A Joint Meeting of the Albemarle County Board of Supervisors and School Board was held December 2, 2009 at 4:00 p.m. in Room 241, County Office Building, 401 McIntire Road, Charlottesville, VA 22902

School Board Members Present: Mr. Brian Wheeler; Mr. Jon Stokes; Mrs. Barbara Massie Mouly; Mr. Steve Koleszar; Mrs. Diantha McKeel; and Mr. Ronnie Price, Sr.

School Board Members Absent: Mrs. Pamela Moynihan.

Board of Supervisor Members Present: Mr. Dennis Rooker; Mr. Lindsay Dorrier; Ms. Ann Mallek; Mr. Ken Boyd; Mr. David Slutzky; and Ms. Sally Thomas.

Board of Supervisor Members Absent: None

Staff Present: Dr. Pamela Moran, Superintendent; Dr. Bruce Benson, Assistant Superintendent for Planning and Operations; Mr. Billy Haun, Assistant Superintendent for Instruction; Mr. Luvelle Brown, Chief Information Officer; Mr. Jackson Zimmermann, Executive Director of Fiscal Services; Mr. Tom Foley, Assistant County Executive; Mr. Richard Wiggans, Director of Finance; Ms. Kimberly Suyes, Director of Human Resources; Ms. Lorna Gerome, Assistant Director of Human Resources; Mrs. Ella Jordan, Clerk of the Board of Supervisors; and Mrs. Jennifer Johnston, Clerk of the School Board.

Call to Order

Mr. Slutzky called the meeting of the Board of Supervisors back to order at 4:11 p.m. Mr. Wheeler, Chairman, called the meeting of the Albemarle County School Board to order.

Capital Improvements Program (CIP) Oversight Committee Recommendations.

Mr. Foley and Mr. Letteri summarized the staff report and presentation on the recommendations of the CIP Oversight Committee.

Ms. Mallek asked if the Storm water projects are new, or is it just a reallocation of the two big projects currently going on. Mr. Letteri said they are new projects. Ms. Thomas said she knows that the EPA is making new demands on storm water that will probably put strains on those figures. Mr. Letteri said that he does not know to what extent it is adequate to cover all of those things. Mr. Rooker said it is not clear how much of the cost of those imposed requirements will be borne by developers and by localities. Ms. Thomas said the last time the EPA put out any sort of guidance, they assumed that counties are like cities and own their storm water system in a way that the County does not, so no one knows what that figure might be at this point. Mr. Rooker said the application fees the Board discussed earlier today will pale in comparison with the cost of storm water that will be imposed over time on new development.

Mr. Letteri said this is essentially a maintenance only program. Not recommended for funding in the area of Courts was the Levy Building renovation project (that building is owned jointly with the City and currently vacant), but the committee considered it a notable project. The City's plans for that building are not known at this time; he does not think action by them is imminent. Mr. Rooker asked if there has been a use study of that building for leasing purposes. Mr. Letteri said there has not been. Mr. Rooker said if it is not going to be converted for some use by the courts for the next five years, is it feasible to look for a lease party that might incur some expense to move in. Mr. Letteri said staff just finished an abbreviated study to answer the question of whether there can be a joint District Court operation with the City. The indications are that it would not likely serve well for that purpose. Mr. Dorrier said he thinks a committee should be put together to look at that question. Mr. Letteri said staff is mindful of the fact that if the County should occupy that building, it would have to maintain it, etc. He thinks there needs to be a study. Mr. Rooker said he sees an asset there that is generating no return in a time when the County needs funds to operate. As part of that study he would like to be sure it looks at the revenue-producing potential of that facility if it is not going to be used for its planned use anytime soon.

Mr. Boyd said the CIP Oversight Committee talked about it and decided that was not an appropriate task for that group. They discussed the possibility of taking an inventory of all assets owned and giving some thought to selling some of them. Mr. Koleszar said he does not think the Board would want to sell at the bottom of the market. He had suggested selling some properties a couple of years ago, and that would have been the time to do it. Mr. Rooker said leasing would be better if the building is not going to be used soon.

Mr. Letteri said the category of Public Safety was impacted heavily. There was over $37.0 million in reductions or deferrals of the requests received. Mr. Rooker asked if the apparatus for fire and rescue could be looked at for grant opportunities. Mr. Letteri said a member of the Fire Department staff is looking at that question. Ms. Thomas said that in a couple of years the City is going to move their station in the Ivy area to the Fontaine Research Park. That will have an immediate impact on the people in the Ivy area.

Mr. Boyd asked if Mr. Letteri will present information about items on the list that were not just shifted to future years, but have actually been dropped from the list. Mr. Letteri said nothing that had been deferred or removed was programmed back in at any time in the future. The committee felt that with the nature of the projections and the uncertainty about the future that it did not make sense to program them back in.

Mr. Boyd said the Crozet Library is no longer in the CIP.

Mr. Rooker asked about the two fire stations. Mr. Boyd said they are no longer in the CIP. Mr. Foley said they are outside of the five-year plan. Mr. Letteri said when he mentioned "deferred" or "removed" it is the same thing, they are out of the ten-year period. Ms. Mallek suggested calling it "eliminated" and just get over it. Mr. Foley said revenues are not projected out beyond the five-year period. The CIP is a five-year document, but staff does a ten-year assessment. He said those things cannot be funded within the five years, but the plan will be reassessed each year and if revenues turn around, some things might be done. Mr. Rooker said projects that are important to the County and the Schools have always been carried beyond the five years. He asked if everything that was in the five- to ten-year period was eliminated or were just certain projects dropped because funding them on this side of ten appears to be dismal. Mr. Foley said they are just placeholder projects from year six through ten. They are just not in a balanced plan.

Mr. Rooker said in years one through five there was a certain amount of revenue available, and then in years five through ten there were projects that could not be funded in that five-year period, but they were recognized as things that need to be done in the out years. He asked if that whole category has been eliminated. Mr. Foley said in the past there might have been a project listed as being needed in year eight, so it was included in year eight, but that part of the plan was not balanced to revenues. Mr. Letteri said there was so much focus on just getting the five years balanced that the committee did not have time to go into the out years in detail. He said a new ranking criterion was developed and used this year; he got good feedback about that criterion from the committee members. Staff might take that criteria and try to lay out those projects over the next five years, but the plan would not balance in terms of the numbers being shown.

Mr. Letteri said the recycling centers and windows have all been removed. This was an attractive project that was developed involving a public-private partnership and outside resources, but it was deferred. The Crozet Library was well into the design phase. Mr. Wheeler asked if the Crozet Library is a placeholder in years six through ten or is it no longer a part of the plan. Mr. Letteri said it is no longer on the list. Mr. Boyd said he knows people will be asking what happened to that project. Ms. Mallek said people in Crozet have already found out about this plan, and are asking questions. Mr. Letteri said before the CIP comes back to the Board, staff can work on some kind of a plan to lay these projects in over the next five years. Mr. Foley said they went as far as having Ms. Lee Catlin look at ways to inform the public about this decision. Staff crafted a statement that the CIP Oversight Committee looked at. Mr. Rooker said if the Crozet Library has been completely removed and is no longer a part of the plan, he thinks the public needs to know that. Mr. Foley said it has clearly been removed from the Five-Year CIP.

