

August 29, 2013

Caroline Taxpayers Gift the YMCA with Five Million Dollars

Dear Editor,

The purpose of this letter is to shed some transparency on the financial obligations concerning the building of the YMCA in Caroline County. I have received numerous questions from citizens about the issue and will attempt to answer as many as space will allow. As my intent is to be as forthright as possible, I state upfront that the scenario is not simple and research reveals a series of events and agreements pertaining to the Y, the ramifications of which are still murky and difficult to understand. Please feel free to contact me if you need further clarification.

Before I discuss the issue, as a precursor to the information, let me make two important points in the beginning. First of all I am not “against YMCAs” and think YMCA's are beneficial to any community. Secondly there seems to be a small school of thought concerning county finances that we can just keep raising taxes and all will be well. In other words, that that county is still in a position of being able to prioritize amenities like a Y on some long list of things that would be nice to have. The intention of this letter is be **solution oriented**, however the intention is also to deal with the **reality of “what is”** and tax payers need to understand the entire picture and what 20 years of borrowing with no viable repayment plan means. Here is a quick recap of the county's financial picture.

A “Necessities Only” Debt Picture

The county still meets everyday expenses with a 4.5 million dollar line of credit. The county still supplements the utility debt with the general fund in the amount of 1.8 million annually. With only 600 water customers (without Lake Caroline), no one who is alive today will ever see enough new housing connections to repay this 43 million dollar debt even if we find a potable water source. The overall debt of the county today is 125 million. A little over a year ago, Caroline received notification from the state that we were unable to borrow any more money. Raising taxes **may** have **temporarily** alleviated this condition to some small extent but we have yet to raise taxes for the federally mandated radio system the Board just agreed to purchase this year. This does not include any improvements to our High School built in 1977. The High School situation cannot be underestimated or described even as a “necessity” but more like a “critical situation.” Voters will tell us in November with a referendum for 26 million how they want us to proceed on that issue.

So let's move away from the notion that “it's just a few more million dollars.” Caroline County does not have it and must at this point concentrate on basic necessities like education. As we see in the news, especially this year, localities in various parts of the country have been forced to declare insolvency. This is real and can happen.

The Grant Agreement

With that said, here is the Y situation after a month of research as I understand it. In 2011, the Caroline Board of Supervisors entered into an agreement with the Rappahannock Area YMCA to “grant” to them 5 million dollars for the building of a structure to be used as a Caroline YMCA. This Grant Agreement is not a loan from the Caroline tax payer which the Y must pay back but a “grant.” To help better understand, think of it as a “gift” of up to 5 million dollars, period. The county then accomplished this with a secured loan from Sun Trust Bank also called “**The Industrial Development Authority of Caroline County, Virginia's Public Facility Lease Revenue Bond Anticipation Notes, Series 2011**.” The collateral for this debt is the Bowling Green Elementary School. Apart from this gift and the loan that made it possible to make the gift, there are ten, “**interest only**” payments on the Sun Trust loan of **\$103,100** due twice a year.

At the August Board meeting in 2011, and numerous times going forward, Supervisor Acors who spearheaded the project was quoted as saying that **no taxpayers dollars would ever be used to fund the Y**. He indicated to both board members and the public that a committee had been formed to raise funds and retire the capital cost of the Y which would take approximately two years to accomplish. He also said that 'proffer' money would cover much of the project. At the time, it was assumed that he meant both the principal of 5 million dollars and the interest payments.

Inability to make payment

In July of this year, after learning from Mr. Acors that current proffer money collected was no longer available and donations had not been received to cover the entire amount on the 4th interest payment of \$103,100, the Caroline Board of Supervisors was forced to augment the interest payment in the amount of \$60,000. Defaulting on the 5 million dollar loan used to gift the YMCA would have a huge impact on the county credit rating and an additional concern was that the Bowling Green Elementary School was used as collateral. The supervisors as a body were not willing to take such a risk and funded a one time payment for August. Leading up to this event, Supervisors Black and Sili had asked multiple times for a progress report on the Capital Fund raising Committee from Supervisor Acors and none was or has been forthcoming.

To understand how we arrived at the supplemental figure of \$60,000 for the 4th payment in August, I offer the following; Earlier in February of this year, debt service payment number three came due on the 5 million dollar loan as it does twice a year in the amount of \$103,100.00. This payment according to official records was covered by 56, 387.71 in proffer money and money received from the Rappahannock Area YMCA in the amount of 46, 712.29 (the check was actually \$48,500 so a balance of \$1, 787.71 was left over) Since the series of questions raised in the July board meeting, the Rappahannock Area Y has since sent another \$35,500.00 and when added to the leftover balance of \$1,787.71, the county then had to pay \$60,000 to make the full payment.

