MINUTES

May 7, 2021

SPECIAL CALL MEETING OF THE CITY COUNCIL

FY21-22 BUDGET WORKSHOP

CITY COUNCIL CHAMBERS - 2ND FLOOR, CITY HALL | 160 SIXTH AVE. E. 8:30 a.m.

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

Staff Present: City Manager John F. Connet, Assistant City Assistant Manager Pahle, City Clerk Angela Reece, Communications Manager Allison Justus, Senior Budget & Management Analyst Adam Murr, and others

1. CALL TO ORDER

Mayor Volk called the meeting to order at 8:34 a.m. and welcomed those in attendance. A quorum was established with all members in attendance.

2. PRESENTATIONS

City Manager John Connet reviewed events over the last year and thanked Council for their support.

A. Presentation of Core Values and Beliefs – *John Connet, City Manager*

Manager Connet presented the draft Core Values and Beliefs that were developed by the City Council during the February Budget Retreat and asked City Council for feedback and/or changes. Manager Connet stated the budget is structured around these tenants and said staff would like to incorporate them into the budget to use a as a tool to guide priorities and decisions and will present to City Council for adoption at their June meeting.

City of Hendersonville Core Values and Beliefs

The City of Hendersonville believes municipal government should be non-partisan.

- *Political affiliations are not productive to solving problems of local communities.*
- *City leaders and staff must lead by example and meet regularly with people who have different points of view.*
- *City leaders and staff must maintain an awareness of local, state and national political trends but must lead the City in a manner that serves all community members.*

The City of Hendersonville values open, transparent communication and trust with the community and each other.

- *The City will openly communicate with the public and each other to ensure information about services, policies and programs are available to all.*
- *The City will build trust through ethical and transparent leadership.*
- *The City will share information and solicit feedback prior to the implementation of new programs and policies.*
- *The City will be open to concerns and comments from all stakeholders and will ensure the community can easily speak to leaders without fear of retribution/embarrassment.*

The City of Hendersonville believes community members expect services to be delivered at a high level.

- *The City will deliver services at a high level to make people feel their taxes and fees are being used effectively and to encourage others to live in our community.*
- *The City will deliver services in a manner that ensures the safety of the community.*
- *The City will deliver services in a manner that limits the disruption of our community members' daily lives to the greatest extent possible.*

which aids in further reducing overall plan costs. Council Member Jerry Smith discussed comparable statistics as compared with other municipalities and Assistant Manager Pahle discussed the Milliman Advanced Risk Adjusters (MARA) scale and explained how this scale determines risk percentages. Assistant Manager Pahle expressed concern for increased chronic risk percentages and stated staff will be focusing more on the wellness program and education to assist employees in lowering these numbers. Council Member Dr. Jennifer Hensley clarified that the MARA scale is an indicator and said she feels that chronic risk factors are increasing as the aging population increases nationwide and said it is important to consider this when using this scale as it may be unattainable. Dr. Hensley inquired if alternative drugs are approved to treat diabetes and other chronic conditions and Assistant Manager Pahle stated the City currently has a program focused on this area and said staff are also looking at revamping the City's wellness program to add additional requirements such as screenings and BMI benchmarks.

Assistant Manager Pahle discussed pay philosophy recalling City Council direction to "lead" peers in pay and benefits and reminded everyone that the Pay and Classification Study and Implementation workshops were planned for June 2021 with implementation planned for January 2022. Assistant Manager Pahle stated staff have recommended a 7% cost of living adjustment (COLA) to assist in retention of employees until the study is fully implemented in January 2022. City Manager John Connet stated the City is losing employees to other organizations due to pay and thanked City Council for recognizing this and taking action. Council Member Jeff Miller praised staff for including measures in the budget to address this and said taking care of employees allows the City to provide the quality of services the citizens deserve. Council Member Jerry Smith concurred and reminded everyone the labor market is very competitive and said he would like additional focus on the cost of benefits provided to employees in addition to hourly pay. Council Member Dr. Jennifer Hensley additionally concurred and said she is very happy City Council is leading as there are families who are financially struggling due to medical costs alone. Council members clarified additional funding has been set aside in contingency for preparation and anticipation of the outcome of the pay & classification study for January and acknowledged they feel the study will show additional increases are necessary above the recommended 7%. Council Members unanimously directed staff to proceed with allocating the additional funding which was set aside in the contingencies to allow for a 10% COLA for salaries and wages. Assistant Manager Pahle stated it will be necessary to amend the budget in January after the pay and classification study is completed if additional adjustments are necessary.