Mr. Letteri said the equalized tax rate was used for this plan; it balances the plan at the $2.0 million level. If the current tax rate were used, the $1.2 million lost plus another $2.0 million would need to be made up somehow. If that were required, the committee identified some areas to think about based on the criteria that the TRT put together. That would include critical obligations such as the Keene Landfill, a lot of ECC projects that are essential for operations, and storm water management reductions beyond that – all of these will have to be discussed further.

Mr. Letteri said no action is required today. These recommendations of the CIP Oversight Committee will go to the Executive Office and then eventually back to the Board in the spring for action. There will likely be work sessions before that time.

Mr. Rooker said this is a prime example of zero-based budgeting. There are zero dollars, so how will they be allocated? Mr. Letteri said this is not put forward as an adequate program; it is what has to be done to make it balance.

Mr. Rooker said in reference to the southern feeder pattern schools, there were expansions planned so as not to build one large school and those are now out of the plan. What is the current student growth factor in that area and what is the projected student growth factor? Can it be dealt with in the existing facilities? He assumes that was discussed by the committee before recommending that they be taken out of the plan. Mr. Boyd said the Board approved a rating criterion to be used in this process and the TRT used it. He thinks most of the committee was happy with the way it worked. He assumes enrollment was taken into account in the criteria. Mr. Koleszar said those facilities need major upgrades to be consistent with other facilities throughout the County. Those projects are important. Trailers may have to be placed at some of those schools. Ms. McKeel said that special classes are currently being held in the hallways at Greer Elementary. Phase 2 of the Greer project that was to go forward this year has been cut. Mr. Dorrier said that additional land is needed for any project at Yancey. Ms. McKeel said there is no money to buy land.

Ms. Thomas said that is the sad part of this because the architect for the Crozet Library said that 20 percent of the cost could be saved if the bid could be put out this year. When the County has the money everybody else will be doing projects also, and that benefit will have been lost.

Proposed Voluntary Early Retirement Incentive Plan (VERIP) Amendments.

Ms. Gerome summarized the staff report, which is on file in the School Board Office.

Mr. Rooker offered a motion to adopt the following resolution to amend Personnel Policy P-63, Retirement, to phase out the VERIP stipend and to revise the service requirements for retirees on group medical and dental plans. Ms. Mallek seconded the motion. Roll was called, and the motion passed by the following recorded votes:

AYES: Ms. Thomas, Mr. Boyd, Mr. Dorrier, Ms. Mallek, Mr. Rooker and Mr. Slutzky.
NAYS: None.

RESOLUTION

WHEREAS, the County of Albemarle Personnel Policy Manual has been adopted by the Board of Supervisors; and

WHEREAS, the Board finds that an amendment to Personnel Policy P-63 is necessary to clarify the County's retirement benefits, to revise requirements for retirees to remain on the County's insurance plans and to phase out the VERIP stipend benefit between July 1, 2012, and July 1, 2016.

NOW, THEREFORE, BE IT RESOLVED THAT the Board of Supervisors of Albemarle County, Virginia, hereby amends the following section of the County of Albemarle Personnel Policy Manual:

By Amending:

Section P-63 RETIREMENT

§P-63 RETIREMENT

I. REGULAR RETIREMENT

A. General

Retirement shall be at the discretion of the employee. Full-time regular employees of Albemarle County who qualify are eligible for the benefits of the Virginia Retirement System ("VRS"). Additional information describing VRS benefits is available on-line at varetire.org.

B. Continuing Participation in the County's Medical and Dental Insurance Plans

1. All employees retiring under VRS and/or the County's VERIP policy are eligible for continuous participation in the group medical and dental insurance plans until they are eligible for Medicare coverage if they participated in the County's group medical and dental insurance plans on the day prior to separation from the County. The age and service criteria for VRS are as follows: 50 years of age with 10 or more years of continuous regular employment by a VRS-participating employer; or 55 years of age with 5 or more years of continuous regular employment by a VRS-participating employer.

2. Individuals eligible to participate in the County's group medical and dental insurance plan shall pay the full cost of health insurance coverage, including any applicable administrative expenses.

3. Any retirees or Board members who participated in the County's group medical and/or dental insurance plans as of December 1, 2009 shall continue to be eligible to participate, at their own cost, until they are eligible for Medicare coverage.

II. LONGEVITY INCENTIVE PROGRAM

The County values the service of all of its employees, both full-time and part-time. Since part-time employees are not covered by VRS, the County has elected to establish a Longevity Incentive Program (the "Program") and thereby provide eligible part-time employees with certain benefits as more fully explained in this section.

A. Scope of Program

All regular, part-time employees of the County will be covered by the Program provided that they work the minimum number of hours necessary to establish eligibility for County benefits. Salaried Board Members are not eligible for participation in this program.

B. Benefits

The following benefits will be provided to eligible part-time employees under the Program:

1. Life Insurance: A term life insurance policy will be provided equal to twice the employee's annual salary with double indemnity for accidental death and dismemberment payments for the accidental loss of one or more limbs or of eyesight.

2. Annuity Program: Based on length of service in the County, part-time employees will be provided with an annuity program. The Board will contribute an annual amount according to the following formula:

   a. 5 - 9 years of County service - five percent of annual salary.
   b. 10 - 14 years of County service - seven percent of annual salary
   c. 15 - 19 years of County service - nine percent of annual salary.
   d. 20+ years of County service - eleven percent of annual salary.

III. Retirement Pay/Payment upon Death

In recognition of employee service to Albemarle County, regular full-time and part-time employees who meet the age and service criteria for retirement under VRS and have been employed a minimum of five (5) years with Albemarle County shall be paid upon their retirement or death in service $200 per year for each year of service to the County as a regular employee up to a maximum payment for 25 years of service, less any years previously paid for under this policy. Years of service do not have to be continuous.

IV. Voluntary Early Retirement Incentive Plan (VERIP)

A. Eligibility

1. Participants in the Albemarle County VERIP must be regular full-time or regular part-time employees eligible for benefits as defined in P-02, Definition of Employee Status and meet the following additional requirements:

   a. Full-time employees must be eligible for early or full retirement under the provisions of VRS. Part-time employees must meet the same age and service criteria as if they were full-time employees covered under VRS.

   b. Have been employed by the County government and/or school division for 10 of the last 13 years prior to retirement.

2. Employees retiring under the disability provisions of VRS and/or Social Security shall not be eligible for the VERIP.

3. VERIP benefits will cease if the retiree returns to work in a regular full-time or regular part-time position with the County government and/or school division.

4. VERIP benefits will continue if the retiree returns to work in a temporary part-time or temporary full-time position with the County government and/or school division.

B. Benefits

1. VERIP benefits shall be paid monthly for a period of five years after retirement or until age 65, whichever comes first. The VERIP benefits consist of a stipend calculated in accordance with Section B.2 (“stipend”) and an annual monetary contribution in the amount of the Board’s current contribution to Board employees for health insurance (“medical contribution”).

