

VIRGINIA:

At a recessed meeting of the Washington County Board of Supervisors held Tuesday, August 18, 2009, at 7:00 p.m., at the County Administration Building in Abingdon, Virginia the following were present:

PRESENT:

Kenneth O. Reynolds, Chairman
Jack R. McCrady, Jr., Vice Chairman
Phillip B. McCall
Dulcie M. Mumpower
Odell Owens
Paul O. Price
Thomas G. Taylor

Mark K. Reeter, County Administrator
Lucy E. Phillips, County Attorney
Christianne E. "Christy" Parker, Assistant County Administrator
Mark W. Seamon, Accounting Manager
Naoma A. Norris, Recording Clerk

David Rose, Vice President of Public Finance, Davenport & Company
Dan Siegel, Bond Counsel, Sands Anderson Marks & Miller

1. Call to Order

The meeting was called to order by Mr. Kenneth O. Reynolds, Chairman of the Board, who welcomed everyone in attendance.

2. Invocation and Pledge of Allegiance

Supervisor Odell Owens gave the Invocation and led the Pledge of Allegiance.

3. Approval of Agenda

Mr. Reeter provided a review of materials provided to the Board concerning the Phase II and Neff Center Construction Projects.

On motion of Mr. Owens, second by Mr. McCrady, it was resolved to approve the agenda as presented.

The vote on this motion was as follows: (6-0)

Mr. McCall Aye
Mr. McCrady Aye

Mrs. Mumpower *Aye*
Mr. Owens *Aye*
Mr. Price *Aye*
Mr. Reynolds *Aye*
Mr. Taylor *Aye*

4. Review of Proposed Plan of Finance for Phase II & Neff Center School Projects

Mr. David Rose, Vice President of Public Finance, Davenport & Company, addressed the Board and made a presentation concerning the proposed plan of finance for the Phase II and Neff Center School projects. Mr. Rose distributed materials relating to the plan of finance options.

Mr. Rose explained that at a joint meeting of the Board of Supervisors and School Board was held on July 7, 2009. At this meeting, Mr. Roland Kooch with Davenport & Company, presented an in-depth analysis of the plan of finance options related to the Phase II and Neff Center School projects. Mr. Rose provided the Board with a summary review of the plan of finance options and reviewed the primary issues associated with the plans. The first issue relates to the financing of the Phase II construction only, and the second issue relates to financing for Phase II and the Neff Center construction.

Mr. Rose next explained that a key component to the plan of finance involves implementing an interim financing strategy with a Bond Anticipation Note (BAN). The BAN is being recommended because it is an anticipation of permanent financing of the project(s) in about three years. The primary reasons for interim financing are because it provides lower cash flow in the short term and it offers bridge financing over the next three fiscal years until the 3% locked-in rate of the Literary Loan Fund become available. He further explained that the BAN interest payments over the next three fiscal years could be paid with \$1,500,000.00 of dedicated funds from the Capital Reserve funds-Schools. Mr. Rose explained that the Literary Loan Fund Program is currently in a holding pattern due to the State's current financial situation; however, it is anticipated that the program will restart in three to four years. In the program's 40 year history, there have been other temporary interruptions in funding due to economic conditions, but the State has always resumed the program. Mr. Rose said as a AAA rated state, the rating agencies expect the Commonwealth to maintain its commitment to education through its established programs.

Mr. Rose explained that in the event that the Literary Loan Program is delayed beyond the anticipated three to four years, the County can refinance the BAN until such time the program resumes funding. In the unlikely event that the Literary Loan Fund Program ceases to be available, the County has other alternative sources of permanent financing such as the Virginia Resources Authority (VRA); Virginia Public Schools Authority; or County Industrial Development Authority lease revenue bonds. He further explained there is an approximate 1.65%+ long-term interest rate advantage for using Literary Loan funds versus other financing alternatives. He provided examples of the interest savings comparing the Literary Fund loan (3%) and VRA revenue bonds (4.65%) using a 20 and 25 year term.