Assistant Manager Pahle discussed Paid Family Leave and presented the cost matrix below which assumes 70% labor replacement rate and anticipates 204 weeks of leave per year. Council Member Jeff Miller clarified the City had an average of 17 employees who utilized leave of this nature last year. Assistant Manager Pahle stated the national retention average for employees utilizing this type of leave is 60% and said that is a cost savings.

Cost Matrix

% of Employees Retained	Weeks of Leave: *6*	*8*	*12*
60%	104,177	182,824	340,118
80%	78,177	156,824	314,118
100%	58,677	137,324	294,618

Council Member Jerry Smith stated he supports family leave to allow all employees to utilize leave to take care of family members or children equally. Council Member Lyndsey Simpson concurred stating she supports family leave as an employee benefit and said she feels it further reduces stress and chronic illness associated with stress when employees have this option available when needed. Council Member Dr. Jennifer Hensley stated the City should consider offering all employees short-term disability and Assistant Manager Pahle clarified this would be a cost of $12 per employee. Council Member Jeff Miller inquired of the cost to allow six weeks of leave and Assistant Manager Pahle stated this was an approximate cost of $104,177. After much discussion Council Members conceded there is a need for family leave and a policy and directed staff to include 6 weeks of paid family leave and paid short-term disability for all employees pending underwriting from the insurance company.

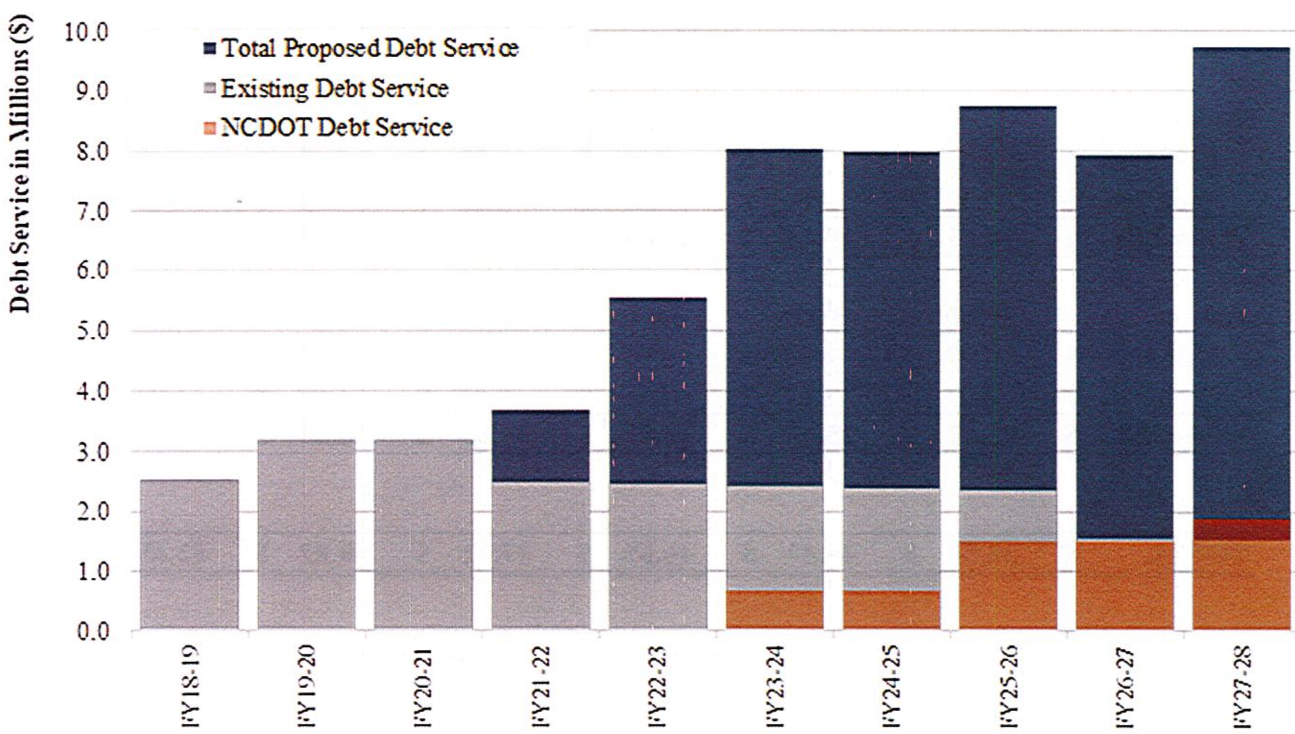
recycling market and challenges to communities and the vulnerability of this fund citing direct impacts due to impending growth and development in the City and increases in tipping fees at the landfill.

