

February 11, 2016
Special Meeting of the City Council
Council Chambers – City Hall
5:45 p.m.

Present: Mayor Barbara G. Volk, Mayor Pro Tem Steve Caraker and Council Members: Ron Stephens, Jerry Smith and Jeff Miller

Staff Present: City Manager John F. Connet, City Clerk Tammie Drake, Finance Director Lisa White, Assistant to the Manager Brian Pahle

The purpose of the special meeting is for a financial review by staff and to hold a Council/Staff retreat to develop a work plan for the coming year. Other topics may be discussed.

Call to Order: Mayor Volk called the meeting to order at 6:20 p.m. and welcomed those in attendance. A quorum was established with all five members in attendance.

Financial Update: Mr. Pahle began by explaining financial sustainability and what it means to the City. He reported:

General Fund Revenues: The City's revenue is experiencing growth after the recession. Revenues have improved since last year. He reviewed the characteristics of different sources of revenue: static, i.e., property taxes, and elastic. The increase in property values was not strong in the revaluation. He estimated revenues at the end of FY 2015-16 at \$13,282,126.

Mr. Pahle reviewed the City's sales tax revenue and estimated an increase in sales tax revenue of 8.6% at the end of this fiscal year. Economic development, building supplies/construction, increase consumer confidence and the Main Street improvements are credited for this increase.

Something to consider:

Mr. Pahle explained currently the Downtown and the Seventh Avenue districts receive a flat amount and suggested going to assessed value instead so their revenue is proportional.

NCGA Legislative Considerations: Mr. Pahle reviewed the approved and possible legislation discussed in the State Budget:

- Motor Vehicle Registration Fee: NC General Assembly (NCGA) approved a motor vehicle registration fee for up to \$30, the first \$5 may be used for any purpose and anything above that amount must be used for roads.
- Powell Bill Allocation: NCGA reallocated funds based on the number of streets. This will result in an increase of approximately \$80,000.
- Sales Tax Redistribution: The effects remain unknown.
- Municipal Option Sales Tax: The ¼-cent tax will give municipalities more control over their revenues but it may not be in affect for three to five years.
- Utility Franchise Tax: This tax has almost doubled because of recent changes in the law.

Mr. Pahle stated the positive revenue picture is a result of responsible policy setting by the City Council, a strong economic recovery and continued frugality in the expenditure of public funds.

General Fund Expenditures: The forecast for expenditures is less known. The four major expenditures include:

personnel (58.3%)
operating expenses (28.6%)
capital (2.8%), and
debt (9.8%).

Natural growth increases expenditures. New personnel competes with merit pay. Enhanced programs and services, i.e., the pay and classification plan, improvements to Berkeley Mills Park, etc. require creative funding strategies.

Available Fund Balance: The available fund balance has remained steady due to the growth in revenue but the total fund balance continues to decline due to the annual Capital Reserve Fund used to pay a debt service note. Mr. Pahle predicted a good outlook for the fund balance with an estimated 45.9% fund balance at the end of the fiscal year. He suggested converting the Capital Reserve Fund to a Debt Service Fund and appropriate fund balance (the amount exceeds the City's policy) for the two remaining notes (City Hall renovation and the 1998 GO sidewalks bonds). This action may free up approximately \$202,637 annually that could be used toward general operating costs. Discussion followed on what the funds could be used for.

Mr. Pahle reviewed the forecast for revenues and expenditures.

Water and Sewer Fund:

Revenues: Mr. Pahle provided a revenue forecast for the Water and Sewer Fund stating rate changes and drought situations effect the revenues.

Mr. Pahle reviewed a rate comparison analysis and discussed when would be the right time to consider a rate study.

1. *How Hendersonville bills compare to other providers?* The median water and sewer bill is \$67.98; the City's is \$47.15.
2. *Is Hendersonville recovering enough costs to fund future capital needs?* The City's operating ratio including depreciation as of the end of 2014 is 1.16.
3. *Do Hendersonville rates for large users encourage conservation?* The median price per 1,000 gallons (after the first 10,000 gallons) is \$10; the City's is \$7.05.
4. *How affordable is Hendersonville's bill for customers?* The City's water and sewer bills as a percentage of MHI is 1.53%.

Expenditures: Mr. Pahle's forecast of expenditures ranges from .13% to 7.44% - more investment in capital is required in some years. He reviewed the current expenditures for personnel (29.7%), operating expenses (38.7%), capital (9.8%), and debt (21.8%). Discussion followed on the possibility of adding personnel to be responsive to customers. Data shows other utilities similar in size have three or four more staff to answer phones only.

Assets depreciated: Mr. Pahle explained 63.03% of the Water and Sewer system assets are depreciated; leaving assets with a useful life of 36.97%. He explained much of the depreciation is in the ground. Mr. Connet explained two new positions for inflow and infiltration, and leak detection focusing in older parts of city with help identify and make a plan for replacements. Mr. Connet stated the Council will hear about master planning for the system.

Fund Balance: Mr. Pahle explained the fund balance has decreased recently to fund capital projects. There are more than \$140,000,000 worth of capital projects identified in the Capital Improvement Plan (CIP); \$80,000,000 of which is for future years. The City has prioritized reinvesting funds back into the system. A healthy fund balance is advantageous because of the high costs of some projects. Mr. Connet explained the Master Plan might change the priority of projects.

Mr. Pahle reviewed the revenues and expenditures forecast.

In review, Mr. Connet reported both the General and Water and Sewer Funds are in a healthy position resulting from sound financial practices. He stated the City may slowly increase rates for future projects. There was discussion of overflows in heavy rainfall events which are being identified.

Flooding issue: The Council discussed flooding on the south side of town and the possible opportunities presented by the Publix development. Mr. Connet reported a flood basin study will be done of the entire area and will include using the two properties owned by the City. An easement from Publix will be requested.

Closed Session: At 7:36 p.m. Mayor Pro Tem Caraker moved the City Council to enter a closed session to consider the qualifications, competence, performance, character, fitness, conditions of appointment, or conditions of initial employment of an individual public officer or employee or prospective public officer or employee as provided under NCGS §143-318.11(a)(6). A unanimous vote of the Council followed. Motion carried.

The City Manager briefed the City Council on a personnel issue.

Adjournment: Being no further business, the meeting adjourned at 7:51 p.m. upon unanimous assent of the Council.

Barbara G. Volk, Mayor

Tammie K. Drake, City Clerk