Discussions ensued at this time between the Board and Mr. Rose.

Mr. Owens inquired about the waiting period for funds to become available after the Literary Loan Fund Program restarts. Mr. Rose explained the waiting period should not be long because a significant amount of the projects on the list will have been completed with federal stimulus funds.

Mr. Taylor stated that previous discussions have taken place about not utilizing the Literary Loan Fund Program because of the program's repayment structure. Mr. Rose explained when the BAN comes due in three years the County may find rather than taking the 3% interest structured over 20 years they may instead want to go with a financing plan that does not include the extra payments in the early years. With the BAN, the Board would have three years to make the decision about permanent financing.

In concluding his presentation, Mr. Rose provided a review of the interest trends from the beginning of the decade. He explained that the interest rates have been steady over the last six years. Mr. Rose recommended that the Board not pass the opportunity to apply for Literary Loan funds for the Phase II and Neff Center construction projects. There are no costs associated with having a project placed on the Literary Loan Fund list for consideration.

Lengthy discussions ensued among the Board and Mr. Rose regarding Board members issues and concerns with the proposed plan of finance for the Phase II and Neff Center construction projects.

Mr. Owens inquired if projects are placed on the Literary Loan Fund list in a priority order. Mr. Rose explained that they are not. A project is placed on the list in the order it is received.

Mr. Reeter explained that with respect to the Neff Center construction project the Board has given authorization to the School Board to submit a Literary Loan Fund application for this project.

Mr. McCrady discussed that there are other major projects the County are involved with that will come to fruition within the next couple of years that requires additional County funds. Mr. Rose explained that in preparing the proposed plan of finance, the County's financial situation as a whole including debt for future non-school related projects that are planned has been reviewed. Mr. Reeter stated the Davenport and Company is aware of everything that the County is considering.

Mr. McCrady explained that Phase II will cost about \$7,000,000.00. If the Neff Center expansion is added the project costs will increase to \$10,000,000.00. He stated that the costs could possibly be \$12,000,000.00 if the demolition expense is factored. He further explained that he supports the Phase II Construction Project, he believes the Neff Center expansion project should be placed on hold.

Mr. Rose reviewed debt service structure. He explained that in the next year or two, the County may need additional revenue equivalent to two cents of real estate tax revenue if the County adds an additional \$10,000,000.00 of non-school related debt. Mr. Rose further explained when the money is needed to pay the debt service for the proposed school projects that the County would have seen a natural decline in the school's other debt service.

Mr. Taylor commented that this does not take into consideration additional revenues that may come into the County. Mr. Rose explained that in developing the plan of finance only the expenses were considered, and he did not include any additional revenues. Mr. Taylor said he feels optimistic that revenues would be generated from sources other than the real estate tax revenues that could be used for capital projects.

Mrs. Mumpower asked for clarification about the additional revenue that would be needed to pay for the debt service if all projects were completed. Mr. Rose explained that the two cents of additional real estate tax revenue is equivalent to \$10,000,000.00 in non school construction projects.

Mr. Rose explained that should the County incur \$20,000,000.00 in debt they are looking at the equivalent of three cents of additional real estate tax revenue that would be needed by 2015 to pay all the new debt service payments. This is based on a flat zero growth rate.

Mr. Seamon commented that the Board should consider setting up a new School Debt Service Fund to be separate from the General School Fund. He feels that is important for the Board to better monitor their annual contributions for school debt service.

Discussion ensued.

Mr. Rose reviewed the County's existing debt service obligations and discussed the natural decline of the County's debt. He explained that the Board would not have to look at increasing its operating budget now if they chose to implement interim financing and utilized \$1,500,000.00 of the Capital Reserve funds designated for Schools. Mr. Rose explained that the total amount of County debt is modest, and the credit rating agencies like the County because of their low debt burden.

