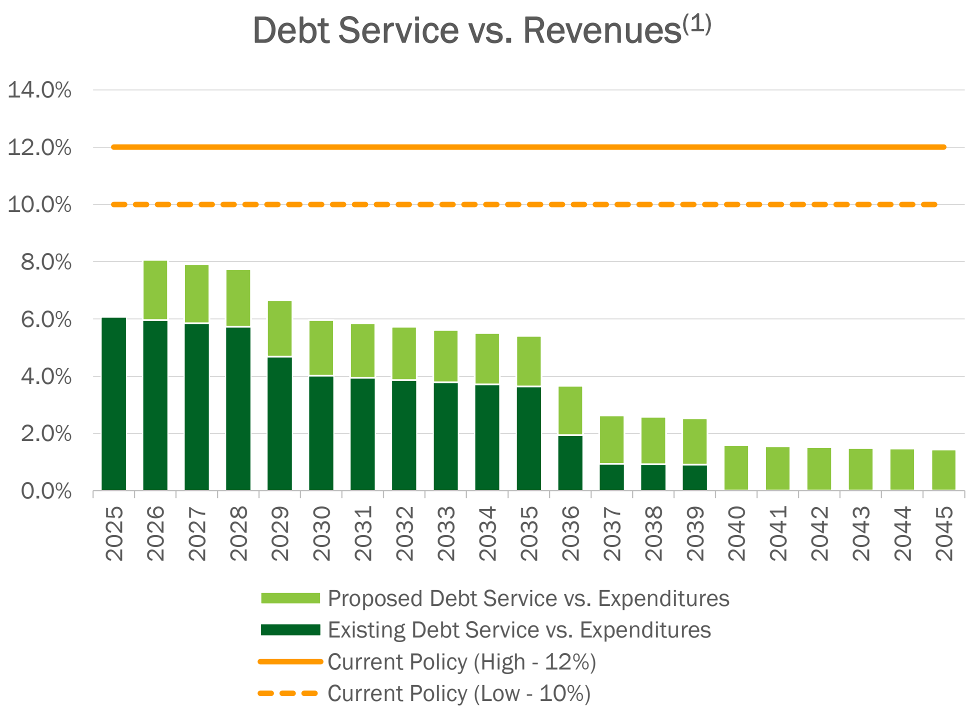


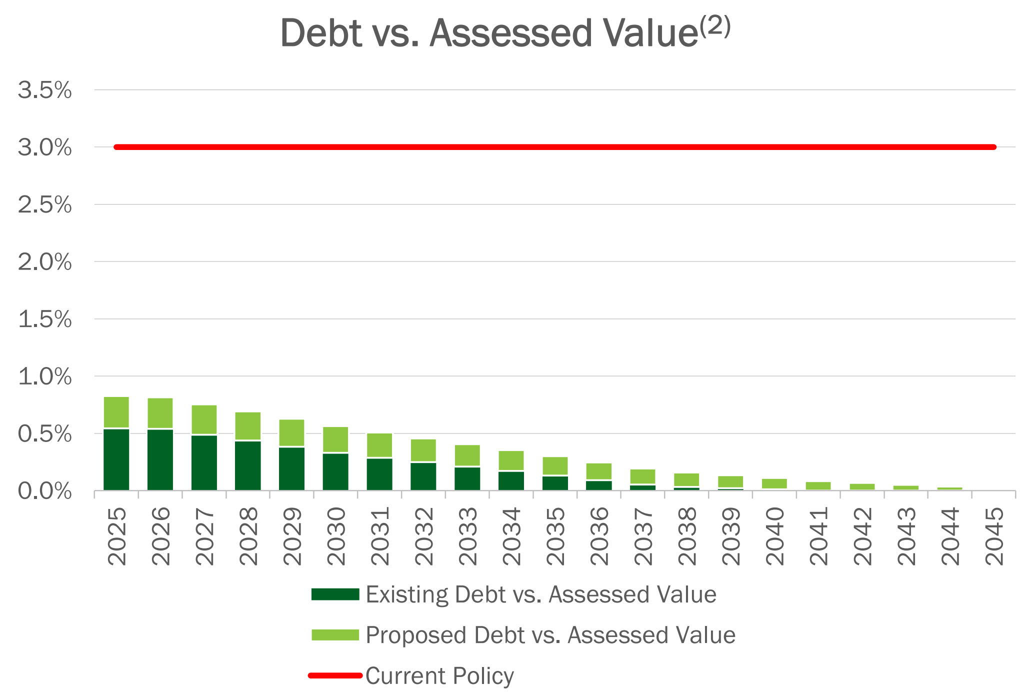


(1) FY 2025 Revenues based on FY 2023 Revenues equal to General Fund Revenues plus School Operating Revenues less Local Contributions and assumes 2% annual growth.

