

MINUTES
April 11, 2019
SPECIAL MEETING OF THE CITY COUNCIL
CITY HALL – COUNCIL CHAMBERS
3:45 p.m.

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

Staff Present: City Manager John F. Connet, City Attorney Samuel Fritschner, City Clerk Tammie Drake, Assistant Manager Brian Pahle, Budget and Management Analyst Adam Murr, Communications Director Allison Nock, City Engineer Brent Detwiler, Downtown Economic Development Director Lew Holloway

The purpose of the special meeting is to hold a budget workshop on the Fiscal Year 2019-20 Budget.

1. Call to Order: Mayor Volk called the meeting to order at 3:45 p.m. and welcomed those in attendance. A quorum was established with five members in attendance. Mayor Volk asked for a moment of silence for the passing of Police Lieutenant Jimmy Case, who succumbed to a heart attack today.

2. ERA Amendment: Mayor Volk reminded the Council of a request made at the April 4 meeting to endorse the Equal Rights Amendment to the Constitution. Council Member Smith asked that it be discussed by the Council at this meeting. She stated she and Council Member Smith are requesting amendments. The Council discussed the changes made from the original resolution. **Council Member Smith moved the City Council to pass this resolution calling for the NC General Assembly to pass the Equal Rights Amendment. A unanimous vote of the Council followed. Motion carried.**

Resolution #19-0419

A RESOLUTION CALLING FOR HEARINGS AND RATIFICATION OF THE EQUAL RIGHTS AMENDMENT

- WHEREAS, There have been periods in North Carolina history in which women have been discriminated against on the basis of their gender; and
- WHEREAS, The Equal Rights Amendment (ERA) is needed to help correct systemic sex discrimination, since the US Constitution does not explicitly guarantee that all the rights that it protects are held equally by all citizens without regard to sex; and
- WHEREAS, The ERA was proposed in 1923, passed by Congress in 1972 and ratified by 35 of the 38 states necessary to put it into the Constitution as of a June 30, 1982 time limit; and
- WHEREAS, Irrespective of a time limit for ratification, the Nevada Legislature ratified the ERA with a bipartisan vote on March 22, 2017, becoming the thirty-sixth state to ratify the amendment; and the Illinois Legislature ratified the ERA with a bipartisan vote on May 30, 2018, becoming the thirty-seventh state to ratify the amendment; and
- WHEREAS, Congress can alter time limits in the proposing clauses of amendments, and the deadline for the ERA appeared only in the preamble and not in the text of the amendment; and
- WHEREAS, Fifteen municipalities across North Carolina have adopted resolutions of support for the ERA; and
- WHEREAS, ERA bills were introduced into both chambers of the North Carolina General Assembly in 2015, 2017 and 2018; were assigned to Judiciary and/or Rules Committees, but were not considered in hearings; now, therefore, be it
- RESOLVED, That the City of Hendersonville calls for a renewed effort to ratify the ERA and urges the General Assembly to hold committee hearings upon like ratification bills and pursue ratification of the ERA to the US Constitution as proposed by Congress on March 22, 1972.

Adopted by the City Council this eleventh day of April 2019.

/s/Barbara G. Volk, Mayor

Attest: /s/Tammie K. Drake, City Clerk

3. Budget Review – General Fund: Mr. Connet thanked the Council for this additional workshop for the budget. Due to revaluation, he believes it is appropriate to discuss the budget of the General Fund.

Mr. Pahle stated he will be discussing the General Fund and the tax rate. He provided a recap of the trends discussed at the February retreat: revenue growth or lack thereof, proactive services, base-level services, inflation and interest rates, debt, fund balance, exemptions and refunds, and focused on medical insurance (benefits), fire services and stormwater. The Council seemed most likely to support the revenue sources of: property revaluation, occupancy taxes, and General Obligation bonds.

Employee Benefits: In a survey conducted of the workforce, dependent medical insurance contribution was the highest ranking.

Fire Department Expansion: The consensus of the Council in February was to build Station #3 first and then make decisions for Station #1.

Budget History: Mr. Pahle reviewed the drivers that got us to this point: loss of revenues, increasing costs for services and maintaining a high level of services in the City. He stated the foundation that has supported the City is: property taxes, fees for services, grants, paying off debt and a strong fund balance. He stated staff has been looking to the revaluation for relief noting the assessed value of property has only grown 1.8% since FY 2009. The authority to levy a privilege license tax was lost in 2015 with an impact of approximately \$400,000. The City has also lost approximately \$400,000 in revenues from sales tax. Two of the larger impacts include increasing costs for health insurance and retirement costs.