Discussions ensued among the Board and Mr. Rose concerning restructuring the County's existing debt.

Mr. McCrady asked under this environment what would be best for County. Mr. Rose said to do BAN for three years for Phase II, and if Board believes Neff Center is necessary include it. Mr. Rose stated that another opportunity to be discussed in closed meeting looks very compelling and the Board should look hard at doing this. He referred to earlier comments about the maximum impact four to five years out being equal to three pennies real estate tax. The Board could put a lot of things in place for school quality and efficiency, and County Economic Development would be helped. Most people like to see monies reinvested in education.

Mr. McCall stated that the windfall from the twice year tax should be kept to pay off debt in future if needed and not waste it. Mr. Rose agreed that the County should look at the best uses of the tax windfall money.

Mr. Rose stated that Davenport & Company realizes how tough it is going to be state wide for the 2011 budgets. However, the Phase II and Neff Center Construction Projects (especially Phase II) could be structured in a way not to cause the 2011 or 2012 County Operating Budget to be any worse then it is now. The \$1,500,000.00 the County has set aside for school projects would be used to pay the interest payments during the interim financing period.

Mr. Reeter said that this was game plan back in January. He wanted to address school projects now by taking money in hand and making it goes as far as it can.

The Board discussed issues pertaining to the costs of the Neff Center expansion project increasing from \$800,000.00 to \$3,000,000.00.

Mr. Reeter distributed to the Board a cost estimate obtained from E. Luke Green and Company for the demolition and abatement of the Washington County Skill Center. Discussions ensued concerning the cost estimate.

Mr. Reynolds explained that he has talked to representatives of industry and various agencies about the importance of the Neff Center. The image Washington County has is that we build worthwhile projects, and the Neff Center is a unique project. Industry representatives have indicated that to create a good

image of the County and to assist with attracting industry to the County, the Neff Center needs to be an attractive facility. It may not be a positive move by the Board if the Neff Center expansion project is not approved.

Mr. Taylor discussed the importance of the Neff Center. He explained that he supports including the project in the financing plan because the project seems to be within the means of what the County can afford.

Mr. Dan Siegel with Sands Anderson Marks & Miller, provided a review of the proposed Resolution approving a plan of finance for the Phase II School Construction project only, and the proposed Resolution approving the plan of finance for the Phase II and Neff Center construction projects. He explained that the Resolutions repeat the approval already given by the Board of Supervisors to the Washington County School Board to submit Literary Loan Fund applications for both the Phase II and Neff Center Construction projects. Both Resolutions addresses the three percent interest rate for the Literary Fund Loans and directs Davenport & Company and Sands, Anderson, Marks & Miller to work with the County Administrator and staff to develop and recommend options for interim financing of the project(s) to the Board of Supervisors.

Discussions ensued among the Board concerning the proposed Resolutions.

Mr. McCrady reiterated his earlier remarks that he supports going forward with the Phase II Construction Project, but believes the Neff Center expansion should be placed on hold.

Ms. Phillips addressed the Board and explained that by adopting one of the proposed Resolutions, the Board is not making a commitment to proceed with financing of the project(s). The Resolutions only provide authorization for the consultants to put together the best financing package and bring a recommendation to the Board. At that point, the Board will give authorization whether or not to proceed with the project(s).

Mr. Taylor proposed that the Board adopt the Resolution authorizing a plan of finance for both the Phase II and Neff Center Construction Projects. At the time the consultants bring a recommendation about the financing to the Board the Neff Center project could be removed if the County cannot afford to complete that project.

Further discussions ensued.