Water Sewer Fund

Mr. Murr discussed total revenues and expenditures of the Water Sewer Fund stating charges for service are the major revenue source which represents 96.1% of the total fund and said it is important to maintain rates to meet financing needs for debt services. Mr. Murr recalled prior discussions of the City's Water and Sewer Revenue Bond and stated a rate increase is necessary to meet the covenants of the Revenue Bond.

Water & Sewer Capital Projects

Mr. Murr discussed current and future capital projects in the Water & Sewer Fund stating over $110M in capital projects are projected through FY26. City Manager John Connet stated the French Broad River Intake will be re-bid in the coming months and acknowledged the importance of this project to the Council and community as a whole as it will expand the City's ability to be more drought tolerant by moving the primary water intake off of Mills River and onto the French Broad River. Manager Connet stated the estimate is around $17M and said he expects construction to begin in 2022. Mr. Murr provided the following debt service forecast:



Mr. Murr presented water rate comparisons with similar municipalities and said the City's rates are very affordable at an average of $38.51 for an average monthly water and sewer bill with 3,000 gallons of usage. Mr. Murr stated proposed rate increases fall within the affordability range advertised by the UNC School of Government Environmental Finance Center (UNC SOG EFC) and outlined them as follows:

Water Rate & Fee Summary - Phased Differential

Inside City

	FY20-21 Adopted	FY21-22 Proposed	FY22-23 Forecast	FY23-24 Forecast	FY24-25 Forecast	FY25-26 Forecast	FY26-27 Forecast
Base Charges							
3/4"	$ 6.52	$ 7.43	$ 7.85	$ 8.23	$ 8.72	$ 9.38	$ 10.00
1"	7.61	8.67	9.22	9.64	10.61	11.37	12.16
1.5"	10.51	11.74	12.60	13.14	15.29	16.33	17.49
2"	14.04	15.67	16.66	17.34	20.92	22.29	23.93
3"	22.29	24.89	26.16	27.18	34.07	36.22	38.94
4"	34.06	38.04	39.73	41.22	52.85	56.11	60.39
6"	63.48	70.89	73.63	76.29	99.77	105.81	113.96
8"	98.79	110.32	114.32	118.40	156.10	165.46	178.27
Vol. Charges - Residential							
0 - 6 kgal	$ 3.17	$ 4.00	$ 4.41	$ 4.62	$ 4.84	$ 5.08	$ 5.35
6 - 14 kgal	3.49	4.40	4.85	5.08	5.32	5.59	5.88
> 14 kgal	3.97	5.00	5.51	5.77	6.05	6.35	6.68
Vol. Charges - Commercial/Industrial							
0 - 40 kgal	$ 3.17	$ 4.00	$ 4.41	$ 4.62	$ 4.84	$ 5.08	$ 5.35
40 - 200 kgal	2.75	3.65	$ 4.21	$ 4.62	$ 4.84	$ 5.08	$ 5.35
> 200 kgal	2.53	3.28	$ 3.74	$ 4.62	$ 4.84	$ 5.08	$ 5.35
Vol. Charges - Irrigation							
0 - 40 kgal	$ 3.97	$ 5.00	$ 5.51	$ 5.77	$ 6.05	$ 6.35	$ 6.68
> 40 kgal	3.97	5.00	$ 5.51	$ 5.77	$ 6.05	$ 6.35	$ 6.68

Outside City

	FY20-21 Adopted	FY21-22 Proposed	FY22-23 Forecast	FY23-24 Forecast	FY24-25 Forecast	FY25-26 Forecast	FY26-27 Forecast
Base Charges							
3/4"	$ 9.45	$ 10.40	$ 10.60	$ 10.70	$ 10.90	$ 11.25	$ 11.50
1"	11.03	12.14	12.44	12.54	13.27	13.65	13.99
1.5"	15.24	16.44	17.01	17.08	19.11	19.59	20.11
2"	20.35	21.94	22.49	22.54	26.15	26.75	27.52
3"	32.32	34.84	35.32	35.33	42.59	43.46	44.78
4"	49.39	53.25	53.64	53.59	66.06	67.33	69.45
6"	92.05	99.25	99.40	99.17	124.71	126.97	131.05
8"	143.25	154.45	154.33	153.92	195.12	198.55	205.01
Vol. Charges - Residential							
0 - 6 kgal	$ 4.60	$ 5.60	$ 5.95	$ 6.00	$ 6.05	$ 6.10	$ 6.15
6 - 14 kgal	5.06	6.16	$ 6.55	$ 6.60	$ 6.66	$ 6.71	$ 6.77
> 14 kgal	5.75	7.00	$ 7.44	$ 7.50	$ 7.56	$ 7.63	$ 7.69
Vol. Charges - Commercial/Industrial							
0 - 40 kgal	$ 4.60	$ 5.60	$ 5.95	$ 6.00	$ 6.05	$ 6.10	$ 6.15
40 - 200 kgal	3.99	5.11	$ 5.69	$ 6.00	$ 6.05	$ 6.10	$ 6.15
> 200 kgal	3.67	4.60	$ 5.05	$ 6.00	$ 6.05	$ 6.10	$ 6.15
Vol. Charges - Irrigation							
0 - 40 kgal	$ 5.75	$ 7.00	$ 7.44	$ 7.50	$ 7.56	$ 7.63	$ 7.69
> 40 kgal	5.75	7.00	$ 7.44	$ 7.50	$ 7.56	$ 7.63	$ 7.69