2. Stipends under VERIP will be calculated as follows:

a. Compute the annual VRS benefit. This computation shall include any reductions for early VRS retirement if appropriate.

b. Recompute the annual VRS benefit with the addition of five more years of service or the number of additional years needed to reach age 65, whichever is lesser.

c. The difference between these two calculations is the annual VERIP stipend ("Stipend Value") to be paid on a monthly basis.

d. Stipends for part-time employees who are eligible to participate in VERIP shall be determined as if the part-time employees are eligible for an annual VRS benefit and the amount shall be calculated in the same manner as benefits for VRS-eligible employees under subsections (a) – (c) above.

3. The County Executive will recommend to the Board an annual adjustment to the VERIP stipend after having been apprised of the VRS adjustment for retirees.

4. The Board will pay to the employee an amount equal to the Board's annual contribution toward an employee's health insurance as long as the employee remains eligible to receive VERIP benefits.

5. Effective December 2, 2009, the VERIP stipend shall continue to be calculated in the manner provided in Section B.2, but the stipend amount shall be modified in accordance with the following schedule:

a. Retirements effective on or after July 1, 2012 but before July 1, 2013: 80 percent of the Stipend Value.

b. Retirements effective on or after July 1, 2013 but before July 1, 2014: 60 percent of the Stipend Value.

c. Retirements effective on or after July 1, 2014 but before July 1, 2015: 40 percent of the Stipend Value.

d. Retirements effective on or after July 1, 2015 but before July 1, 2016: 20 percent of the Stipend Value.

e. Retirements effective on or after July 1, 2016: No VERIP Stipend.

C. Application

Applications for VERIP must be made to the Human Resources Department prior to December 1st of the year preceding the fiscal year the employee's participation in VERIP takes effect. Applications after December 1 may be approved based on the needs of the County.

D. Approval

All VERIP applications are subject to approval by the County Executive or designee.

E. Duration

The Board of Supervisors reserves the right to modify this policy in its discretion, and all benefits described in this policy shall be subject to future modifications and annual appropriations by the Board of Supervisors.

F. Additional Benefits

1. Current employees who apply for VERIP by February 27, 2009 and who meet the eligibility standards identified below shall be entitled to receive, at their election, **one** of the following:

a. Two additional years of Board contributions toward health insurance beyond the duration established by Section IV.B, paid on a monthly basis. Employees who retire at 65 years of age or older shall receive two years of contributions toward health insurance.

b. The cash equivalent of two additional years of Board contributions toward health insurance calculated at the FY 2009-10 annual rate and paid in one or more installments.

2. To be eligible for the additional benefits in this section, employees must:

a. Submit VERIP applications by February 27, 2009;

b. Submit a letter by April 1, 2009 establishing a retirement date no later than June 30, 2009; **and**

c. Retire after the effective adoption date of this subsection (F) but no later than June 30, 2009.

(Amended: August 4, 1993; April 19, 1995; June 2, 2004; January 7, 2009)

Ms. McKeel then offered a **motion** to approve the School Board's policy GCPC to phase out the VERIP stipend and to revise the service requirements for retirees to remain on the medical and dental plan. Mr. Koleszar **seconded** the motion, **and the motion passed**.

FY 2010-11 Budget Issues:

Financial Forecast.

Mr. Foley said staff will provide some background information on budget changes that have occurred since the budget was adopted in 2008. He will give perspective on the changes that have occurred over the last three years including completion of the current fiscal year and then mention the changes made in the current fiscal year and then present the outlook for FY '11. General Fund revenues are down about $6.1 million driven primarily by the drop in real property values which are down about 6.3 percent from the reassessment in January, 2008. The other big drivers are sales tax and personal property tax.

Mr. Foley said State revenues are down about $600,000 in the General Fund and Federal revenues have decreased about $1.1 million in that three-year period. During that period revenues would be down further, but the Board approved an equalized tax rate in the current fiscal year that offset some of the loss.

Mr. Foley said that for expenditures - on the General Fund side Local Government is down about 60 positions or nine percent of its workforce either from being eliminated, frozen or offset with other revenue sources. That number will be increased to 65 positions in order to deal with the current financial crisis. That is about $3.6 million which has been reduced. Departmental operating expenditures are down about 11 percent or

$1.5 million. While experiencing losses and cutbacks, there are obligations which have increased expenditures - the biggest is the Revenue-Sharing Agreement with the City of Charlottesville.

Mr. Foley said the Tax Relief for the Elderly Program increased and Debt Service increased by about $3.6 million on projects previously approved. The Transfer to the School System to support their operations from general taxes over that period is down $1.7 million or 1.73 percent. The Capital Transfer is down significantly at $7.6 million or 30 percent. From the time the budget was adopted in the spring of 2007 for the 2008 year through the current fiscal year, this is the impact and the reasons changes had to be made.

Mr. Slutzky asked about the $3.6 million Debt Service costs. Mr. Foley said that is the debt service on the renovations to Albemarle High school, Greer Elementary and a number of projects done during that period of time.

Mr. Foley said in the current fiscal year there has been a $5.7 million downturn. The School Transfer is down $3.4 million; Capital and Debt Service are down $1.51 million. On the Local Government side several things have been done to address this shortfall. Forty percent of the Revenue Shortfall Contingency line item will be used this year, about $540,000. Some smaller contingencies which were set aside in the operating budget to address specific items will be used. The biggest is in Salary Savings – another 10 positions were added to the 55 positions already frozen or eliminated. Those 10 positions will come in at different times during the years, so the total savings will eventually be about $600,000. Most of the funds for the Housing Downpayment Assistance Program were eliminated. The ACE Program has been reduced, and there are additional savings on the operating side. He said Dr. Bruce Benson will talk about what the Schools have done to reduce expenditures.

Dr. Benson said they have used the School Fund Balance to address issues. They had about a $6.4 million unaudited Fund Balance on June 30, 2009. That is about four percent of their overall operating budget, not including their Self-Sustaining Funds. They included $1.8 million of that in the budget for the current fiscal year, and reappropriated approximately $212,000 of that to purchase the GPS systems put on the school busses. They expect to see a return on that investment in the current year that will cover the cost of that initial purchase and save significant money by helping to reduce deadhead miles – miles with no pupils on the bus.

Dr. Benson said some of their Fund Balance will be used to cover the projected local revenue shortfall for the current fiscal year at about $3.0 million. They do not know what to expect in State shortfalls, so they have set aside about $1.5 million for that. They have implemented a ten percent holdback in operational costs that nets about $900,000. Because of the uncertainty at the State level, they recently added another five percent holdback. They have a “hiring chill” instead of a “hiring freeze” – at the moment there are 22 positions which they are not filling that should save about $500,000. Potential savings from employees who took advantage of the early retirement option was projected to be about $1.1 million. They have been able to delay some Capital purchases because of access to State Stimulus money – about $500,000. They set aside about $1.8 million to use as part of the Superintendent’s funding request for the FY 2010-11 budget which leaves about $1.1 million for a contingency in that year.

Mr. Boyd asked if the Fund Balance is cumulative. Dr. Benson said yes.

