

February 23, 2017
Special Meeting of the City Council
Conference Room – City Hall
6:00 p.m.

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

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

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

The purpose of the special meeting was to hold a Council/Staff retreat to discuss the annual work plan.

2. Budget, Capital Improvement Plan, and Strategic Plan for Financial Sustainability Review:

Mr. Brian Pahle, Assistant to the Manager, began by stating the retreat process will focus on Council's priorities and his presentation focused on financial sustainability. He explained financial sustainability is the ability to provide quality services, through reasonable rates, for the long-term or intergenerational benefit of our community. He stated one part of financial sustainability is our operating ratios, which is the ability of current revenue to cover day-to-day expenditures for recurring and non-recurring expenses. Mr. Connet stated the operating ratio is one or higher. One is absolute balance – dollar for dollar, 1.05 is revenues are 5 percent higher than expenditures and 95 is revenues are 5 percent below expenditures.

Mr. Pahle distributed the Capital Improvement Plan (CIP) containing a summary of the requests, planning charts and maps, descriptions of the projects as well as a financial analysis.

Water/Sewer Fund Review: The revenues in this fund have historically exceeded its operating expenditures but have recently declined due to transferring funds for major capital projects. This enterprise fund should maintain an operating ratio of 1.2 ideally due to the high cost of emergency repairs and project costs. This also qualifies the City to take on debt.

Mr. Pahle stated more than \$7.5 million has been transferred from this fund for capital projects and to reinvest in the system. As expenditures increase, so will Council's goal for available fund balance (50-75 percent available). He stated the last change to the base charge was in 2009 except for the current year. Council previously agreed to small rate increases. The City's utility rates are some of the most affordable across the state and some of the lowest cost to consumers and cost recovery is only 96 percent which means the City is not recovering enough costs for future investments in the system. This is supplemented by the strong fund balance.

Capital Improvement Plan: Mr. Pahle stated operating and maintenance costs are increasing. He stated revenue for capital expenditures is decreasing and fund balance has been used. For 2017-18 (Year 1 requests) cash requests total \$1.67 million with a total request of \$14.5 million and includes design and evaluation for major projects that may be financed. He reviewed the equipment and projects requested.

Mr. Pahle provided a detailed breakdown of planned major projects. He presented a Gantt chart of expected projects needed in the next five years, their estimated cost, the current budget for the project, the projected versus actual schedule, and the proposed funding mechanism which may be traditional financing, cash payments, bonds, state revolving loan funds, etc. Mr. Connet stated the chart shows the life span of projects, whether it may be financed, amount of seed money needed, how much is needed for design, easements, and then construction. He stated this allows planning for the projects, when it is expected to be completed, and needed staff.

Mr. Pahle explained the City's debt service is scheduled to decrease by approximately \$1.3 million by FY 18-19. He stated there is approximately \$65 million in projects scheduled for the next five years. There was discussion on how the projects were prioritized. Mr. Connet stated the Council will receive the Master Plan for the Water/Sewer System at their next regular meeting. He explained a hydraulic model was performed of the entire system.

Mr. Connet reported the City's system is the eleventh largest water/sewer utility in the State of North Carolina based on the number of customers. The hydraulic models shows areas of low pressure, leaks, the advantages of district metering, projected growth of the county, and what is needed to prepare for the future.

Financial Planning/Analysis: Mr. Pahle recommended the concept of creating a "sinking" fund or debt service fund to set aside money to pay down debt and/or other assets. He stated there is \$5.5+ million in project ordinances. He suggested putting those funds in addition to what is being paid now, \$3.75 million, into the debt service fund as seed money. The funds being used now for debt service will continue to be paid indefinitely into this fund. This will allow funding or debt service payments for the loans on all of the projects on the Gantt chart. He explained all rate payers have paid into those reserves and staff believes it is most equitable to use those funds for improvements in many areas of the system instead of one project that effects only one area. He emphasized this tool must be managed appropriately for future projects. This concept may be for a five-year term or evaluate

it after five years to determine whether it should be continued for future years. Mr. Connet explained it operates similar to an “equal payment plan.”

Mr. Pahle explained debt issuances require a solid operating/debt service ratio. Major projects after fiscal year 2023-24 will need additional contributions. He stated staff is working with a financial advisor to get the best possible financing plan from a variety of sources.

Discussion followed on future rate increases. Mr. Connet explained there are other costs associated with operating the system in addition to the major projects. Mr. Pahle stated staff will recommend a professional rate study that will study the cost of running the system, Capital Improvement Plan and Gantt chart, and will include Council’s rate philosophies and a recommendation. He suggested small rate adjustments until the professional recommends a sustainable program. Mr. Connet stated rate equalization will continue to be discussed statewide. He stated a unified rate may be implemented over time. Discussion followed on the condition of the system.

General Fund Review: Mr. Pahle stated the operating ratio for the General Fund is 1.03 and ideal is 1.05.

Available Fund Balance: Mr. Pahle explained previous Fund Balance showed funds that were restricted and did not represent the true available fund balance. The restricted funds were moved into a debt service fund. Funds not yet received, e.g., sales tax, are also restricted. He reported there is approximately \$7.3 million in fund balance with \$5 million available that is above the fund balance policy.

Mr. Pahle reviewed the strong growth in sales tax revenue but cautioned the source is volatile and dependent on the economy. He stated sales tax changes made at the State level, i.e., point of sale versus per capita basis, will take effect in the next fiscal year.

Capital Improvement Plan: Total cash requests is \$1,037,025 for year one with total requests of approximately \$6.7 for facilities and infrastructure. Staff moved \$992,000 of requests into future years. Other considerations include personnel pay and classification study, wellness program improvements, staffing levels, insurance increases, inflation, service levels and possible future debt service for facilities, parks and infrastructure.

Mr. Pahle reviewed the revenues and expenditures forecast. He expects revenues to continue to exceed expenditures. He predicted the General Fund will have \$1.2 million every year for the next five years for capital and/or operating expenditures. He provided a five-year planning tool with variables, e.g., tax rate, priority projects, staff increases, etc., that will aid in planning and provide an idea of what is sustainable.

Mr. Pahle stated if possible legislation is enacted, it may provide \$0.0025 sales tax that means those who are in the City every day help share the burden of the cost of our services. It could result in a decrease in property taxes while enhancing our programs and services.

Mr. Connet ended by stating the City is in good financial shape. Staff continues to engage in financial modeling and planning that may be used in the budget for Council’s priorities. He stated the Water and Sewer Fund continues to be healthy with a strong fund balance for reinvesting in the system. He stated the system continues to grow which impacts the operating ratio. He stated the City “plays much bigger” than our population of 13,824 and more like a City of 35,000 on a daily basis.

No action was required or taken by the City Council.

3. Adjournment: The meeting adjourned at 7:23 p.m. upon unanimous assent of the Council.

Barbara G. Volk, Mayor

Tammie K. Drake, City Clerk