

MINUTES

February 27, 2020

SPECIAL MEETING OF THE CITY COUNCIL

CITY HALL

6:00 p.m.

Present: Mayor Barbara G. Volk, Mayor Pro Tem Jerry Smith and Council Members: Jeff Miller, Jennifer Hensley and Lyndsey Simpson

Staff Present: City Manager John F. Connet, City Attorney Sam Fritschner, City Clerk Tammie Drake, Finance Director John Buchanan, Interim Fire Chief James Miller, Budget and Management Analyst Adam Murr, Communications Manager Allison Nock, Downtown Development Director Lew Holloway

Purpose: The purpose of the special meeting is to hold a Council/Staff Retreat to discuss Council priorities and future work plans.

Call to Order: Mayor Volk called the special meeting to order at 6:00 p.m. and welcomed those in attendance. A quorum was established with five members in attendance.

Accomplishments Review: Mr. Connet began by recognizing Council's accomplishments since 2017 for:

- great public services: reformed the Henderson County Water/Sewer Authority, put School Resources Officers in all four schools in the City,
- financial sustainability,
- strong partnerships: began Council conversations with the community, the Grey Mill redeveloped into 35 apartments,
- sound infrastructure: constructed a sidewalk on Four Seasons Boulevard, replaced the North Main Street waterline, replaced sidewalk on Second Avenue, installed the generator at the Wastewater Treatment Plant,
- numerous amenities: installed way-finding signs (funded by Tourism Development Authority), Phase III of the Oklawaha Greenway, and constructed the Downtown restrooms,
- economic vitality: over \$8 million in investment has been made in the Municipal Service District between July 2017 and 2019.

Mr. Connet stated staff has worked to strengthen the fleet division with additional software and tools to track the fleet including costs to operate vehicles, maintenance, determining resale value, leasing vehicles, and managing all costs.

Mr. Connet stated these accomplishments are a result of the retreats and thanked Council for their support.

General Financials/Projects Update: Mr. Pahle began by providing a base level for visioning and priority setting for the second day of the retreat. He reviewed the budget calendar and stated staff with work with the department heads and include the Council's priorities to develop budget for City Council's review. The Council will determine where funds are allocated.

Mr. Pahle reviewed the vision and mission statements and reviewed explained Financial Sustainability is used to determine whether we can continue our current practices and whether we can afford our current lifestyle or practices, i.e., quality of services, rates, who pays for the services, etc.

General Government: Mr. Pahle provided an overview of the projects/priorities and trends, the financial forecast and strategic plan impact. He reviewed the four stages of a project life cycle, how projects are identified and ranked by the Council and provided a report on the projects:

Completed: Grey Mill redevelopment, gateway signs, Maple Street streetscape, public restrooms, Public Works Maintenance building.

Funded: Seventh Avenue Streetscape Phase I, Main Street to Grove Street improvements, Police Department Headquarters

Unfunded projects: Berkeley Mills Park, Customer Service renovations, Fire Station 1, Greenway(s) parking lots, parking (deck/lots), and Whitmire Building.

Mr. Pahle stated the goal of the retreat is to establish a shared vision.

Mr. Pahle then proceeded into a review of financial trends.

Property Tax: The revaluations and tax rates were reviewed. Revaluations resulted in approximately 25 percent growth from November 2000 to 2019 and revenue was recouped from those. The value per penny is presently about \$210,000. The City of Hendersonville has the third lowest rate in the State among cities our size. There was discussion on impacts of the four-year cycle for revaluations, decreased sources of revenue: no annexation,

unfunded mandates, tax-exempt properties, etc. The City is serving a large area and is only 12 percent of the total county population with the average statewide ratio is 34 percent. The tax-exempt properties are 21 percent of the total taxable property which equates to .12 on the tax rate.

Sales Tax: Mr. Pahle provided a history of sales tax revenues from 2014 to present which currently accounts for 21.25 percent of General Fund Revenues. This is a very elastic revenue source. He reviewed the process for sales tax and the methods for redistribution. The State gives sales tax back based on point of sale to the counties and Henderson County redistributes based on the tax levy. There was discussion of a local option sales tax. He estimated the sales tax revenue for budget FY 21 at \$3.63 million.

Historical Actual Expenditures: Mr. Pahle reviewed historical actual expenditures based on audits versus budgeted expenditures. The five-year average is \$14.2 million in expenses and reviewed the expenditure types. Drivers for increases to personnel includes health insurance, retirement benefit, pay and classification study, service demands, other benefits and SAFER grant. There was discussion of the current health insurance plan and renewals.

Upcoming Debt Service: Mr. Pahle stated debt service costs are coming. He estimated a retirement benefit contribution may have to be increased.

There is \$1.3 million in new debt service costs by FY 22-23. He reviewed the projects funded by Pay-Go capital which totals \$3.7 million so the projects will be prioritized by the Council.

Fund Balance Policy Revision: Mr. Pahle stated the City is continuing to meet the Available Fund Balance Policy requirements which is set by the Local Government Commission's calculations. He stated the Fund Balance continues to provide a strong and stable foundation.