Mr. Boyd asked if they budgeted for reserves. Dr. Benson said an amount was generated by savings in terms of personnel costs and moneys that were not spent in the operational budget. In the budget for the current fiscal year, they had budgeted $1.8 million of that Fund Balance.

Mr. Boyd asked if last year they budgeted to have $6.4 million in reserves. Dr. Benson said at that time it was not known what the total of the Fund Balance would be, but there were sufficient funds in the Fund to budget $1.8 million in the current fiscal year. Mr. Foley said the $6.4 million is not a budgeted number. It is just an end-of-year amount above and beyond expenditures and revenues.

Mr. Rooker said it is the result of a number of years of operation in which they created an accumulated fund balance. Dr. Benson said it is a result of people being frugal in their expenditures, and savings in terms of personnel costs. It is a result of what they feel is being good stewards of those resources to provide a cushion for the Division.

Mr. Boyd said it is actually a surplus which was created through efficient operations. Dr. Benson said that is correct. Mr. Boyd said there is a difference between a surplus and a fund balance.

Dr. Benson said Mr. Foley had mentioned some obligations Local Government has, and the Schools are having some of the same challenges. Looking at the amount of revenue over the last three years, and then at the increase in student population, more students are being taught with fewer dollars. There has been a 296-student increase over the last three years, and in each of those years there have been fewer revenues to do that.

Mr. Rooker asked if the bottom number is the projected fund balance that would exist to be available to bring over to 2010-11. Dr. Benson said that is correct. Mr. Dorrier asked if they had to use the money this year or they would lose the money. Dr. Benson said they hope they do not lose the money. That is part of their conversation with the Board of Supervisors.

Mr. Wheeler said one positive thing about their fund balance is that it exists in a rainy day like today to cover both State and Local shortfalls. He heard someone describing government in a fashion that said government departments just always spend everything they have at the end of the fiscal year. One of things this communicates is that the Schools do not do that. They accumulate a fund balance, and do not say “spend it.” Because of that they have a good relationship with the Board of Supervisors and that allows them to keep their Fund Balance going.

Mr. Boyd said he understands the 10 percent operational holdback and the policy used in the past. He assumes that holdback will not be released this year. Dr. Benson said that money has already been taken out of department accounts.

Mr. Boyd said he applauds the School Board for its efficiency, but just wants to understand its accounting.

Mr. Wheeler said that usually when this is talked about, the fund balance is talked about in a negative way. They have evidence to show that it is a positive thing.

Mr. Rooker said when the Board of Supervisors has had surpluses, the money was moved into capital which reduced the cost of capital to the Schools and Local Government. That made more money to split in subsequent years when items were paid out of cash as opposed to financing which would have driven up operational costs.

Mr. Slutzky said calling it a surplus conjures up an image in the public’s mind that there is extra money. Calling it a fund balance is a little more subtle. Mr. Boyd said he does not think surpluses are bad. The fact that you are efficient and ended up with a surplus is a good thing.

Dr. Moran said the School Board has discussed that where Local Government has a policy to have an eight percent reserve to use against both maintaining bond status but also as a “rainy day” focus that can be brought forward for all kinds of things, the School Board has been running about a four percent fund balance as part of its budget. They are looking at how to make that a policy so it becomes a focused direction for the Schools.

Ms. McKeel said Mr. Wheeler had already mentioned how well the Board of Supervisors and the School Board work together. For example, when education received about $3.0 million extra funding from the State, the School Board split those funds with the Supervisors. She thinks that shows that the bodies have worked well together over the years.

Mr. Wheeler said some of the stimulus money allowed the School Board to give back some capital money to Local Government.

Mr. Rooker said with the change in the composite index, the School Board could potentially lose $6.0 million a year, and there are other potential revenue issues on the state side which he assumes the School Board is already looking at.

Mr. Foley said staff will talk more specifically about FY 2011, and more specifically about the composite index. He said the General Fund supports all of the other funds. Based upon the Five-Year Financial Plan discussed over the last couple of months using a 77.2¢ equalized tax rate, revenues are expected to be flat on the Local Government side. The real property reassessment is the reason for the 3.75 percent decrease in that category. In the 2011 calendar year reassessment, a continued decline of about one-half of a percent is expected and then it starts to pick up in the out years. State revenues have decreased 2.2 percent up to this point, but staff expects to see more significant reductions.

Mr. Foley said in terms of expenditures, there are no increases in salaries or operating costs proposed. There are some new obligations – the Revenue-Sharing Agreement with the City will be increasing by another $400,000. A change in the VRS contribution rate is expected, and that will impact the outlook for next year. The School Transfer is down based on projections of another $1.1 million in the coming year. The Capital transfer is down another $2.0 million. The outlook is not good in terms of being able to support the Schools and Capital program. Last year $100.0 million was reduced from the Capital Program, and another $103.0 million decrease will impact next year as well.

Mr. Rooker said some of that is duplicated because some things were moved to year six of the CIP. He said if you look at the total number of capital projects removed or taken out of the plan, cumulatively it is not $203.0 million. He would like to know the total of the projects which were actually removed. Mr. Foley said the current Five-Year Plan was reduced by $100.0 million and completely gone out of the plan. Now, another $103.0 million has been reduced from the Five-Year Plan. It is a total of $203.0 million.

Mr. Rooker said he thought that some of those projects were deferred so they went out of the Five-Year Plan, but they were in effect moved into year six or seven.

Mr. Boyd said that year six was double counted in the plan, because it was taken out of the five-year plan.

Mr. Letteri said that two years ago the program was approximately $200.0 million and it is now $60.0 million.

Mr. Slutzky said the Five-Year Capital Plan is a misnomer, it is a capital maintenance plan. There is little, if any, improvement in County infrastructure in the next five years. He added that it was not clear to him. Mr. Foley said it is difficult to answer because every two years they are doing a full update. The numbers and project balances change every year. It is a hard question to answer definitively.

Mr. Slutzky asked if any of the projects in the $103.0 million represent projects that were in the original $100.0 million but got moved to year six and now are being removed again. Mr. Letteri replied, "yes".

Mr. Foley said in terms of the County's financial condition, staff is planning on some of the revalidation revenues experienced by one-time rollback taxes paid by those properties coming out of the Land Use Program. He said Dr. Benson will explain the outlook for School revenues; things that are important considering what recently happened with the composite index.

Dr. Benson said staff does not believe there will be any benchmarking with the Standard of Quality so the amount they would pay toward it will not likely yield any additional funds in this biennium. Staff believes there will be significant shortfalls at the state level that may result in cuts in the SOQ funding, but that will not be known until the Governor rolls out his budget on December 18.

Dr. Benson said that at this time, of most concern is the change to the composite index which is an indication of the locality's ability to pay for SOQ funded positions. There are three significant contributors to what that percentage is - the value of real estate, the adjusted gross income, and taxable retail sales.

Mr. Rooker asked if the AGI is the adjusted income of all the citizens in the community based upon tax returns. Dr. Benson said yes.