On motion of Mrs. Mumpower, second by Mr. Owens, the Board acted to adopt the following Resolution authorizing to proceed with seeking formal proposals for financing for the Phase II and Neff Center expansion projects:

RESOLUTION 2009-24 OF THE BOARD OF SUPERVISORS OF THE COUNTY OF WASHINGTON APPROVING A PLAN OF FINANCE THE WASHINGTON COUNTY PUBLIC SCHOOLS PHASE II SCHOOL CONSTRUCTION AND NEFF CENTER CONSTRUCTION

WHEREAS, the Board of Supervisors (the "Board of Supervisors") of the County of Washington, Virginia (the "County") approved the Washington County School Board ("School Board") placing applications with the Commonwealth of Virginia Board of Education (the "Board of Education") for loans of approximately \$6,900,000 and \$3,100,000 (the "Literary Fund Loans") from the Literary Fund, a

permanent trust fund established by the Constitution of Virginia, for the construction, renovation and expansion of seven school facilities in the County (together, the "Phase II Project") and the Neff Center Project (the "Neff Center Project" together with the Phase II Project, the "Project") which are expected to be on the First Priority Waiting List of the Board of Education;

WHEREAS, the Literary Fund Loans, once funded, are expected to bear interest at three percent (3%) per annum and mature in annual installments for a period of twenty (20) years;

WHEREAS, the Board of Supervisors desires to take advantage of potentially favorable construction costs during the current economic environment in a manner that would have minimal budgetary impact on the County;

WHEREAS, the Board of Supervisors had directed its financial consultants, Davenport & Company LLC (the "Financial Consultants") and its bond counsel, Sands, Anderson, Marks & Miller, a Professional Corporation (the "Bond Counsel" together with the Financial Consultants, the "Consultants") to develop and recommend options for interim financing of the Project and, the Consultants have recommended at this meeting that the Board of Supervisors authorize request for proposals to potential lenders be distributed and coordinated by the Consultants and that any such proposals be evaluated by the Consultants and with the County Administrator and his staff, with a further recommendation to the Board of Supervisors;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF THE COUNTY OF WASHINGTON, VIRGINIA:

1. The Board of Supervisors hereby authorizes and directs the Consultants to develop and distribute request for proposals to potential lenders for interim financing of the Project in the form of a bond anticipation note financing (the "Bond") in contemplation of permanent financing from the Literary Loan Fund or similar financing, such as Virginia Public School Authority Subsidy Bond Program, Virginia Resources Authority, or lease revenue bonds issued through the County's industrial development authority becoming available, expected within the next four years.

2. The Board of Supervisors hereby declares, in accordance with U.S. Treasury Regulation Section 1.150-2, as amended from time to time, the County's intent to reimburse the County with the proceeds of the Bond with respect to the Project. The maximum principal amount of the Bond expected to be issued, other than for costs of issuance, for the Phase II Project is \$6,900,000 and \$3,100,000 for the Neff Center Project.

3. All other acts of the County Administrator and other officers of the County that are in conformity with the purposes and intent of this Resolution and in furtherance of the issuance of the Bond and the undertaking of the Project are hereby approved and ratified.

4. This Resolution shall take effect immediately.

The vote on this motion was as follows: (6-0)

Mr. McCall Aye
Mr. McCrady Aye
Mrs. Mumpower Aye

<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

Mrs. Mumpower requested that the agenda be amended to add a second closed meeting to discuss negotiations with the City of Bristol concerning negotiations for acquisition of wastewater treatment capacity.

On motion of Mrs. Mumpower, second by Mr. Owens, the Board acted to amend the motion to approve the Agenda to add a second closed meeting to discuss the acquisition of waste water treatment capacity from the City of Bristol.

The vote on this motion was as follows: (6-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

5. Closed Meeting(s):

- a. Request to convene in Closed Meeting pursuant to Virginia Code Section 2.2-3711(A)(3) for discussion or consideration of the acquisition of real property for a public purpose, or of the disposition of publicly held real property, where discussion in an open meeting would adversely affect the bargaining position or negotiating strategy of the public body; specifically County government office space**

On motion of Mr. McCall, second by Mr. McCrady, the Board acted to convene in Closed Meeting pursuant to Virginia Code Section 2.2-3711(A)(3) for discussion or consideration of the acquisition of real property for a public purpose, or of the disposition of publicly held real property, where discussion in an open meeting would adversely affect the bargaining position or negotiating strategy of the public body; specifically County government office space. It was further resolved to include County Administrator Mark Reeter, County Attorney Lucy Phillips, Assistant County Administrator Christy Parker, Accounting Manager Mark Seamon, David Rose, Davenport & Company and Dan Siegel, Sands Anderson Marks & Miller in the Closed Meeting.