(2) FY 2025 Assessed Value based on FY 2023 Assessed Value, assuming 3% annual growth.

Debt Ratios – Scenario 2 ($10 million)





(1) FY 2025 Revenues based on FY 2023 Revenues equal to General Fund Revenues plus School Operating Revenues less Local Contributions and assumes 2% annual growth.

(2) FY 2025 Assessed Value based on FY 2023 Assessed Value, assuming 3% annual growth.

Next Steps

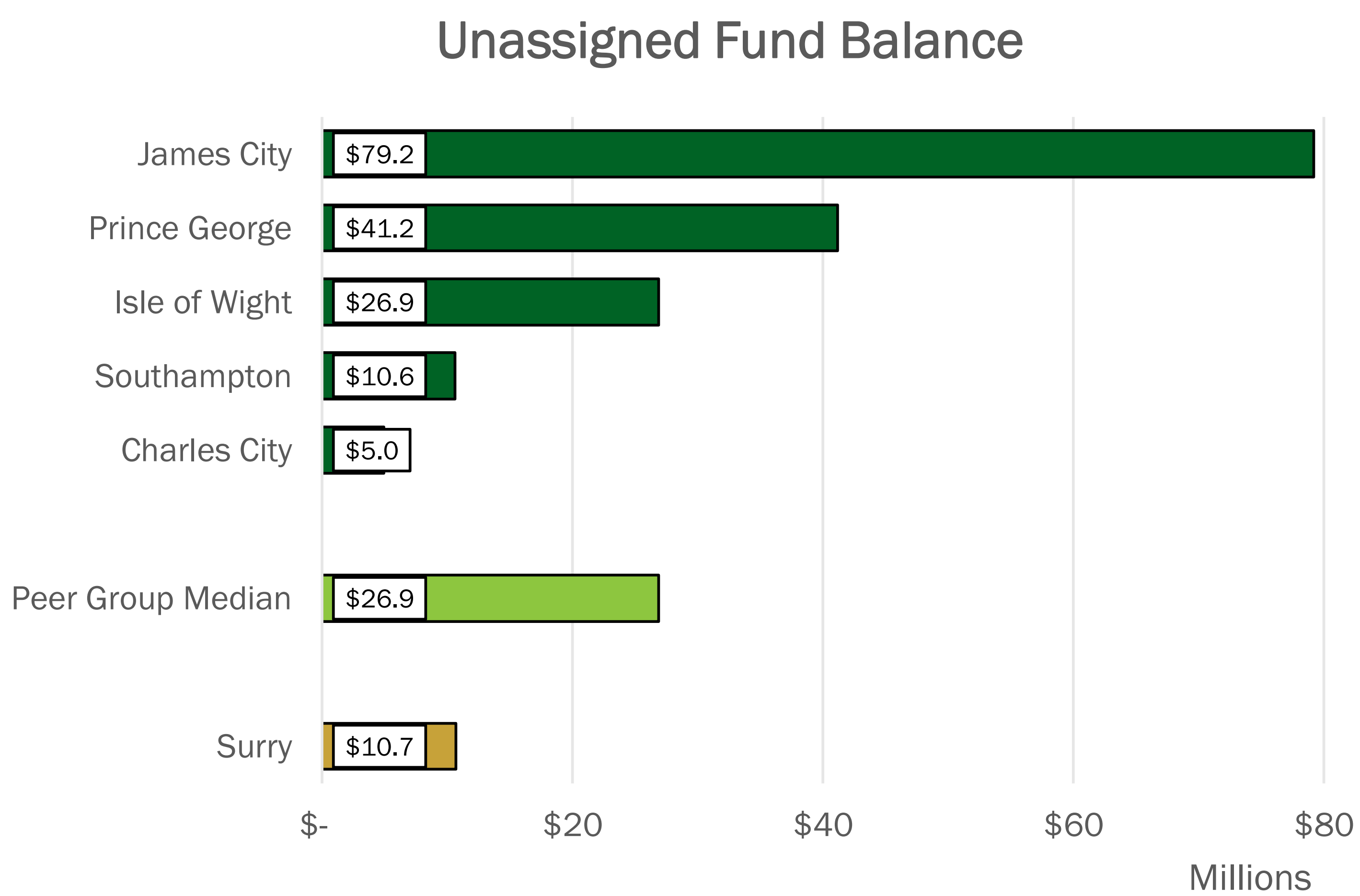
Next Steps

Davenport would propose the following next steps:

■ Wednesday, February 21	Board of Supervisors Work Session: - Davenport to present the Financial Update & Capital Planning Analysis.
■ Balance of Spring 2024	County adopts FY 2025 Operating Budget.
■ Summer 2024	County Staff and Davenport develop a Plan of Finance for identified capital projects
■ Fall / Winter 2024	The County considers borrowing for anticipated capital projects.