Dr. Benson said looking at what happened between 2005 and 2007, the State increase went up 12 percent; Albemarle County went up almost 23 percent in real estate values. Income almost doubled by the State, with a small decrease in sales as compared to the State average. He said the two categories of real estate values and income have the biggest impact on changes in the composite index.

Mr. Rooker asked if the real estate values are based on the tax-appraised values. The assessed value is an objective number. As to income, he assumes the numbers being used by the state can be verified somehow, by which they determined that the adjusted gross income of citizens in Albemarle County increased by more than double the rate of the average citizen in Virginia. He said it would be a good idea to be sure that is based on accurate numbers.

Ms. McKeel said Mr. Jackson Zimmerman can answer that question. Mr. Zimmerman said in regards to real estate values, he has asked the Finance Department to verify those numbers and to look at projections for the DOE. He said those numbers are taken from reports that local governments submit to the Treasury. Income is also derived from the Treasury numbers, but Albemarle has no input into those numbers.

Mr. Rooker said he finds it hard to believe that the income of citizens in Albemarle County over a two-year period increased by 30 percent. Mr. Koleszar said there are some very wealthy people in the County and if their income goes up 50 percent that raises the income number in the whole County. Mr. Slutzky mentioned the twenty percent of the County that lives at or below the poverty level. Mr. Rooker said he still finds it hard to believe. Mr. Boyd said it says that overall income increased by 30 percent not necessarily that individuals on the average increased their pay by 30 percent. Mr. Rooker said the County's growth actually slowed down during that period of time. In terms of people moving into the area, Albemarle is not growing faster than the State is growing. He just finds that number hard to believe. If there is some way "we can look behind it we ought to." Mr. Boyd suggested asking the Treasurer for an accounting of the number.

Dr. Benson said if you look at the school divisions in the top quartile of the County's competitive market, Albemarle is at the top with its percentage increase in the composite index of about 10 percent. The big winner in the quartile is Loudoun County which had a drop of almost 13 percent in the composite index. He said Albemarle got caught "at the crest of the wave" while other localities were seeing some decline in real estate values and possibly gross income as well. He said Albemarle's increase is the sixth largest in the Commonwealth.

Mr. Rooker asked if Northern Virginia's income over that two-year period increased more rapidly than every other area in the State. The figures being presented only go through 2007, and the decline in real property values occurred after that. He finds this hard to believe. He is afraid the Board is seeing numbers that are subject to some political manipulation and it will end up costing Albemarle County a lot of money.

Mr. Wheeler said he agrees that Albemarle should check the state's math. Mr. Foley said staff will follow up on that; there has already been some review of those numbers.

Dr. Benson said in terms of fiscal considerations moving forward with a composite index of .687, staff is projecting a reduction in State revenues of about $6.0 million for the next fiscal year. With additional health care costs (a potential eight percent increase), a local revenue shortfall and the tax rate staff was directed to develop project revenues at, there will be a total of about $8.0 million less. If the tax rate remains at 74.2¢ there will be a shortfall of almost $10.5 million.

Mr. Slutzky asked if 50 percent of this index is based on real value – it is actually fair market value. If 60 percent of the County's land is in land use tax, the County is not collecting the money the State is saying it is collecting.

Mr. Rooker said that is correct. The County collects about .07¢ on that land as opposed to the 74.2¢.

Mr. Slutzky said there is also the Revenue-Sharing burden as well, so the County actually loses tax revenue on 60 percent of the County's acreage. When they calculate what money the County should be using to fund schools, they don't take that into account.

Dr. Benson said it can be argued that the County's composite index is not an accurate reflection of Albemarle's ability to pay for its share of education. Mr. Koleszar said that has been in the Schools legislative package for the last two years. Mr. Slutzky said the State can come back and say that is a choice the Board made. Ms. McKeel said that is what the State has told the School Board. Mr. Koleszar said it took the Governor three years to get smoking banned in restaurants, so the School Board is not going to give up on this just because it was defeated for a couple of years.

Ms. Thomas said the Land Use Taxation Program is a state-created and state-enabled program and localities are encouraged to have such a program. Mr. Slutzky asked if the value of a piece of land in easement is based on the reduced property value. Mr. Rooker said it becomes tax assessed at the lower rate; that is the difference between that and the land use program. There is a big advantage if property can be swung from one category to another. This shows that the cost of the Land Use Program is closer to $25.0 million.

Dr. Benson said in terms of other cost considerations, staff looked at moving teachers up one step on the teaching scale; that would cost about $960,000 – they would be looking for some reduction to fill that gap between projected revenues and expenses. A one percent increase would cost about $700,000. They looked at strategies to reduce the gap between projected revenues and expenses, such as: cutting ten percent of operational moneys amounts to $910,000, raising class sizes by one student would generate about $1.59 million, $500,000 in bus replacements could be delayed as a capital expense next year, the $1.0 million in Learning Resources there might be shifted to electronic resources so textbook purchases might be delayed.

Mr. Koleszar said the $7.0 to $10.0 million they showed is the amount of revenue less than was received in the current fiscal year. It is not the shortfall in a budget that included any growth.

Mr. Rooker said there has been discussion over the years of going to a formula budgeting process by which tax rates would be automatically adjusted based on growth, population, and some type of cost-of-living adjustment appropriate for the County's expenses. However, the Supervisors keep talking about level funding when there is no growth in revenue. He said when there is a budget which is basically 80 percent compensation, things such as delaying bus replacements for a year can be done one time - it is not a permanent budget reduction. At some point, the only way to deal with a shortfall is to cut the number of employees, but on the School side the choice becomes increasing the size of classrooms and the question is how far the School Board and Supervisors are willing to let that go, and how that affects the quality of education. There are issues such as facilities and having classes held in hallways, etc.

Ms. McKeel said there are also mandates which have to be accommodated.

Ms. Thomas said she knows that during times of recession enrollment in public schools goes up. She asked how much of that is happening now. Dr. Moran said enrollment increased about the size of a small elementary school this year.

Mr. Foley said there are two other items which the boards have asked about over the last several sessions. One has to do with the stimulus funding, and Dr. Benson will discuss that.

Dr. Benson said the American Recovery and Reinvestment Act had guiding principles as to how they expected the moneys to be spent. This is short-term money - if too much of it is put into people the Schools will be faced with significant funding choices when those dollars are no longer available. They have leaned toward the one-time purchases side rather than toward people, although there are some personnel costs included.

Dr. Benson said there are funds with attached title moneys (Title I and Title II), IDA, Special Education and Pre-School. A number of programs were positively impacted with the moneys tied to the title funds - they had to meet title and special education guidelines for expenditure of those funds. They could not supplant services but there were areas where they looked to make reductions. They are moving toward the Instructional Coaching model in which they reduced a number of support positions in the schools. They were able to restore some of those positions through moneys which were available - 11.4 FTEs and Intervention Specialists staffing through Special Education funding. He said there are additional slides which he will not present today – programs which were impacted by available title moneys.

