

**Meeting Minutes of the PACE Committee of the County of Isle of Wight  
January 18, 2006**

The meeting of the PACE Committee of the County of Isle of Wight was called to order by Rachel Morris at 4:10 p.m. on January 18, 2006, at Colonial Farm Credit in Windsor, Virginia.

Members Present: Tom Alphin  
Bryan Babb  
Pete Carr  
Dee Dee Darden  
Jimmy Oliver

Ex-officio Members Present: Scott Bachman, Virginia Department of Forestry  
Beverly Walkup, Director of Planning and Zoning  
Rachel Morris, Rural Economic Development  
Manager/PACE Program Administrator  
Tara Outland-Williams, Peanut Soil and Water  
Conservation District  
Liesl DeVary, Director of Budget and Finance

Also Present: Pat O'Connell, Evergreen Capital Advisors  
Honora Freeman, Evergreen Capital Advisors  
Tom Tye, Thomas Tye & Associates, Inc.  
Joseph Gidjunis, The Smithfield Times

Rachel Morris performed a roll call and introduced the guests.

Ms. Morris informed the Committee that the December meeting minutes would be forthcoming at a later date.

Ms. Morris shared with the Committee that at the Board of Supervisors meeting on December 15, 2005, the following members were appointed for the following terms:

Tom Alphin	1 year
Bryan Babb	2 years
Pete Carr	2 years
Dee Dee Darden	1 year
Jimmy Oliver	3 years

Ms. Morris updated the Committee that the Board of Supervisors adopted the Committee By-laws at its meeting on December 15, 2005, also.

Pat O'Connell gave a presentation on the funding options for the PACE Program with Installment Purchase Agreements (IPA's) being the recommended payment mechanism for landowners. IPAs structure the sale of development rights such that the payment of

the sale price and the tax payment are deferred. An IPA is a contract between the buyer (The Board of Supervisors of Isle of Wight County) and the landowner to buy an easement extinguishing the development rights on the property. The contract term is up to thirty (30) years, pursuant to which the County promises to pay at the end of that contract. During the contract term, the County also agrees to pay the semi-annual tax-exempt interest to the landowner.

There are vehicles for this type of transaction. To structure payments using an IPA there is no voter approval required. Isle of Wight is unique in that it is one of only two counties that can incur debt without a referendum. DEQ's Land Conservation Loan Program is a possible source for cheap money, but the property and agreement must satisfy DEQ requirements. There must be a nexus between preservation and water quality to qualify for this funding. Virginia Resources Authority (VRA) has a Market-Rate Loan Program, and through this program the County may obtain funds from the Commonwealth with a moral obligation for repayment.

Funding an IPA by the County means investing at closing in competitively bid US Treasuries/Zero Coupon Bonds that pay a principal of the IPA at maturity. In the interim period of up to 30 years, the County uses general fund monies to pay annual interest on the IPA to the landowner. The cost to the County, as the buyer, at closing is 33 cents/\$1 for a long-term IPA.

The alternative funding of the PACE Program may be through the following:

- VRA-3% rate loan for a 20-year Land Conservation Loan from the Clean Water Revolving Loan Fund.
- County may invest in US Treasury State and Local Government Series securities (SLGS) at maximum yield.
- SLGS regulations allow County to lock in rates in advance, specify payment and maturity dates.
- Use interest on and principal of SLGS to pay interest on and principal of IPA.
- IPA payments are an annual obligation of the County, but payments may be entirely covered by SLGS.

When discussing the selling terms and amortization of the IPA, it was reiterated that it is to the advantage of the seller/landowner to push the balloon payment or maturity out as long as possible for the following reasons:

- There is an assured revenue stream for a lifetime without a reinvestment risk.
- There is a reduced likelihood of paying a capital gains tax.

Overall, a longer term maximizes benefits for the landowner/seller, even though a shorter term IPA gives a greater sense of comfort.

Mr. O'Connell then provided an example of a 25-Year Bond payment versus an IPA, stating that bonds are the cheapest form of funding available; however, there are benefits to the County by using an IPA. Using an IPA provides enhanced offers, meaning that tax advantages are provided to sellers that developers cannot match. This often causes more sellers/landowners to be more interested in participating in the program because their

capital gains tax liability is deferred. Additionally, using an IPA provides leverage to the County, allowing 200% more purchases in the short term. This creates continuity in the program. Mr. O'Connell stated that there are some localities which allow sellers to choose not to use an IPA, but they must meet certain criteria before this is even considered.