The vote on this motion was as follows: (6-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

The Board took a five minute break.

Reconvene in Open Meeting and Certification of Closed Meeting

After returning to the meeting, the Chairperson noted that upon motion of Mr. McCrady, second by Mr. Owens and favorable vote, the Board of Supervisors reconvened in open meeting. The Chairperson called for any participant in the closed meeting(s) who believed that there was a departure from the requirements of the Virginia Freedom of Information Act during the closed meeting(s), to state the substance of the departure that they believed took place. No members of the Board responded to the Chairperson’s call for statements.

On motion of Mr. McCrady, second by Mr. Owens, the members of the Board certified the closed meeting(s) in accordance with the requirements of the Virginia Freedom of Information Act. By vote in favor of this motion, each member certified that the closed meeting was conducted in conformity with Virginia law, and that only public business matters lawfully exempted from open meeting requirements and identified in the motion by which the closed meeting was convened was heard, discussed, or considered in the closed meeting.

The vote on this motion was as follows: (6-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

- b. Request to convene in Closed Meeting pursuant to Virginia Code Section 2.2-3711(A)(6) for discussion concerning investment of public funds where bargaining is involved and public disclosure would adversely affect the County’s financial interests regarding acquisition of waste water treatment capacity from the City of Bristol**

On motion of Mrs. Mumpower, second by Mr. McCrady, the Board acted to convene in Closed Meeting pursuant to Virginia Code Section 2.2-3711(A)(6) for discussion concerning investment of public funds where bargaining is involved and public disclosure would adversely affect the County’s financial interests regarding acquisition of waste water treatment capacity from the City of Bristol. It was further resolved to include County Administrator Mark Reeter and County Attorney Lucy Phillips in the Closed Meeting.

The vote on this motion was as follows: (6-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

b. Reconvene in Open Meeting and Certification of Closed Meeting

After returning to the meeting, the Chairperson noted that upon motion of Mrs. Mumpower, second by Mr. McCall and favorable vote, the Board of Supervisors reconvened in open meeting. The Chairperson called for any participant in the closed meeting(s) who believed that there was a departure from the requirements of the Virginia Freedom of Information Act during the closed meeting(s), to state the substance of the departure that they believed took place. No members of the Board responded to the Chairperson’s call for statements.

On motion of Mr. McCrady, second by Mrs. Mumpower, the members of the Board certified the closed meeting(s) in accordance with the requirements of the Virginia Freedom of Information Act. By vote in favor of this motion, each member certified that the closed meeting was conducted in conformity with Virginia law, and that only public business matters lawfully exempted from open meeting requirements and identified in the motion by which the closed meeting was convened was heard, discussed, or considered in the closed meeting.

The vote on this motion was as follows: (6-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>

6. Adjourn or Recess

On motion of Mr. Owens, second by Mr. McCrady, it was resolved to adjourn the meeting.

The vote on this motion was as follows: (6-0)

<i>Mr. McCall</i>	<i>Aye</i>
<i>Mr. McCrady</i>	<i>Aye</i>
<i>Mrs. Mumpower</i>	<i>Aye</i>
<i>Mr. Owens</i>	<i>Aye</i>
<i>Mr. Taylor</i>	<i>Aye</i>
<i>Mr. Reynolds</i>	<i>Aye</i>

Prepared by:

Naoma A. Norris, Recording Clerk

8-18-09 16556

Approved by the Washington County Board of Supervisors:

Kenneth O. Reynolds, Chairman