Mr. Boyd said Dr. Benson just mentioned that some things had been cut in order to make the current budget balance and the Schools have moved to a Coaching Model. He thought that was being done for efficiency and not to reduce services. Dr. Benson said crisis creates opportunity and they were able to accomplish the Instructional Coaching Model they think will have an impact on improving instruction. At the same time, they reduced the number of FTEs associated with some of the specialist positions. They were able to provide some temporary relief with the Federal money.

Mr. Boyd said the Schools receive targeted moneys all the time. He asked if programs are added so they can spend that money or are they backfilling on some things that had to be eliminated because of shortfalls. Dr. Benson said some things were eliminated, but at the same time programs cannot be supplanted – they must meet the guidelines for spending the Federal dollars, just like the funds normally received through title funds. Things were looked at across the Division for elimination including some support positions but they were able to fund some of them for a short period of time through these resources.

Mr. Boyd said he understands this money is for two years, or maybe just one year. He said there was a management analyst position shown as a .5 FTE – he asked if it was cut last year for efficiency, or because there were no funds for that position. Dr. Benson said he will talk about that with the next set of slides. He had about 20 slides which described the program impacts for the funding of these positions, and they felt that was too much to try and cover today.

Dr. Moran said the School Board saw those slides in June when it approved how this stimulus money could be spent.

Mr. Boyd asked for an example. He wants a good understanding of whether jobs are being created that were eliminated previously because the job was not needed, or are jobs being created so the money can be spent. Dr. Benson said an example is the IDEA funds – and there are two different situations. He said there were 11.4 FTEs in special education - funding was used to fund the Intervention Specialists that were previously funded with local funds. They were able to take a reduction in local dollars as a part of budget work but not cut those services by using the Federal moneys to preserve that level of support in the schools.

Mr. Boyd said some of the stimulus money is then being used to backfill a reduction in local funds. Dr. Benson said it is being used to save jobs, which was one of the guiding principles.

Mr. Rooker said that originally the County was told stimulus funds would be available to local governments to cushion the reduction in employees that would otherwise have occurred. How do the FTEs for the prior fiscal year compare with the FTEs for the current fiscal year, and how much of that is attributable to the stimulus funds? For the FTEs added, how will the schools deal with that when the funds run out? Dr. Benson said those employees have been given two-year contracts and the employees in those technical positions know that when the State Stabilization money is gone, the position is gone.

Dr. Moran said a number of divisions in the State were looking at major cuts a year ago. The focus in Albemarle was on maintaining staffing in the schools as part of its core business work. Last year cuts were made in Central Office positions. They were able to backfill in some places that would have been eliminated if that money had not become available. They tried to hold the schools harmless in the way of cuts to staffing a year ago.

Mr. Boyd said everybody had seen the Five-Year Financial Plan – he would like to know what the Schools will do two years from now. The Supervisors have basically flat-lined their projections. Dr. Moran said they wanted to use the money as best as possible and go after one-time purchases already planned for. To a small degree, they wanted to save jobs and affect things that would help implement something like the Technology Plan, but realizing that in two years when this money runs out not to be left "holding the bag" for significant numbers of staff.

Ms. Thomas said VACo sent out a survey to all counties, and the biggest issue had to do with what will happen when the stimulus money runs out.

Mr. Boyd said in long-range planning, the boards better start recognizing that is what will happen. He does not think this economy will turn around in two years.

Mr. Slutzky said there is talk in Washington now about a Jobs Bill that will focus on employment in state and local governments.

Dr. Benson said the other stimulus money made available to school divisions was State Stabilization money which was a flow-through to the state. Albemarle got a little over $2.4 million in the first year. It is not known whether an equal amount will be available in year two. That will depend on what the Governor-elect decides to do in January. If available, the money would be used for technology purchases and some support personnel to help with the installation of that equipment. They offset a $550,000 line item in the CIP for the current year, and intend to do the same for next year using the state stabilization moneys as opposed to local dollars to make those purchases – classroom technology, laptops, notebook computers that were all in the technology plan.

Dr. Benson said in the way of infrastructure upgrades, they had cut $300,000 out of Learning Resources and they were able to restore those cuts. He said the influx of equipment put a strain on their Technology Department in configuring and deploying that equipment, so there are 5.5 FTEs on two-year contracts to configure and install that equipment. He said their technicians have a significant burden in terms of the number of machines they support - one-technician supports 470+/- computers in the division. They have broadened their definition of "computer" which included handheld devices and such. There are all kinds of things being deployed in the classrooms such as I-Pod Touches, Interactive White Boards, Student Response Systems, and they all require technical support.

Mr. Rooker asked if that additional technology can be supported without these people two years from now. Dr. Benson said they are looking at simpler technology like Notebook computers that have few maintenance issues. They are also less expensive, but even over the time the dollars are available for technology purchases, it may not reduce the computer ratio. They are looking at different types of devices.

Mr. Price said this is absolutely an area they have to invest in and keep investing in for both students and faculty. They are moving to an age where they want to produce knowledge-based workers, hands-on workers in an industrial age, and even the information age. Just the technology piece is gone, so if they do not consider putting dollars in front of budgets and in front of the things they want to do, the students and society will lose because the workers will not be prepared for Twenty-First Century jobs. Those are the jobs that will require critical thinkers, innovators, creators, so that must be invested in. They have to tell the citizens in the County that if they retreat now on that front, they will go back to preparing students for jobs that were within the industrial age. Ms. McKeel said those jobs no longer exist.

Mr. Boyd asked how many FTEs are currently under two-year contracts. Dr. Benson said he does not know the total number, but in the Technology Department there are 5.5 FTEs.

Mr. Foley said all of the items staff has covered are related to next year's outlook including how the stimulus money will be used. The only thing left that might affect next year's budget are the Fund Balances. There are two basic things – one is an Undesignated General Fund Balance which is not planned to be used for expenditures. It benefits both the Local Government and the School Division. It is not intended for operations at any point in time but is maintained for cash liquidity and to meet payroll on a month-to-month basis, and to carry the County forward as tax revenues go up and down. This undesignated fund balance is a measure of the County's financial strength and is looked at in terms of the County's AAA bond rating. By policy, it is to be maintained at eight percent. Since 2002 the County has fallen behind that eight percent to about seven percent. That is why the revalidation revenues will be used to build that balance back up.

Mr. Slutzky asked if the County is at any risk of losing its AAA bond rating if that balance stays below the eight percent. Mr. Foley said the financial advisors said the trend is important, and that trend does not look good. If the County has no plan for rebuilding that balance, he thinks the County would be at risk.

Mr. Boyd said that fund balance is significant, because it is the cash flow reserve. He met with Accounting Department employees and he understands it dips low at times before the next tax collection period. He asked if the School Board's Fund Balance is used for cash purposes too.

Mr. Foley said it is something set aside for cash flow and not for spending. In the past several years the Shortfall Revenue Contingency ((rainy day fund) is a reserve for contingencies specifically designated to offset current operating budget shortfalls or some unanticipated expenditure (emergency). It was first established in FY '09 and there is no target amount. It is typically funded in the General Operating Fund and is similar to the way the Schools are using their fund balance. In the current fiscal year, money generated from the capital side was set aside - that was about $1.3 million and it was specifically for Schools and Local Government on the 60/40 basis. To meet projections for Local Government in the current year, its 40 percent was used to fill the gap.