What is the recourse for the tax payer? The Grant Agreement, which can now be found on the county web site does loosely address a capital campaign but it appears to be a “**best efforts**” type of wording with no time frame or amounts stated. Most importantly, if money is raised, it calls for the **reduction in the original grant amount first**.

Fund raising Committee or YMCA?

Here are some details about fund raising that I believe I have been able to determine. Please keep in mind that a closer look at the Grant Agreement does not enable the tax payer to “legally” recoup any money for the interest payments in any way from a capital fund-raising committee/effort even if and/or when they might have formed or will form in the future either as Mr. Acors's committee or as a Capital effort within the Rappahannock Area YMCA.

By all appearances there is no separate “Capital Fund Raising Committee” for the Caroline Y formed two years ago to begin to retire the debt. At that time in 2011, during our board meeting, several citizens identified themselves as the “Capital Committee” but appear to no longer be associated with the project.

Currently Mr. Acors now says it is the within the Rappahannock Area Y's purview to raise these capital funds while Barney Reilly, their Executive Director has been reported as saying this is not the Y's responsibility. So at present we have a “he said, he said” scenario. However checks from the YMCA totaling \$84,000 have been sent to the county and put toward the interest payments during the previous one and a half year period so it would appear the Y is indeed raising money to retire some of the debt although they are not legally obligated to do so. It is not clear if this is a separate capital account or if they are simply giving us some money raised through an operations campaign. Again, I will state that according to the agreement, the county grants the Y 5 million, **less** any amounts received as a result of a capital campaign however the county has applied the money to interest payments. If the \$84,000 is from a capital account within the YMCA itself, paid to the Y by entities who agreed to help with the building of the structure, the county has violated the Grant Agreement. It is however impossible at this point to tell where the money originated.

A FOYI question to try and sift through the fund raising issue has been suggested numerous times by various citizens. A Freedom of Information request could be made, but the convoluted terms of the agreement essentially preclude this. The Y, not the county has been the General Contractor for the project and its operations and is not under any obligation to release the names of donors and the amounts even though the building is being paid for by the Caroline tax payers. I believe however that the Y has a moral obligation to do so and should have no reason to withhold such information. In fact, recognition of these donors should be an honor and could encourage others to donate as well.

Further muddying the water, through no fault of their own, is a completely separate committee whose mission is to start a foundation for youth programs in general in Caroline County. Members say they may or may not give money to the Y. There is also a local advisory committee to the Y as well as an overall Board of Directors for the YMCA with a Caroline resident on that board, none of which appear to be currently raising money for the Y's capital debt retirement.

Mr. Acors has also recently said that negative publicity has been responsible for the

inability to raise funds for the Y. However this cannot be the case because a quick look at all the newspaper articles in various papers over the last two years show the publicity to be all positive. If a Caroline fund raising effort does not exist, it cannot suffer from negative publicity so it is practically impossible for this theory to be tested.

What he may be referring to is the overall sentiment from many parents who cannot understand why a gym and extra classrooms are denied in the renovated Bowling Green Elementary School for \$500,000 and the Y is granted 5 million dollars. There are hundreds of parents in this county participating in fund-raising efforts for things like playground equipment and much more basic necessities for the schools and education initiatives who are not going to understand why the county would enter into such an agreement.

Our own County recreation program every year during budget time must enter the fray to scarp for every dime allotted as do other exiting youth programs the county helps to fund. The concerns of these parents, seniors on fixed incomes who cannot afford higher taxes and others are legitimate and not likely to be dispelled with publicity of either kind.

Issues With The Grant Agreement

The county is further encumbered in the agreement by a clause which provides that we pay the Y's insurance every year which is estimated at \$20,000. The County still holds title to the land with the Y leasing the parcel for a \$1.00 a year. The Rappahannock YMCA holds title to the building so the county, even though they hold a loan cannot use it for collateral for any other purpose. The county is also responsible for all major maintenance and repairs on the building, although we have no say in how the building is cared for as this falls under Operations. Another concerning portion of the agreement is the circumstances upon which Caroline can take title to the building if it ceases to be a YMCA. The county would essentially be repaying some portion for a building it has already paid for with interest if it has to take title.

Paragraph 13 is particularly confusing. Remember only **IF** there is a capital campaign within the Y organization and **IF** they raise capital funding (not Operating costs) and **IF** they raise more than the original 5 million dollar grant, then the left over proceeds are slated to go toward the county loan. However if they raise over and above 5 million dollars the county does not need a loan so its not only confusing but defies understanding. It does however shed some light on a time frame. If no capital funds are raised to help with the building during the construction phase, the 5 million dollars will certainly be spent in its entirety and there is really no impetus to raise capital funds since the construction is covered. They can and would naturally concentrate on raising money for operations.