General Government Review: Mr. Pahle stated reviewed revenues and expenditures, actual versus estimated and is confident going forward. He reviewed the tools used to forecast where dollars are going.

The Bottom Line: Reliable and Diverse Revenue Sources: Mr. Connet stated the City needs to find ways to grow the tax base from the industrial side that has less impact to services. He stated a fee for service helps spread the costs around. There was discussion about the pay-in-lieu for non-profits.

Enterprise Financials/Projects Update: Mr. Adam Murr, Budget and Management Analyst, reviewed the enterprise funds. He stated enterprise funds operate like a business and are funded by user fees other than taxes. He explained NCGS requires local governments to have a fund for each enterprise owned or operated by the unit. He stated the City hires consultants to assist in fixing rates and provide objective analysis to understand our demographics and data.

Mr. Murr reviewed the dashboard provided by the School of Government and showed bill comparisons for the City and 32 other utilities across the state. The City's rates are on the affordable side but do not encourage conservation with the rates, but we are moving toward that with a flat rate block tier.

Cost recovery: Mr. Murr stated the City is recovering 105 percent of our operating expenses and capital with our revenues.

Customer Data: Mr. Murr reported there are:

Water Accounts:	28,716
Wastewater Accounts:	9,454.

Trends show customer accounts will increase each year by natural growth and estimates the following new accounts:

Water, Inside	75/year	Sewer, Inside	60/year
Water, Outside	225/year	Sewer, Outside	25/year
Water, Total	300 accts./year	Sewer, Total	85 accts./year

He also provided the amounts of water and wastewater billed and estimated an annual revenue increase based on growth of \$138,292/year. The revenue is categorized into expenditure source: Admin, Finance, debt service, etc.

There was discussion of how this information is communicated to customers. He explained what necessitates rate changes:

- \$129.6 million prioritized Water & Sewer capital projects over 10 fiscal years
- Stormwater projects estimated between \$33.5 - \$73.5 million over 10 fiscal years
- Needed equipment for the Environmental Services team for sanitation trucks, street sweepers, and leaf machines = approximately \$1.4 million over the next ten next fiscal years

Project Accomplishments: Mr. Murr stated several projects have been completed and include:

Water/Sewer: the Bradley Creek dredging project, high service pumps, WWTP emergency generator, WWTP filter replacement, Ladson Road Economic Development project, Highland Square Sewer improvement.

Stormwater: master plan for Wash Creek Basin, Utility Rate planning, Third Avenue sinkhole mitigation.

Mr. Murr reviewed the requests for FY 20-21 are:

Pay-Go Capital for FY 20-21 = \$3.19 million
A Gannt chart for projects from 19-20 to 24-25.
NCDOT projects total \$26.3 million.

Mr. Connet stated these requests will be discussed and prioritized.

Mr. Murr reviewed debt service. He stated the revenue bond for \$12.8 million will help fund improvements to the Etowah area of the water system and refinance debt on the AMI system. He reviewed the rate covenants of the revenue bond. Mr. Connet commented the rate covenants force rate discipline.

Mr. Murr anticipates ending the fiscal year with revenues in the Water/Sewer Fund of \$17.3 million and expenditures of \$15.9 million. He stated the fund balance for this fund will increase by \$1.2 million for a total of \$13.4 million.

Mr. Murr stated rate changes will need to continue to increase revenues as projects, debt and revenue needs increase.

Stormwater Fund: Mr. Murr stated the City is working toward creating a stormwater utility and is determining service levels. Master planning and utility rate planning are proceeding.

Mr. Murr anticipates ending the year with \$330,000 of estimated revenue and expenditures of \$522,000. He stated the gap will be covered by proceeds of debt for the purchase of a streetsweeper. He stated they plan to add \$4,050 to fund balance to end with a total \$87,000.

Mr. Murr stated staff will continue to work with consultants to determine best practices and prioritize future projects. Other than projects, there is also public outreach, working with construction manager and developers to control site runoff, etc. Mr. Connet thanked Council for investing in the Stormwater Administrator position. He stated the State is beginning to audit the program.

Environmental Services Fund: Mr. Murr anticipates ending the year with \$1.2 million of revenues and \$1.6 in expenditures; using approximately \$88,000 of fund balance leaving approximately \$188,000 at year end.

Mr. Murr stated some future considerations are rebates for customers participating in the recycling program, service delivery and service level, entering the commercial waste business and rates.

For all enterprise funds, Mr. Murr stated considerations include how to raise revenues to address contingency items, weather-related events that place pressure on our utilities and plan a robust, resilient infrastructure that is desirable to meet customer needs and mitigate hazards. Council Member Hensley suggested public information spots on radio and television to help educate the general public on the need for stormwater, etc. There was discussion on Public Service Announcements, a marketing campaign, purchasing airtime, the County's cable channel, etc.

Mr. Connet reiterated this is the beginning of the process and estimates will change.

Adjournment: Being no further business, the meeting adjourned at 8:15 p.m. upon unanimous assent of the Council.

Barbara G. Volk, Mayor

Tammie K. Drake, City Clerk