Mr. Foley said a question was raised at the meeting a month ago about the roughly $800,000 that is left from the change in the CIP. There is no contingency set aside now for Local Government because its 40 percent has been used. There is a question about the Schools using the remaining 60 percent of this versus using its Fund Balance. Local Government's reserve for contingencies is similar to the School's use of Fund Balance. The key is that they are using it for certain planned expenditures and $4.5 million is for revenue shortfalls. Then there is $1.8 million left that will be used for either planned expenditures or for a reserve if there is a downturn. The School Board just has not designated use of that amount yet.

Mr. Foley said one reason staff brought this up today is to talk about whether the $800,000 now set aside from VDOT Revenue-Sharing funds is money that will be moved into the School's Fund Balance for their use, or will it stay in the General Fund and the Schools will rely on the funds they have now. That decision does not have to be made today.

Mr. Boyd said he would like the definition of "reserve" and "fund balance" so everybody understands the terminology. He understands that the fund balance is used for cash flow, and if there are reserves for contingencies, that is what they should be called. He asked if the Schools have to cover their own cash flow or is that covered by the General Fund Balance. Mr. Foley said it is covered by the Local Government's Fund balance. Mr. Koleszar said the Schools Fund Balance is part of that. Ms. Thomas said no. Mr. Koleszar said the money the Schools have in its Fund Balance is not sitting in a School Board checking account. That money is sitting in a County checking account that helps manage the cash flow.

Mr. Boyd said Mr. Foley just explained that that is not what is happening. Mr. Tucker noted a blue line on the chart on the screen and explained that it is the County's Fund Balance for both the Schools and Local Government – that pays salaries every month and expenses every month. The red numbers shown are the School's reserve that they will start using soon.

Mr. Koleszar said the School's fund balance functions as part of the County's cash flow fund balance because that money is sitting in the County's operating fund available to pay ongoing bills. It only gets appropriated when it is needed for something. Mr. Wheeler said they are saying that is not the case. Mr. Rooker said it is not an appropriated amount and it is not intermingled with the County's Fund Balance. Mr. Foley said even the audit does not show it as part of the Undesignated General Fund Balance. Mr. Koleszar said it is shown as an Undesignated School Balance. Dr. Moran said that money does not sit some place that is called a School account, *per se*, the Schools have to come to the Supervisors when they want to pull that money in and use it for a school purpose. Mr. Foley said that is correct. Mr. Rooker said the money does have to be appropriated, but it is recognized as School contingency money. It is not part of the General Fund Balance out of which operational checks are written to pay expenses. Ms. Thomas said it cannot be used as part of the Local Government Fund Balance without some action by the School Board.

Mr. Koleszar said when that money goes over, it is the County's money which is reappropriated to the Schools as part of the budgeting process. He understands that the money does not belong to the Schools, if it is not spent it goes back to the County. Mr. Foley said that officially at the end of every fiscal year whatever is left in appropriated moneys goes back into the General Fund, the only difference here is that the School amount is not rolled into the General Fund Balance, it is designated separately and shown in the audit as a separate fund.

Ms. Thomas said she thought Mr. Koleszar was trying to say the Schools Undesignated Fund Balance helps with the County's bond rating, but it doesn't work that way. If the auditors don't see it that way then the bond raters would not see it that way either.

Mr. Wheeler said in reference to the VDOT Revenue-Sharing money mentioned earlier, Mr. Foley said the boards need to decide how to allocate that.

Mr. Boyd said it was mentioned earlier that the County has an eight percent Fund Balance and the School System has a four percent fund balance and that is not true. Actually the County has an eight percent fund balance and the Schools have a four percent reserve. He is trying to get to how to divide up that fund reserve.

Mr. Wheeler said Mr. Foley had said the VDOT Revenue-Sharing money was set aside and is being brought back and when that is done the 60/40 split of revenues comes into play. Is there not a penny in the "lock box?"

Mr. Slutzky said that was two years ago; there was nothing in this year's budget. Mr. Foley said that in that fiscal year there was a penny set aside ($1.6 million). The Schools were actually paid $500,000 of it, so there was $1.1 left, but the County has not been able to fund that as additional appropriations to the Schools. The policy actually says that 60 percent of the growth in revenues goes to the Schools.

Mr. Wheeler said this is a different situation. Given how much this fluctuates, and in advance of the Governor putting anything on the table, he would suggest that the School Board not make a decision on this question at this time. In the grand scheme of present problems, $800,000 is not a lot of money compared to the $8.0 to $10.0 million shortfall they are looking at on the school side for next year's budget, and Mr. Foley is talking about money that might be used for shortfalls this year.

Mr. Foley said the Schools have planned for an additional shortfall of $1.5 million. The County has already passed onto them the $3.0 million shortfall. On the Local Government side, $540,000 has already been used, and the other $800,000 is just sitting there. The Schools have funds to protect them from further downfalls, but Local Government does not have any more funds. The only option available now is to make further cuts - that is why this issue was raised in the first place.

Mr. Boyd said based on the numbers shown, the Schools are expecting to have a reserve of $1.1 million at the end of this fiscal year. Local Government will have a zero reserve. That is why he is ready to make a decision now – he thinks it has to be kept in the County government.

Mr. Wheeler asked how much money has been set aside over the years for the Jarmans Gap Road project. Mr. Foley said there is some Transportation CIP money which has been set aside.

Ms. McKeel asked for an explanation of the 60/40 split. What comes off of the top before the Schools get the split which is what she thinks Mr. Wheeler is talking about. Mr. Foley said there are several items – capital, tax relief for the elderly, the City-County Revenue-Sharing moneys, etc.

Mr. Rooker said he basically agrees with what Mr. Wheeler suggested. At this time, he sees no reason to make any decision regarding that money. No one knows whether there will be further cuts from the State. He suggested that this be discussed again when the need for that money arises. He thinks everybody agrees "we are in this together."

Mr. Foley said staff is expecting to receive news in the next three weeks that the boards will have to react to at some point. This information was all about operational funds. In the Capital Fund, the Board asked to look at all of the balances for projects. The only one where no specific project has been designated is in transportation where the Board has been setting aside funds over the past five years. Some of that money has already been used to fulfill a commitment to the YMCA facility, but there is about $3.7 million set aside for transportation. All of the other balances in the CIP are specifically for projects that have been approved and planned for specifically in the CIP.

Mr. Wheeler said if projects are specifically approved and there is money accruing in some account, it may be equally true that the project may never be built. Mr. Foley said staff will go over those during the budget process. It is different than the transportation money. Mr. Wheeler said in this climate, it seems that everything needs to be on the table. Mr. Rooker said it does, but the Supervisors have to be mindful of the fact that capital money should not be eaten up for current operations unless dire circumstances should arise in the middle of the fiscal year. As a matter of budgeting, he does not want to budget for next year based on taking capital money and using it for operations.

Mr. Foley said staff will bring this item back as needed, and when there is more information available.

Compensation.

Ms. Suyes summarized the staff report, which is on file in the School Board Office.