Mr. Pahle stated the City has maintained a high level of services with improvements to parks, school resource officers, fire life safety division personnel, sidewalks and greenways, downtown programs and the high-speed internet project. There was discussion of the accomplishments despite the loss of revenues, notably school resource officers, without the assistance of any other sources.

Mr. Pahle stated the foundation that has supported us: property taxes, fees for services and grants. He commended staff for getting grants for needed equipment and programs. He stated the City has also been using debt. The City used fund balance about three years ago to pay two debt notes, realizing a savings of \$400,000 in the operating budget. The City has also used debt to fund capital for police vehicles and public works equipment. He stated the City's strong fund balance has supported the City and freed up the operating budget. He stated the City is looking to the revaluation for relief. He noted tax increases have been for lost revenues or to cover additional services. He stated strategic budget has been used to address growing deficits and lack of revenue growth. He then reviewed how the budget is developed.

Budget Review Revisions: Mr. Pahle reviewed the budgeted and actual expenditures for FY 17-18 and 18-19.

Revenues: Mr. Pahle stated the budget estimate for FY 18-19 shows a deficit of more than \$958,000 with a tax rate of .49 per \$100 valuation. Personnel and benefits cost are increasing more than 8 percent. Overall, expenditures are up approximately 1.91 percent, revenues for FY 2019-20 are up approximately 5.97 percent compared to the current year.

Debt service: Mr. Pahle stated debt service increased for: the Public Works Maintenance Building loan of \$190,000 for 15 years, a capital equipment loan of \$100,000 for an estimated five years. He stated the City Hall renovation loans have been paid.

Adjustments: Mr. Pahle reported total expenditures requested were \$18.3 million. After review \$1.47 million was cut from capital and operating expenses. He noted the health insurance premiums increased 15 percent. The Zoning Enforcement Officer position is currently frozen. He reviewed the items that were removed from the budget: equipment, some park improvements, Comprehensive Plan update, Zoning Ordinance re-write and Pedestrian Master Plan, five vehicles, advertising, a rescue boat, security upgrades, etc.

Mr. Pahle stated over the past 3 years, the City has averaged 95% of expenditures, and averages approximately 102.7% for revenues. He stated other priorities such as the debt service for the Police headquarters, Seventh Avenue streetscape, fire protection services, and medical insurance benefits are not yet included in budget. He provided a timetable of when cost impacts occur and how impactful they are. He asked for Council's direction on including these items.

Police Headquarters: Mr. Pahle reviewed the \$11.5 million budget for the Police headquarters, financing, term, etc. He also provided the timeline for the debt approval and construction. He stated the project will require various studies which staff is about to begin and include an environmental assessment and a financial feasibility study by a CPA. He stated interim financing for the project must be secured because the USDA does not provide the funds until the project is completed.

Seventh Avenue Streetscape: Mr. Pahle stated because the financing of this project cannot be combined with the Police headquarters, he recommended a special obligation bond with an annual payment of \$103,000 for a 20-year term. Staff is recommending slowing this project down to be completed in early 2021.

Fire Protection Services: Mr. Pahle stated staff has applied for a SAFER grant which will help fund battalion chiefs, additional operational costs. This will result in a need for new apparatus. He reviewed a replacement schedule for the Fire Department fleet.

Fire Station options: Mr. Pahle stated he included a \$6 million loan assumption in the model. There was discussion of vehicles replacement and the age and mileage of the apparatus. A ladder and two engines will need to be replaced. An additional engine company made possible by a SAFER grant will relieve some of the work load.

Dependent Medical Insurance Coverage: Mr. Pahle reported on the results of the employee survey. He stated 40 percent of the workforce responded, and 71 percent of those they would take advantage of dependent medical insurance coverage but the data was extrapolated to the entire workforce. He stated with 71% participation and the City paying 50 percent of the coverage cost, an annual cost would be \$639,462. The cost for only the respondents would be \$258,198. The cost for the General Fund workforce would be \$415,142 annually and for the respondents only would be \$155,134.

Review of Upcoming Priorities: Mr. Pahle reviewed a time scale for the expenditures required to fund Council priorities through 2024 with the assumptions he had made and the cost impact/implications over time. With the revaluation, \$210,000 equals one penny on the tax rate. The Council discussed revenues needed for the future. *Outstanding Variables:* Mr. Pahle stated after the Police are relocated, renovations to City Hall will be needed. The cost and timing is unknown.