The rate of an IPA is established at closing. It is the higher of either the floor rate in the Agreement of Sale or the yield on the zero coupon bonds. Mr. O'Connell stated that the long-term rate today is 4.55%.

Mr. O'Connell discussed the many benefits to the landowner/seller of utilizing an IPA. Those benefits include:

- *Capital gains tax deferral*-It is a possibility in many cases that during the landowners' lifetime taxes may not be owed.
- *Tax-exempt interest*-Interest is received on the full sales price and that payment is considered to be exempt from federal and Virginia state income taxes.
- *Marketability*-If the seller wants to sell the IPA to bond investors to receive cash prior to maturity, they may do so.
- *Better Estate Planning*-The heirs may use the cash from the sale to pay the estate taxes.

Lastly, Mr. O'Connell reiterated to the Committee that he has worked with several localities including the Cities of Virginia Beach and Chesapeake, and many others states, to develop IPAs. Further, he stated that Evergreen Capital Advisors specializes in financing land preservation. Mr. O'Connell and Ms. Freeman thanked the Committee for inviting them to present.

Next, Mr. Tom Tye discussed with the Committee his thoughts on how development rights should be valued in Isle of Wight. Mr. Tye began by stating that he has performed 16,045 appraisals. Mr. Tye specializes in land appraisals, and he worked with the City of Virginia Beach when its ARP program began about eleven (11) years ago and still works with the City today, having appraised every property in its program. Mr. Tye informed the Committee that he will also be working with the City of Chesapeake's PDR program as well.

Mr. Tye discussed with the Committee the fact that right now no one really knows what land is valued at in Isle of Wight for PACE purposes. It is necessary to find actual data and analyze that data on a per acre basis, but information is very scarce and each property is different. It will also be necessary to estimate the land values once they are deed restricted as well. Mr. Tye stated that there really is not much land without development pressure, except in Kansas. Determining the value of the land and the development rights will be difficult, but will be possible. Mr. Tye suggested to the Committee that the best route may be to determine the value of a building lot, which seems to be the fairest way to determine the development right value.

Beverly Walkup stated that when looking at targeted areas, the Program may not want to purchase development rights in a village center area. Further, Ms. Walkup stated that as an incentive to participation in the Program, platted property in the PACE Program could potentially be exempt from the rezoning process. The County is currently going through a subdivision ordinance review and such a provision could be included in the revised ordinance.

There was discussion as to how many development rights are allowed on a property and due to complexity of the issue, Dee Dee Darden motioned that the Committee hear a presentation from Ms. Walkup at their next meeting on the Zoning Ordinance and Comprehensive Plan. Pete Carr seconded the motion. Members Alphin, Babb, Carr, Darden, and Oliver voted in favor and no members voted against.

Jimmy Oliver requested that Liesl DeVary invite the County's financial advisor to come to the next meeting to present recommendations for funding our PACE Program. Ms. DeVary informed the Committee that before a funding method/payment structure was decided, the Committee needs to determine how much land it wants to preserve and how much it will cost. Once those goals are set, it is at that time that a funding mechanism/payment structure can be determined.

Mr. Carr asked the farmers in the room how much they thought it would take for them to apply to the Program. It was decided by all members that the value per development right must be attractive enough to get a good amount of participation, but not so great that everyone wants to apply. There has to be an agreeable mid-point.

Ms. Morris entertained nominations for Chairman, Vice-Chairman, and Secretary. Tom Alphin nominated Ms. Darden as Chairman. Bryan Babb seconded. Members Alphin, Babb, Carr, Darden, and Oliver voted in favor, and no members voted against. Mr. Oliver nominated Mr. Alphin as Vice-Chairman, and Mr. Carr seconded. Members Alphin, Babb, Carr, Darden, and Oliver voted in favor, and no members voted against. Mr. Alphin nominated Ms. Morris as Secretary, and Ms. Darden seconded. Members Alphin, Babb, Carr, Darden, and Oliver voted in favor, and no members voted against.

Ms. Darden asked that at the meeting in February the Committee begin looking at target areas, goals, and ranking criteria. Ms. Darden moved that the Committee begin the procurement process to secure Mr. Tye's professional services. Mr. Babb seconded. Members Alphin, Babb, Carr, and Darden voted in favor with no members voting against. It was noted that Mr. Oliver was absent.

There being no further business and no closed meeting agenda items, Ms. Darden moved that the meeting be adjourned, and Mr. Babb seconded. The motion was adopted with members Alphin, Babb, Carr, and Darden voting in favor, and no members voting against.