Health Care Premiums.

Ms. Suyes said that each year staff gives the boards a benefit projection, but at this time of the year it is based on one or two months worth of claims data so it is a guess for the first couple of months. On the average, there is a projected 12 percent increase for organizations nationwide. Staff believes there will be an eight to ten-percent increase for Albemarle. They have recommended that the board contribution go up by eight percent and the other costs be offset by plan design changes and through the Health Care Reserve. She said all of this information was presented to the boards in October, at which time they said to come back today for the decision.

Ms. Suyes said if the boards are going to stay with their strategy, staff recommends 2.6 percent or 2.25 percent based on the information used every year to make a decision. There was a lot of information available this year on which to base a decision – she does not think other localities and school divisions will be moving this year. She said staff is requesting that the boards: 1) Approve no scale adjustment, merit increase or teacher increase due to the current economic and market conditions and the projected revenue shortfalls; and 2) Approve applying a portion of the Health Care Reserve Fund to offset some of the increase in medical plan costs (the projected cost increase in medical is anticipated at eight percent).

Mr. Rooker asked if a portion of the Health Care Reserve Fund would be applied to meet the eight-percent increase. Ms. Suyes said the eight percent is a given, but the Fund would have to be used to offset anything in addition to that.

Mr. Boyd said it is possible that none of it would be used because the cost would not be more than eight percent. Ms. Suyes said she does not think that is possible. She thinks health care costs are going up considerably. The average for other organizations is at 12 percent. Because Albemarle has done a good job of managing claims, it is seeing a decrease in claims, so staff felt comfortable using eight to ten percent. Eight percent is a low figure and she feels sure it will have to be offset with plan design changes and money in the Health Care Reserve.

Mr. Rooker said the boards need to recognize that if you start paying current costs out of the reserve that is a short-term solution to a long-term problem. That might have to be made up in the next year. He is more amenable to plan design changes if necessary to make that up. Ms. Suyes said the plan design changes affect the strategy.

Mr. Price said there is also the possibility of affecting employees by passing the costs to them in the way of higher deductibles and premiums at a time when wages are not being increased.

Ms. Suyes said there was no plan to build a reserve – the plan was to set aside 20 percent because the County is self-insured. The boards contribute as the company and the employees contribute to a “pot” out of which claims are paid. The County has been fortunate to have had low claims years. About five years ago, in mid-year, health care costs had to be raised, so they did not want to get in that position again. Staff has done a forecast on that over the three years – it will deplete down to that 20 percent in year three.

Mr. Slutzky asked if Southern Health has any information about what the County’s peer systems have experienced in the way of health care. Are they similarly below the national average or are they more inclined to make adjustments in their benefit package downward to offset the increased cost burden. Ms. Suyes said other organizations are not necessarily anticipating eight percent – most are anticipating more.

Mr. Slutzky said the County’s peers have not implemented a prevention program like Albemarle’s. Ms. Suyes said that their Wellness Programs, if they were implemented, did not do a good job. They did not do health risk assessments or implement strategies against the high-risk group as Albemarle has – Albemarle has now been identified by the American Heart Association as a healthy organization, and there are few that receive that acknowledgement. Albemarle has been implementing strategies to reduce risks and they have helped tremendously.

Mr. Stokes said that last year WorldAtWork predicted an increase and the boards did not go with that, and that was the right decision. This year they are predicting an increase, and the boards are not going with that. At what point, is confidence with WorldAtWork lost? Ms. Suyes said with the past trend data WorldAtWork has been right on target, even with 9-11 they were right on target. She said the County’s competitive market is not huge, and they all talk to each other. The County is a big driver in the market, so when others hear that Albemarle is not doing anything, it tends to filter. Even though WorldAtWork said 3.3 percent average for organizations, the County’s competitive market did not move.

Mr. Stokes asked if WorldAtWork is being used as a point of information and Ms. Suyes is not convinced that the County should stop using them. Ms. Suyes said she thinks the County should continue to use them – they are right on target.

Mr. Slutzky said unless someone disagrees, he thinks the outcome of this is straight-forward.

Mr. Boyd asked the current contribution for health care per employee. Ms. Suyes said it is a little over $7,000.

Mr. Boyd said he had an idea that he mentioned to Ms. Genome – should the County change the entire system from self-insured and look at the possibility of medical savings accounts because there is a stop-loss of $175,000 now. He understands this is being done now by some organizations. Rather than moving it into a big pool of money, move it down to the employee and to their individual savings accounts. Ms. Suyes said because it looks like a windfall of money, some employees don't do preventative maintenance on their selves. There is not enough information available about this type of program now. She said Ms. Genome talked to her about it and she asked that it be held until there is more data. She thinks there would be less disease management, a lot less preventative care, and a lot more high cost claims.

Mr. Boyd said he is not proposing anything right now, but wonders if there is any interest among the people at the table to look at it as a long-term strategy. Ms. Suyes said she is looking at the possibility.

Mr. Rooker said he sent Ms. Suyes some information about this several years ago. Ms. Suyes said information shows that lower income people look at it as a savings and do not use the money for their health care, and it is having catastrophe consequences as a result. She said hypertension and diabetes are the biggest drivers of health care costs now. If a person chose not to see a physician on a regular basis because the money is there and it can be saved for something else, it concerns her, but she also thinks there is some merit to the idea.

Mr. Rooker offered a **motion** to approve staff's recommendation for no scale adjustment, merit increase or teacher increase in FY2010-11 and to approve applying a portion of the Health Care Reserve Fund to offset some of the increase in medical plan costs. Mr. Slutzky **seconded** the motion. **Roll was called and the motion carried by the following recorded vote:**

AYES: Ms. Thomas, Mr. Boyd, Mr. Dorrier, Ms. Mallek, Mr. Rooker and Mr. Slutzky.
NAYS: None.

Ms. McKeel offered a **motion** to approve staff's recommendation for no scale adjustment, merit increase or teacher increase in FY2010-11, and to approve applying a portion of the Health Care Reserve Fund to offset some of the increase in medical plan costs. Mr. Price **seconded** the motion. Mr. Wheeler asked for discussion. Mr. Price said the School Board is not voting today to not follow its previously adopted strategy to get to market values. It does not necessarily mean that market salaries are not being paid. When he hears that there are 1,000 applications for 100 teacher openings, to him that is another point of information indicating Albemarle is paying market. While the School Board is not following the adopted strategy, it does not mean it is not paying teachers market salaries. Mr. Rooker said he thinks that over the next two years, there will be the largest layoff of public employees in our lifetime. Mr. Koleszar said he will vote against this motion because he thinks the boards should do the .35 for classified. He thinks that for the teachers the School Board is at its strategy, but for classified, it has have been below market for a number of years. Mr. Wheeler said he appreciates the work of the Human Resources staff in this climate. He is sure they get a lot of questions from employees who need assistance and help. **The motion passed with Mr. Koleszar voting no.**

Other Matters Not Listed on the Agenda. None.

Adjournment.

At 6:21 p.m., Mr. Wheeler adjourned the meeting of the Albemarle County School Board.

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Chairman

____
Clerk