Tax Rate Discussion: When considering the tax rate, Mr. Pahle asked the Council to consider: the available fund balance, how we compare to our peers, the population served, and the level of service provided. He stated it is a recommendation to maintain 8 percent and it is not appropriate when cities have an average available fund balance of 50+ percent. He stated if the City's fund balance drops below 28 percent, the Local Government Commission (LGC) may not approve debt. He stated the role of the LGC is becoming more prominent. He stated currently the City's fund balance is 31.3 percent.

Mr. Pahle stated if the Council pursues their priorities, dependent on other municipalities in our population group, we could exceed the LGC policy. He recommended that staff initiate conversations with the LGC to work with them to understand the intent of their policy. Mr. Connet stated many cities that provide full services are dealing with similar budgets and how the brackets are managed.

Mr. Pahle reviewed the average county seat to total county population ratio stating Hendersonville is only 12.25% of the county. Hendersonville has the fourth lowest tax rate in a group of comparable peers.

Possibilities: Mr. Pahle provided some revenue options including payments in lieu of taxes, sales tax, and occupancy tax. The Capital Improvement Plan and operating base level expenditures must be maintained, an enterprise program for the fleet which is being explored, fire services, Seventh Avenue streetscape, reprioritize special appropriations, other benefit programs (wellness/longevity/401k/dependent medical), a revenue neutral tax rate of 0.4184. Mr. Connet stated it is staff's position to leave the tax rate at 49 cents and asked for feedback from Council.

Discussion from the Council:

Fire Protection: After discussion of the needed renovations or relocation of Station 1, additional staffing and equipment, **the Council agreed they need more information on whether it would be sensible to build Station #3 before renovations or rebuilding Station #1.** They agreed the condition of Station #1 should be evaluated to determine whether its useful life could be extended by renovation and/or possibly use the entire property to rebuild it.

Seventh Avenue Streetscape: Council Member Caraker voiced support of keeping the project moving forward. The private sector will continue to invest in this area as they see investment from the City.

Tax Rate Discussion: Council Member Miller commented Council has to face the tough decision of whether to leave the tax rate where it is. Council Member Caraker commented it is needed to pay for services. Council Member Smith stated leaving it at .49 is a 7-cent tax increase. Council Member Miller stated this will hit business owners the hardest but after an explanation of expenses, he has not heard a lot of complaints. Council Member Smith also commented this is paying for an animal control officer, school resource officers with a loss of privilege licenses. Capital items have already been reduced by \$1 million. A majority of the Council agreed with keeping the tax rate as is while Mayor Pro Tem Stephens voiced opposition stating this hurts the seniors because they are not benefitting from the increased tax values and rent prices will increase to pay for taxes.

Medical insurance benefits for dependents of employees: Council Member Smith voiced support of providing insurance to families of employees because the City loses people to other employers who offer that benefit. He stated it is expensive, but the City probably should have been providing this already. The Council discussed paying a percentage of the premium for family coverage (estimated at the 50 percent of employees). Mr. Connet suggested reallocating monies in wellness benefits by moving strictly to vacation hours and changing longevity pay to a set amount for milestone years instead of a percentage of salary.

Council Member Smith also discussed payments in-lieu-of taxes (PILOTS). These funds will help provide medical insurance benefits to employees and provide police and fire protection services.

There was discussion of the benefits provided by nearby employers and the benefits for medical insurance and other cities that provide the benefit of medical insurance. For comparison, the Council asked for the cost of paying 25 percent, 40 percent and 50 percent of the cost of the premium. Mr. Connet stated staff will also complete a regional survey on the amount of the supplement offered. Council Member Miller commented on the inequity of the supplement because not all employees will receive it. Council Member Smith agreed there is inequity but there are enough employees in that situation that it should be offered. Council Member Miller suggested establishing a fund to help pay medical insurance premiums for a period in the event of the death of a spouse.

There was discussion on future tax increases needed to fund services. Mr. Pahle stated leaving the tax rate at .49 per \$100 valuation will provide for the new Police headquarters. Regarding PILOTS, Council Member Caraker suggested asking for a percentage of the taxes they would pay if not tax exempt. **The Council requested a spreadsheet with those listed in the tax-exempt category and percentages to assist in generating a request.**

19. Adjournment: The meeting adjourned at 5:54 p.m. upon unanimous assent of the Council.

Barbara G. Volk, Mayor

Tammie K. Drake, City Clerk