Water Rate Differential Summary

	FY20-21 Adopted	FY21-22 Proposed	FY22-23 Forecast	FY23-24 Forecast	FY24-25 Forecast	FY25-26 Forecast	FY26-27 Forecast
Base Charges	145%	140%	135%	130%	125%	120%	115%
Vol. Charges - Residential	145%	140%	135%	130%	125%	120%	115%
Vol. Charges - Commercial/Industrial	145%	140%	135%	130%	125%	120%	115%
Vol. Charges - Irrigation	145%	140%	135%	130%	125%	120%	115%

Mr. Murr presented the following rate assumptions depicting average inside and outside commercial billing rates based on 2" connections at 15,000 gallons per month usage:

Assumption: Inside City Commercial, 2" Connection, using 15kgal/month

	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Water	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Base Rate	$ 14.04	$ 15.67	$ 16.66	$ 17.34	$ 20.92	$ 22.29	$ 23.93
Vol. Rate	$ 3.17	$ 4.00	$ 4.41	$ 4.62	$ 4.84	$ 5.08	$ 5.35
Water Bill	**$ 61.59**	**$ 75.67**	**$ 82.81**	**$ 86.64**	**$ 93.52**	**$ 98.49**	**$ 104.18**
Sewer	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Base Rate	$ 19.35	$ 21.55	$ 21.73	$ 22.45	$ 23.79	$ 23.55	$ 22.96
Vol. Rate	$ 5.07	$ 5.68	$ 5.83	$ 5.83	$ 6.00	$ 6.33	$ 6.50
Sewer Bill	**$ 95.35**	**$ 106.75**	**$ 109.23**	**$ 109.95**	**$ 113.79**	**$ 118.55**	**$ 120.46**
TOTAL	**$ 156.94**	**$ 182.42**	**$ 192.04**	**$ 196.59**	**$ 207.31**	**$ 217.04**	**$ 224.64**

Assumption: Outside City Commercial, 2" Connection, using 15kgal/month

	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Water	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Base Rate	$ 20.35	$ 21.94	$ 22.49	$ 22.54	$ 26.15	$ 26.75	$ 27.52
Vol. Rate	$ 4.60	$ 5.60	$ 5.95	$ 6.00	$ 6.05	$ 6.10	$ 6.15
Water Bill	**$ 89.35**	**$ 105.94**	**$ 111.74**	**$ 112.54**	**$ 116.90**	**$ 118.25**	**$ 119.77**
Sewer	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Base Rate	$ 29.03	$ 32.32	$ 32.59	$ 33.67	$ 35.69	$ 35.32	$ 34.44
Vol. Rate	$ 7.60	$ 8.52	$ 8.75	$ 8.75	$ 9.00	$ 9.50	$ 9.75
Sewer Bill	**$ 143.03**	**$ 160.12**	**$ 163.84**	**$ 164.92**	**$ 170.69**	**$ 177.82**	**$ 180.69**
TOTAL	**$ 232.38**	**$ 266.07**	**$ 275.59**	**$ 277.46**	**$ 287.59**	**$ 296.07**	**$ 300.46**

Permits & Fees

Mr. Murr discussed permits and fees for CCTV Inspections and said there is a revenue projection of $198,000 due to planned developments in FY22. Mr. Murr stated the historical average water tap fee revenues are $319,756 and the historical average sewer tap fee revenues are $71,394. City Manager Connet discussed intricacies of the system, growth and pending NCDOT projects with City Council Members. City Council Member Jeff Miller recalled prior drought restrictions and said the projects are critical.

Financial Overview

Assistant Manager Pahle provided actual and estimated revenues for FY20 stating staff projected within a 2% margin of the actual revenues. City Council Members praised staff for their diligence in preparing accurate figures for the budget. Assistant Manager Pahle discussed the City's Fund Balance stating the total FY20 General Fund balance is $8.5M, an increase of $1.18M over the prior fiscal year.