The County Proffer fund mentioned by Mr. Acors as a source of repayment is not mentioned in any YMCA document and is really a moot point. Even if all the housing lots throughout the entire county built out (which is not likely to happen) the most the proffer fund can ever pay is 780,000 as reported correctly in the *Free Lance Star*.

The Actual Cost to Complete the Y

Further complicating the situation is the actual construction of the Y which is frankly plagued with a myriad of problems. There appear to be over 20 change orders with unknown financial costs to the ultimate completion of the building with 3.1 million paid to the General Contractor of the 5 million to date. Research from two independent contractors who were consulted estimate the cost to finish the building at considerably more than 5 million dollars. A look at the Certification for Payment (not online) shows that the Y may buy athletic equipment with the 5 million. As stated in the agreement, the grant may only go for construction. This is another violation of the legal agreement between the Y and the County of Caroline in the Grant Agreement and could offer the tax payer some recourse.

Planning Ahead

The Board requested the presence of Rappahannock Area Executive, Director Barney Reilly at its last meeting in August to see if he intends to raise capital funds for the project since the Y has been sending some money even though it has been applied to interest instead of the grant amount. This would be good news indeed as would a committee, as Mr. Acors originally described who would step forward to assume the interest responsibility. The next payment of 103,100 is due in Feb of 2014 so repayment to the county on the August 2013 payment would make the total due just under **\$163,100**. Mr. Reilly was unable to attend the August Board meeting but I hope he will be able to attend in September. As an elected representative, I would work with and welcome any entity who would defer this responsibility from the tax payer.

For planning purposes some of the circumstances are still frustratingly unknown. The county is currently paying **interest only** on a 5 million dollar loan. To refinance to a 5 million dollar bond for 20 years plus the yearly insurance obligations without any cost overruns on the building when completed will ultimately cost the Caroline taxpayer **\$8,367,247**. The payments also double on a bond with interest and principal making an outlay of **\$418,362** a year, a good working estimate, noting that payments are higher in the first half of the bond repayment and lesser in the second. This represents a **significant tax increase**, none of which will go to public safety or schools. **This will be in addition to those projects.** Again, to be up front, tax increases to fund the Y directly compete with funds needed to build and maintain schools, retain good teachers, pay competitive salaries for county personal and provide basic services throughout the county. For some county residents such as those in Port Royal, the King George Y is considerably closer as is the Y in Ashland for southern Caroline residents.

In closing, I realize the circumstances are unusual and difficult to explain but as your supervisor I am obligated to provide as much information as possible. Although I did not vote for the project I desire to be solution oriented and welcome suggestions on which way to go given the circumstances. An independent estimate of the actual costs to finish the building would help immensely with decision making. A list of donors and amounts who have specifically donated to a capital fund through the Rappahannock Area YMCA would also be greatly helpful. This would enable us to see for planning purposes, not only the actual trend in dollars raised but also might help to drive other donors to do likewise. The problem is, major contributions are normally made at the

beginning of a quasi-charitable project, not later, so time is of the essence.

This would also completely dispel rumors that entities appearing before the Board of Supervisors for matters such as special exceptions, impending litigation, tax

delinquencies and other projects are not compromising themselves or board members by making a form of illegal proffers via the Y.

More than one group of citizens have asked me to oppose making further payments to the Y loan and that doing so is paramount to condoning and encouraging in the future this kind of one sided, strange deal making for Caroline County. The consequences of repaying 5 million in bonds and interest over the next 20-35 years are more than significant. Many cannot believe that making such an agreement on behalf of the taxpayer is not illegal and suggested we have independent council review the agreements. This is certainly an option if fellow board members would agree.

However we need to move on. If possible, I would prefer to work on best case scenarios (with a Plan B in place to work on worst case as well) in attempting to plan for this in the upcoming budget year. I note again that the above yearly payment figure on the principal and interest will work only if the facility can come in at its budget of 5 million dollars and we do not have to borrow additional funds to complete it. It is still unclear if Caroline would be allowed to refinance with its current and future obligations so these statements should all be taken as preliminary planning from one very concerned supervisor who represents one vote on a six member board. Again looking at a best case scenario these costs could be reduced by any funds received from a capital campaign effort. Realistically speaking in 24 months the total received from what at this point looks like a Rappahannock Area Y effort at a capital fund is \$84,000 or about 42,000 a year if the same trend continues.

What would really help the entire situation is if the Rappahannock Area YMCA would step forward openly and publicly and take responsibility as is indicated but not required in the agreement, and show the taxpayers they are making a effort to reduce the size of the debt with a capital campaign. The county also needs help from the Y in determining how much it will really cost to complete the building. Bringing the entire Board of Supervisors into the fold so to speak so we can work together.

Supervisor Jeff Sili, Bowling Green District
Caroline County Board of Supervisors