

AT A MEETING OF THE MIDDLESEX COUNTY BOARD OF SUPERVISORS HELD
ON TUESDAY, FEBRUARY 1, 2022, IN THE BOARD ROOM OF THE HISTORIC
COURTHOUSE, SALUDA, VIRGINIA:

Present: Wayne H. Jessie, Sr., Jamaica District
Don R. Harris, Saluda District
John B. Koontz, Jr., Hartfield District
Reginald A. Williams, Sr., Harmony Village District
Lud H. Kimbrough, III, Pinetop District

Matthew L. Walker, County Administrator
Betty S. Muncy, Assistant County Administrator
Ann Marie Ricardi, Assistant County Administrator
Heather W. Lewis, County Attorney

BUDGET REVIEW

Ms. Muncy distributed budget binders to the Board. In November, each department or agency was asked to submit their budget requests for FY2023. Those requests had been entered into the Bright financial software system used by the County and had been printed out and included in the budget binders. Mr. Walker reviewed the budget binders, saying they included expenditures from previous years, FY19, FY20, and FY21. The adopted FY22 budget was in the book as well as the amended FY22 budget. There is a column that shows the actual expenditures through January 31, 2022. The last column shows the amounts from the department and agency budget requests. Those requests are unfiltered and as received by the administrative staff. It does not include the School Board budget request. The school will make their budget request and presentation mid-February. Departments and agencies will make their presentations to the Board on Friday, February 4, 2022. The actual budget requests from departments and agencies are included in the back of the book. Three new items for consideration by the Board are a County Engineer position, body cameras, and new financial software. The numbers for these items have not been added in the line items for these departments. The Board can decide if they want to pursue it in this year's budget or postpone it for a later year. Debt service payment information is also included.

Ms. Ricardi added that, if body cams are utilized, an Assistant Commonwealth's Attorney position would need to be added, by state law, that would be dedicated to watching body cam footage. Mr. Walker recommended that the Board consider appointing a committee of Board members, the Commonwealth's Attorney, and the Sheriff to evaluate this further to see if there are cost-effective approaches to body cameras. Supervisor Harris said he had talked to the Sheriff, and he got the impression that the Sheriff was more interested in moving his office into the Puller Center this coming year than pursuing body cameras. Supervisor Jessie said the Sheriff told him that he was going to fully investigate body cameras and all that it entailed and do his due diligence and take his time on making a decision. He does not

want to rush into anything. Ms. Ricardi said she had not received a formal budget request from the Sheriff or the Commonwealth's Attorney regarding body cameras, but the Board had suggested looking into body cameras back in October 2021; therefore, she had done some preliminary work to present it during budget season.

Mr. Walker said the initial boilerplate or framework for the County Engineer position would be similar to the position that was recently co-funded between the Treasurer and the Water Authority, with the Water Authority bearing a portion of the cost through a Memorandum of Understanding. Mr. Walker said that having engineering expertise in-house to manage contract engineers and to catch issues before they arise could actually save a substantial amount of money and perhaps the position could almost pay for itself. Greg Chambers, Chairman of the Water Authority, said recently that he believes that about \$1 million could have been saved on the water project by having an in-house engineer. Mr. Walker said that with the sewer project underway, the Board should consider having an in-house engineer to oversee the project. There are several other ongoing projects that the County is involved in, such as the walking paths with VDOT, a park project, the airport project, the Puller Center, and an ongoing partnership with the Water Authority to extend water into other communities. Chairman Kimbrough said that, from his perspective, he thinks an in-house engineer position would be a great asset to the County. Supervisor Harris said it would be a good idea to look into having an in-house engineer, but he requires a little more thought process before making a decision. Supervisor Jessie said he believes it is a good idea to have an in-house engineer on board because the County will experience gradual, smart economic growth with the addition of water and sewer. Supervisor Williams said if the County hired a contract engineer that needed babysitting, then the County hired the wrong engineer. He said that a part-time engineer that would work in the field might be best. Supervisor Koontz said that rather than hire a single engineer who might be a jack of all trades and master of none, the Board should consider instead budgeting appropriately for consulting engineers as needed. He does not believe a single engineer would be able to cover electrical, mechanical, geological, and other types of engineering, as well as project management. Instead, a specific engineer could be hired for each type of project if money were allotted in the budget. Chairman Kimbrough said he thinks the topic needs continued discussion and consideration. He believes some type of property management is necessary to relieve some of the burden on county staff. He agreed with Supervisor Koontz, saying that a civil engineer would not be very helpful with an electrical project. He suggested putting it in the budget as a placeholder for further discussion.