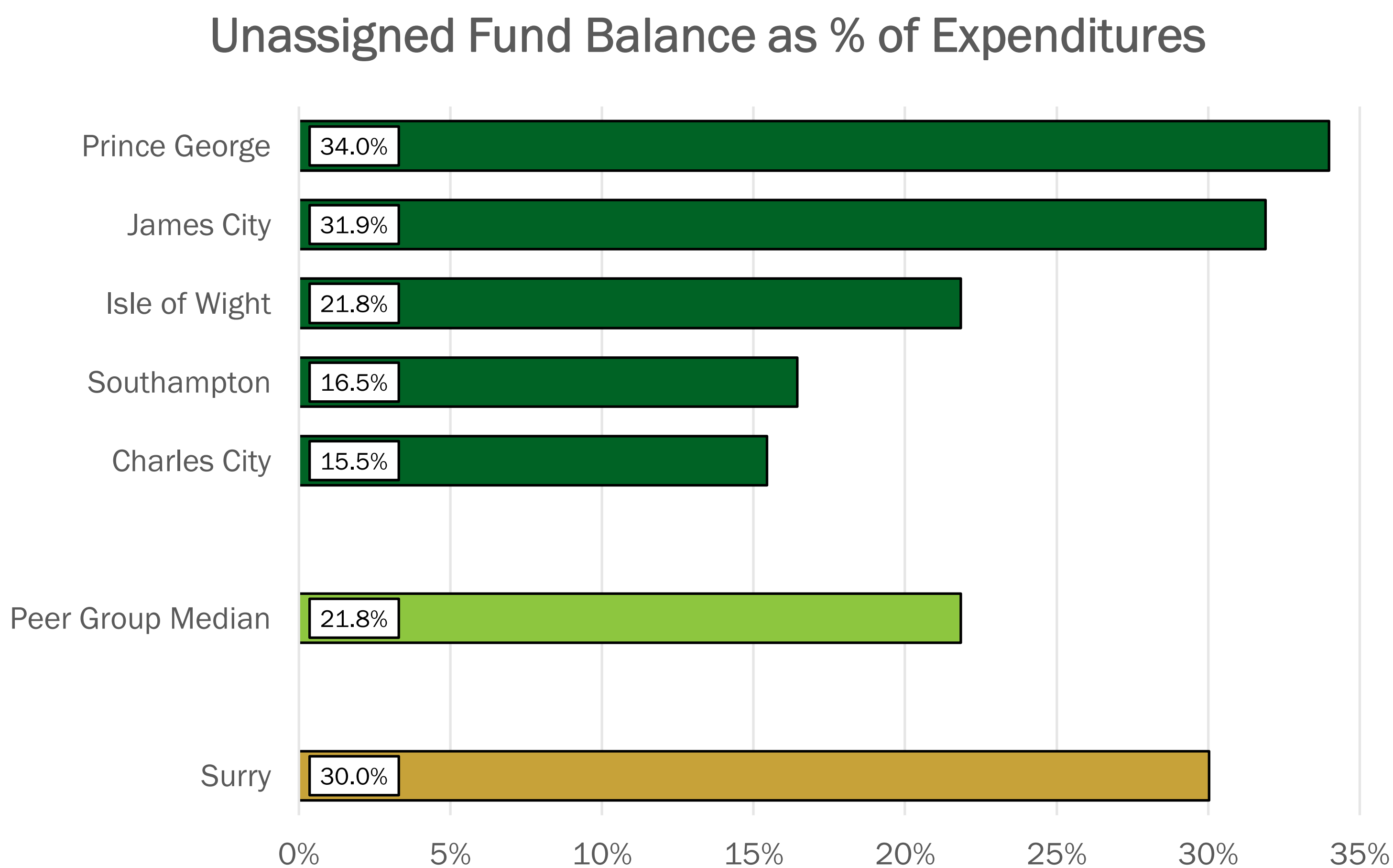
Appendix

Peer Comparative – Unassigned Fund Balance



Source: FY 2023 County Audits.

