

March 10, 2015
Special Meeting of the City Council
City Hall – Second Floor Conference Room
6:30 p.m.

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

Staff Present: City Manager John Connet, City Clerk Tammie Drake, Planning Director Sue Anderson, Finance Director Lisa White, Budget Analyst Brian Pahle

The purpose of the special meeting was to discuss the Capital Improvement Plan (CIP) for the next fiscal year.

Mayor Volk called the meeting to order at 6:30 p.m. and welcomed those in attendance.

Mr. Connet explained during this presentation, staff will focus on the big picture by funds and where policy decisions will need to be made for larger projects or high ticket items. He explained purchase of equipment/vehicles is not a policy decision and staff will make adjustments to those items when the final budget numbers are reviewed.

Mr. Pahle provided an introduction of the CIP and gave some history and trends for the last seven years. He stated capital expenditures are focused on projects and equipment. A capital project or asset cost more than \$5,000 and has a projected useful life of five years or more.

Mr. Pahle reviewed the history of the CIP for the past seven years. In the General Fund, 28 percent is for capital expenditures. He explained the seven-year average from the General Fund side is \$704,139, 46 percent was for Public Works, 35 percent for public safety, and approximately 20 percent for general government (buildings, software updates, vehicles, etc.). In the Water and Sewer Fund, 66 percent of the fund is for capital. The seven-year average spent is almost \$1.7 million for equipment, vehicles, pump stations, etc. Other funds, i.e., Environmental Services, Downtown and Seventh Avenue, have totaled about 6 percent of the Capital Outlay for the past seven years.

Mr. Pahle reviewed the requests for the next fiscal year totaling \$10,450,295 in the General Fund and \$8,693,950 in the Water and Sewer Fund and the major projects making up the requests. In discussion of the Water and Sewer Fund, Mr. Pahle stated the system has the capacity and the funding to expand. The fund balance may be used to grow the system or pay off debt by direction of the City Council.

Mr. Pahle reviewed the requests in the Water and Sewer Fund including: software/monitoring system upgrades, interconnections to increase pressure levels, gravity lines to improve efficiency, filters to promote effective water/wastewater treatment, area specific improvements to cut down on outages, general equipment/vehicles/machinery and improvements to the Etowah and Fletcher areas. Mr. Connet stated the City has been trying to do the upgrades of the SCADA system in a piece-meal fashion. There was discussion of the projects. Mr. Connet explained the system has the capacity to fund small projects that will assist in locating industry and some are absorbed through the operating budget. In conclusion, Mr. Pahle stated the Water and Sewer Fund is sustainable, has the capacity to grow as long as normal operations can support it.

Mr. Pahle reviewed the **Environmental Services Fund** that has historically relied on the General Fund but is now on the verge of being sustainable without expenditures for capital outlay. The increase last year did not address capital purchases (trucks) for the future. Options for capital purchases include borrowing from the General Fund, financing the trucks (which would increase operating costs) or establishing a Capital Reserve Fund from an increase in rates. This fund is also linked to stormwater projects. There was discussion of a rate that would make the fund self-sustaining.

In the **Downtown Fund**, Mr. Pahle explained the General Fund has historically transferred a portion of sales and use tax, \$100,000, to this fund and back to the General Fund. He recommended that \$100,000 stay in the Downtown Fund: 1) because of declining fund balance and 2) to fund a number of priority projects, e.g., the parking program, parking kiosks, lighting upgrades along the avenues, etc. and 3) to allow greater flexibility for smaller projects. This fund is not sustainable without the transfer from the General Fund.

Seventh Avenue Fund: Mr. Pahle explained this fund relies heavily on the General Fund. He stated their tax valuation is expected to decrease which will result in a tax increase to remain revenue-neutral. Mr. Connet stated the question of possibly raising the tax will be posed to the advisory board.

Discussion on **General Fund:** Mr. Pahle reviewed the major projects that have driven CIP growth: Berkeley Mills Park improvements, the stormwater program on Meadowbrook Terrace, Old Tracy Grove Road bridge replacement and the land purchase for the joint medical facility project. Without these major projects, the capital outlay requests are actually less than the seven-year average. Major projects are funded by fund balance.

Mr. Pahle then reviewed how the major projects affect the Fund Balance. He stated the City is facing an operating deficit of \$422,300 and reiterated the impact of the loss of business license tax of \$326,000 that the General Assembly has not addressed. The expected revaluation may result in an additional \$100,000 revenue and it is possible we will gain approximately \$25,000 from businesses operating in the City and retiring debt.

Mr. Pahle stated next year debt service will increase by about \$300,000. He stated if the City does not pursue major projects and continues the operating deficit the Fund Balance could drop to approximately 17 percent in three years. With major projects, the fund balance could drop to 9 to 10 percent. There was discussion of a revenue-neutral tax rate, which would be less than one cent.

Mr. Pahle reviewed options for addressing the deficit. The Council discussed major projects including Meadowbrook stormwater and the Old Tracey Grove Road bridge replacement that is reimbursed at 80 percent. Mr. Connet stated there are other projects that will require prioritizing and major policy decisions by the Council including: Berkeley Mills Park improvements and historic Seventh Avenue improvements. There was discussion of the grant funds requested for the development of Berkeley Mills Park, how grant funds may be expended, additional personnel necessary to maintain the property and options for developing the Park.

The Council discussed the percentage of Fund Balance. Ms. Lisa White, Finance Director, stated the City's goal of 45 percent will not be possible and it will continue to decline. She provided a draft Fund Balance policy for Council's review. She explained that the tax increase did not balance the budget last year without a Fund Balance appropriation.

Mr. Connet stated some projects may have to be delayed. He asked the Council to relay the importance of the privilege licenses replacement to our legislators.

Discussion of Options:

- Council Member Caraker suggested leasing the property on Seventh Avenue instead of purchasing it and it will still show the Council's intentions of supporting the efforts. Mayor Volk suggested the funds may be borrowed to purchase the property instead of leasing it.
- Mr. Pahle suggested using funds in the Environmental Services Funds to pay for the Meadowbrook stormwater project, finance the trucks, consider fee increases for solid waste, etc.

Mr. Connet explained this is a conservative, worst case scenario that will be used to develop the budget. There are also desires on the operations side to add a police officer in parks, there is a critical need for grounds maintenance personnel in Public Works, and others. There was discussion of the tax implications of future growth and the potential for commercial property development.

Mr. Connet explained the City will have to maintain control of operational expenses and try to whittle away at the deficit. He stated the General Fund is still in good shape with the Fund Balance but will need to be managed in a tighter way. There was discussion of a policy on fund balance and how Hendersonville compares to other cities our size.

Mr. Connet stated the Capital Improvement Plan will be included and considered by the Council as part of the budget. **There was no action taken by the Council.**

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