Mr. Walker said that he and Ms. Ricardi had a phone conference with the County Administrator of Richmond County as that county is embarking on the same journey, looking for new financial software. Ms. Ricardi also spoke with the County Administrator of Caroline County regarding financial software. Caroline County has recently shifted from the Bright system to a new financial software system. Ms. Ricardi said that new, modern financial software will be more user-friendly and offer easy-to-read balance sheets and financials. The new software should have interface benefits,

such as a bank reconciliation program and an interface with vendors for purchasing and payments. Individuals and departments wanting to be included in the new system could be involved in investigating different systems to see which product might be right for them. 100-200 hours would probably need to be invested in determining the right product. The Board had expressed that they wanted an improved financial package, so an upgrade is necessary. Ms. Ricardi said that financial software should be able to integrate with other software, such as payroll, human resources, building inspections, etc. The general ledger could be converted in about four months and then the Treasurer conversion would take about four months. A full conversion would probably take no more than a year.

Chairman Kimbrough said it was worth considering putting in a placeholder amount for an outside party to manage the conversion to make sure that everything goes as it should. It is important for the County to move ahead with a product that is going to allow it to operate more efficiently. He said he thought that a reasonable placeholder amount of \$150,000 be placed in the budget to cover the one-time cost and the implementation support that would be needed. Supervisor Koontz agreed, saying that staff does not have the expertise in changing over software. There are firms that do nothing but that and they could come in and relieve anxiety and allay fears of the transition. He believes a consultant would make the conversion go much more smoothly. Supervisor Jessie said he was very supportive of that idea. Supervisor Williams agreed, saying he wants the job done right and quickly. Mr. Walker said the \$150,000 could be funded as a one-time cost capital project to bring a project coordinator on board and start engaging the employees.

EXPENSE REVIEW

Mr. Walker stated that \$1.3 million was brought in from fund balance for operating expenses last year. He said that is the starting gap that the Board will try to fill this year with revenue. It is best not to bring in money from the fund balance to balance the budget on an ongoing basis. ARPA monies were used for funding certain aspects of the operating budget last year. He said the audit for last year was in and it indicated that there was \$4.9 million that can be used for discretionary appropriations. In last year's budget of \$29.4 million, \$1.3 million was brought in from fund balance. There are some federal monies that may or may not be available to bring into the budget this year. He said that holistically, a 7% cost-of-living (COL) increase had been built into the budget for all County employees, and for school employees, one step and a 6% cost-of-living was included. Apparently, the Governor is planning to have a 10% increase for SOQ (Standards of Quality) funded positions, for teachers and other SOQ-supported positions, over the biennium. In order to leverage state funding for that raise, the County would have to have a 10% increase in those positions over the biennium. The Budget and Finance Committee thought it would be best to go ahead and include a 7% increase this year so the bulk of the increase would be in place at the start of the second year. The County will have a bump in real estate assessments and collections, as well as on personal property because values are going up. These increases are built into the department requests. As far as constitutional employees

go, the County will not get the numbers from the Compensation Board until late March or early April, after the state completes its budget process. If the 10% raise will also be for state employees, Mr. Walker believes that would carry over for the constitutionals as well. The County would get revenues from the state to help fund that. Welfare and social welfare and service organization increases are due to the 7% COL increase, but those costs are supplemented to the extent of 85% from new revenues from state and federal pass-through funding. The EDA line item is listed at \$92,115 for salaries and other expenses. In addition, the EDA will still get the transfer from the Lodging Tax.

Mr. Walker reviewed some of the expenditures on this year's draft budget. He said that some of the debt service was refinanced so the debt service cost had actually gone down, and the VoiceOver IP (VOIP) project done in concert with the schools had been paid off. Administration had an increase of 10% largely driven by the 7% cost-of-living (COL) increase. The increase in the Treasurer's office is for an additional position, shared by the Water Authority. Data processing shows a 44% increase which is driven by support that is needed for some of the items that were pursued under ARPA. Ms. Muncy said that some of those costs were for maintenance of some security software for Elections and security upgrades at the Courthouse. Increases in the Judicial line item came from detention costs. The Sheriff's Office has the 7% increase in compensation as well as an increase in vehicle expenses. Fire and Rescue is listed as a 69% increase. David Layman, Emergency Services Coordinator, will make a PowerPoint presentation to the Board during Friday's budget work session. The Regional Jail has not submitted their budget request yet. Emergency Services shows a 90% increase, which funds the Emergency Services Coordinator and some of the grant support for the County's aspect of Emergency Services dealing with the Rescue Squad and Fire Department. Some of the increase comes from contractual ongoing maintenance and software upgrades and support for the E911 radio system. However, \$170,000 will be brought in as revenue from fund balance from a set-aside account established to pay for that. Mr. Walker reviewed several other line items that reflected a very marginal increase or level funding.