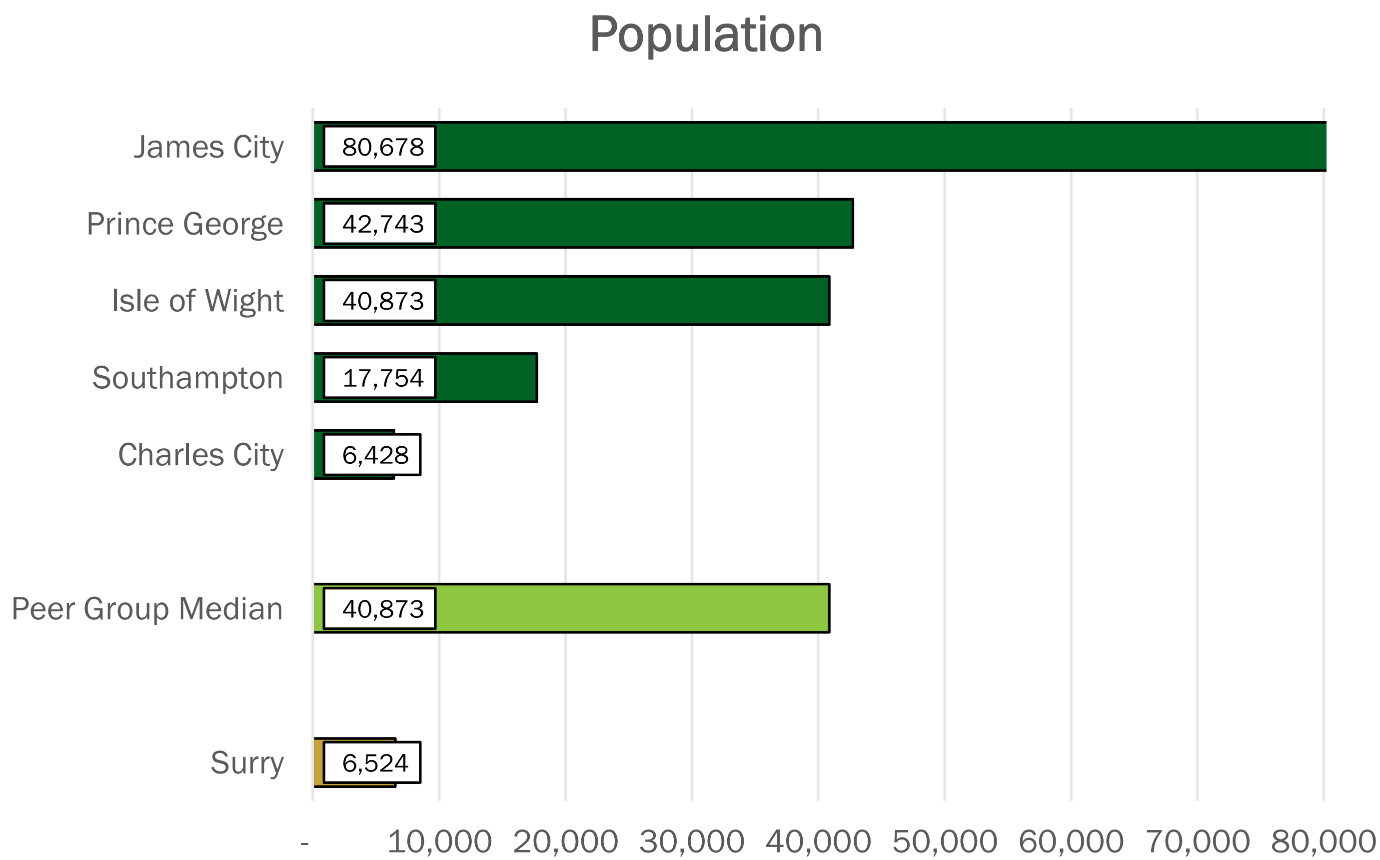
Peer Comparative – Unassigned Fund Balance as % of Expenditures



Note: Surry County General Government Expenditures are calculated using the following Fiscal Year's Budgeted General Fund Expenditures plus School Operating Expenditures less Local Government Contributions. Peer locality Expenditures are calculated using their FY 2023 Audit.

Source: Surry County FY 2024 Budget, FY 2023 County Audits.

Peer Comparative – Population



Source: Weldon Cooper, Estimate as of July 1, 2023.

Municipal Advisor Disclaimer

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