Ad Valorem Taxes

Assistant Manager Pahle discussed Ad Valorem Taxes and said property values have increased 1.3% and stated a $0.03 tax rate increase per $100 is recommended in the FY22 budget bringing the rate to $0.52. Assistant Manager Pahle stated the increase will generate approximately $588,000 in real/personal property and $42,000 for motor vehicles.

Fund Balance

Assistant Manager Pahle discussed the importance of increasing fund balance recalling 25% goal which is built into the strategic plan. Assistant Manager Pahle discussed projects under construction and discussed future needs stating the city will need additional revenue going into the FY24-25 to cover future debt service. He stated diligence on capital project costs and recommendations to recoup revenue at revaluation will be critical moving forward and outlined requirements and sources as depicted below:

Revenue Requirements and Sources						Ratio Tracker			
						Minimum	25%		15%
10	11	12	13	14	15	17	18	19	20
FY	Revenue Required for DS	Targeted Tax Increase	Add'l Increase Required for DS	Actual Tax Increase	Tax Increase Revenues	Unassigned FB	Unassigned FB as a % of Expenditures	Amount Above (Under) Policy	D/S to Op. Exp.
Total	1,009,524	6.00	3.33	6.00					
2020	120,818		0.58	-	-	5,949,067	35.6%	1,244,777	6.0%
2021	113,276		0.54	-	-	6,057,063	35.4%	1,091,689	6.4%
2022	226,028	3.00	-	3.00	-	6,315,104	32.4%	746,454	6.9%
2023	-	3.00	-	3.00	636,234	5,784,123	27.5%	(221,081)	9.0%
2024	401,075		1.62	-	1,291,554	5,077,365	21.8%	(1,569,862)	14.2%
2025	6,748		0.03	-	1,485,288	3,819,315	15.7%	(3,104,533)	13.8%
2026	141,580		0.56	-	1,500,144	2,258,175	9.0%	(4,916,973)	14.0%
2027	-		-	-	1,515,144	455,962	1.8%	(6,906,613)	13.4%
2028	-		-	-	1,530,294	1,216,524	4.6%	(6,332,645)	12.6%
2029	-		-	-	1,836,354	1,620,062	5.9%	(6,153,258)	12.3%
2030	-		-	-	1,854,720	1,844,739	6.6%	(6,154,495)	11.8%

Assistant Manager Pahle discussed fund balance percentages potentially dropping below the recommended rates established by the Local Government Commission (LGC) in future years and said it is unknown if they will respond favorably. He stated the LGC has been more active in municipal finance and said staff are prepared to put a plan together to request an exception. City Manager John Connet clarified the City is in very good financial shape and recalled City Council's priority of being financially sustainable and said this is why staff presents this information. Assistant City Manager Pahle discussed potential cost saving opportunities with projects but cautioned it is dependent on growth, project costs and the market. Council Members Smith and Hensley expressed concerns of continued increases in property taxation and Dr. Hensley inquired regarding a quarter cent sales tax option. Assistant City Manager Pahle stated there are local bills circulating in the Legislature at this time and said a quarter cent sales tax generates six pennies on the tax rate. Council Members agreed to pursue interest in this option to equally distribute the burden on taxpayers and service users.

Main Street and Seventh Ave. Fund

Assistant Manager Pahle stated there is a recommended $0.02 tax decrease to the Main Street MSD Fund to bring the MSD funds closer together. He stated any changes to Seventh Avenue will be proposed after projects are completed in that area. Assistant Manager stated the largest costs of these funds were for contracted services.

Customer Impact

Assistant Manager Pahle discussed the total monthly customer impacts as depicted below:

Monthly Customer Impacts	Property Value	Prop. Tax	Sanitation	Stormwater	Water	Sewer	Total (monthly)
Resident	250,000	6.25	3.50	0.00	3.40	2.56	**15.71**
Business	500,000	12.50	2.00	21.00	5.06	3.78	**44.34**
Business (Main St.)	500,000	4.17	2.00	21.00	5.06	3.78	**36.01**

- Proposed Changes for FY22
- $0.03 Tax Increase
- $0.02 Tax Decrease (Main St.)
- Sanitation Increase | $3.50 (residential)
- Stormwater Increase | $21.00 - $35.87 (non-residential)
- Water Increase | Base $0.91 | Vol. $0.73 per 1,000
- Sewer Increase | Base $0.73 | Vol. $0.61 per 1,000

Council Member Dr. Jennifer Hensley stated she believes these figures illustrate the costs of services continuing to rise and the impacts on families and business in the city and said this the prime reason to support a quarter cent sales tax option.