The Board took a 10-minute break.

Mr. Walker continued reviewing line items, saying that the schools showed a marked increase because a placeholder had been added for the Step and 6% COL adjustment. School debt service is level funded for now until the School Board makes its presentation in a few weeks. The budget shows zero funding for both the school's and the County's capital funding because the capital projects have not been finalized for next year. At the next budget meeting, those line items will be partially filled in with at least \$150,000 for a financial software upgrade. This will not affect the operating budget because those monies are brought in from capital reserves. School textbook funding is level funded with a placeholder amount until the school makes their presentation.

Mr. Walker said that, as of now, the bottom-line gap is \$2.5 million between the current estimated revenues and expenditures.

Mr. Walker said that he determined the estimated salary adjustments for County staff as well as Social Services and the Sheriff's Office by using a 1% salary adjustment which is equivalent to approximately \$50,000. For the schools, every Step is approximately \$147,000 and for every 1% COL, it is approximately \$108,000, so the estimate for the one Step and the 6% COL increase for the school is approximately \$795,000-\$800,000. The total estimated cost across the County and the schools is \$1.1 million. The County receives revenues from the state to offset some of those costs for Social Services, Commissioner of Revenue, Sheriff's Office and other constitutionals. State money is also received to offset the SOQ-funded positions in the school system. When the money is received from the state, it is put into the General Fund for the operating budget.

Supervisor Harris asked Mr. Walker how he came up with trying to do a 7% increase this year and then the 3% next year to arrive at the 10%. He asked why he did not do 5% and 5%. Mr. Walker said there is an expected increase in real estate assessments this year, as well as an increase in personal property tax collections, due to an increase in values, of approximately \$700,000, and a new Cigarette Tax coming in this year. He said those increases make it a little more palatable to do the 7% this year, rather than doing less this year and then trying to make up on it next year. He said that the real estate tax revenue on the new assessments is expected to be between \$1.1 million and \$1.34 million, but that is merely an estimate, so that amount has not been input into the initial revenue projection. That figure may be lowered after the Board of Equalization appeals, but the amount should be marginal. Mr. Walker said he also believes that the 7% increase helps employees keep up with ever-increasing inflation rate. He said that if the Board does not lower the tax rate and absorbs the increase in reassessed values, it will still have to be advertised as a tax increase. It has to be advertised as if the tax rate would have netted that money; it is required by state code. It indicates to the citizens that the County is receiving a lot more revenue on the same tax rate.

Mr. Walker said he was only sharing preliminary revenue projections, and he was being very cautious, and the focus would be on real estate. Next month, he would have a more robust picture of the Capital Improvement Plan.

Mr. Walker said that there does appear to be interest in a regional buy-in for a shared reassessment program with surrounding counties. Before, Gloucester County was reluctant to participate in a combined effort, but now they seem to be eager to do so. Mathews, Essex, and King and Queen appear to be on board, and King William has expressed some interest. He does not think that there is enough time to do a comparable cost estimate for the project during this budget season, but a decision packet could be assembled for them. It may be something that the Board will have to react to during next year's budget. Assessments should be as accurate, timely, and up to date as possible, but that is a challenge when assessments are contracted for every five years. He believes it should be done every three years, or possibly four, to avoid huge spikes.

Ms. Lewis reported that there is a push to expand the Transient Occupancy Tax in legislation. Also, Airbnb has stepped up its lobbying efforts and is fighting states that are starting to tax the Airbnb. Airbnb involves a zoning component as well as a tax component. To date, Airbnb has been successful in its fight, but it looks like that may be changing, which will be great for the County. Airbnb and VRBO are growing in the County, offering coastal vacations. Supervisor Koontz added that, in some localities, Airbnb is eating up affordable housing, and in a community such as this, that is already short on affordable housing, that can become a problem. It is worth watching how other communities are dealing with Airbnb dominating real estate, both rental and for sale.

Supervisor Harris asked what the bank stock and franchise tax item represented. Mr. Walker said that when banks come to a locality, Virginia code requires them to pay a certain tax on the amount of deposits held in those banks. It appears that amount could be going up slightly, but he does not want to over-predict it. It tends to fluctuate, so he tries to give a conservative prediction.

RECESS

Chairman Kimbrough recessed the meeting until the regular Board meeting later that same day, February 1, 2022, at 3:00 p.m.

Lud H. Kimbrough, III, Chairman
Board of Supervisors