

**SANFORD CITY COUNCIL
WORK SESSION
Tuesday, May 22, 2018
SANFORD, NORTH CAROLINA**

The City Council held a work session on Tuesday, May 22, 2018, at 5:00 p.m. in the West End Conference Room at the Sanford Municipal Center, 225 E. Weatherspoon Street, Sanford, North Carolina. The following people were present:

Mayor T. Chet Mann
Council Member Byron Buckels
Council Member Jimmy Haire
Council Member Charles Taylor
City Manager Hal Hegwer
City Clerk Bonnie Davis

Mayor Pro Tem Rebecca Wyhof Salmon
Council Member Sam Gaskins
Council Member Norman Charles Post, III
Council Member James Williams (arrived at 5:20 p.m.)
City Attorney Susan Patterson
Deputy City Clerk Vicki Cannady

Mayor Mann called the meeting to order.

Budget Discussion

Mayor Mann reminded Council that the upcoming fiscal year's budget will be tight and suggested that they reject the initial proposed budget and consider options to be presented by City Manager Hal Hegwer. He acknowledged Council members' concern about the change in circumstances, particularly the shift in sales tax distribution to an ad valorem method, noting that it had less impact last year but this year's impact is significant. He encouraged Council and staff to determine how to maintain a strong budget that will allow the City to continue delivering services expected by the citizens while buying time for additional growth and an increased tax base.

City Manager Hal Hegwer reviewed General Fund revenue information (shown on Exhibit A) and noted that what is unique about this year, and what will happen again next year, is that the County saw very large investments in Pilgrim's Pride and Pfizer that resulted in a massive shift in the tax base to the County, shifting the sales tax distribution in their favor. He explained that an increase in ad valorem taxes of about \$50,000,000 generates about \$299,000 in revenue. Mr. Hegwer was told by County Manager John Crumpton that there has been a huge shift in county values, which is great news to all taxpayers (including city residents since they are also county residents) but it will unfortunately have a negative impact on the City. Mr. Crumpton also informed Mr. Hegwer that Pfizer will be investing another \$40 to \$50 million that will be included on the county's tax base this year, further increasing the County's base and increasing next year's distribution as well. With the County's property revaluation scheduled for next year, it is likely that the trend will continue in the county's favor. Without an increase in the city's tax rate this year, there will likely be no growth in the city's sales tax, which has been a large source of revenue for the city. Combining this with the shift to the ad valorem method significantly reduces the city revenue. Mayor Mann informed Mr. Hegwer that he does not want to see a four cent tax increase, so he asked the manager to research how no tax increase would impact services, then let Council decide where they would like to be. He pointed out that without growth in the city, the County may not have been able to recruit economic development as effectively as they have. He also encouraged Council members to maintain funding to SAGA (Sanford Area Growth Alliance) and Central Carolina Enterprise Park as budget cuts are made, since they have great momentum now and are big drivers in drawing additional economic development and growth.

Financial Services Director Beth Kelly explained that the City's levy percentage, based on the ad valorem distribution formula, went down about 0.18 percent overall or by about \$85,000. Mr. Hegwer noted that sales tax revenue is very unpredictable, which creates reliance on fees and property taxes.

Mayor Mann explained that a portion of SAGA's request for an additional \$30,000 was to add an industry retention specialist and they announced today that Jim Randolph had been hired to maintain and nurture relationships with existing businesses. The mayor noted that almost all of our expansions have come from existing manufacturers, so this will allow Bob Joyce and SAGA staff to continue working on large outside projects. SAGA hired Development Counselors International (DCI) and they have connected Sanford and Lee County to the largest site consultants in the country. Their website includes information to help draw attention to our area (shown on Exhibit B). He also noted that the expense allocation between the City and County has improved, from 75 percent by the City and 25 percent by County to a 65/35 percent split, which is fairer based on tax collection.

Mr. Hegwer reviewed options for the Fiscal Year (FY) 2018-2019 budget with the proposed tax increase and without a tax increase (shown on Exhibit C). Approximately \$1 million in cuts (shown on Exhibit D) can be made with a fee increase but without a tax increase. Regardless of whether a vehicle fee is assessed, the solid waste fee is being increased to the maximum chargeable amount, leaving little room in the future for any increase. While there has been a great deal of discussion about expenditures, he stressed the importance of revenue sources as a vital part of the equation.

The major capital purchase is police vehicles which are included because we would have to budget about \$60,000 for additional parts and maintenance (not including labor, since we don't have adequate staff and would have to contract it out) if the vehicles are retained beyond the 100,000 mile power train warranty expiration. Revenue from selling these vehicles would also be reduced from around \$9,500 per vehicle to around \$4,500. We were told to reduce Duke Energy's anticipated 13.5 percent increase down to 3.5 percent, which is great news. Approximately \$2 million in capital purchases were removed from the budget but all water and wastewater projects (such as the Amos Bridges Road/hotel entrance waterline) remain, since many were budgeted this year and several contracts remain. Mr. Hegwer reminded everyone that these projects will drive economic development and noted that he continues to hear about increased activity near the Moncure Megasite from large industrial clients, so the City is well-positioned on those projects. All large capital purchases, other than police cars for public safety, have been removed from the budget, so next year we may consider borrowing for a fire pumper.

Expenses for the Unified Development Ordinance ("UDO") were about \$75,000 this year and are expected to be similar next year. While this cost has been shared with the County in the past (55 percent by the City, 45 percent by the County), they removed it from their budget for the upcoming year; however, County Manager Crumpton indicated to Mr. Hegwer that he is willing to discuss it. Mayor Pro Tem Salmon questioned if there should be a frank discussion with the County regarding growth and how it affects expenses and interlocal funding. Mayor Mann expressed concern about decreasing UDO funding since it serves as a vital blueprint for directing development.

Council Member Taylor questioned whether any of the reductions would have a negative impact on next year's budget. Mrs. Kelly explained that the majority of cuts are in training, computers and software; the Colon Road interchange; the Valley Road project; and lighting around City Hall; other expenses are basically fixed costs. Mr. Hegwer expressed concern about issuing the bonds and Mrs. Kelly reviewed the timeline for issuance and construction, specifically regarding the \$350,000 Parks and Recreation Trust Fund (PARTF) grant. We have three years from the date the PARTF grant letter was signed (in September 2017) to complete construction. Construction is estimated to take approximately eight months, so bonds must be issued by January 2020; debt payments would begin around June 2020, with a full year of debt payment in FY 2020-2021. Mr. Hegwer recommended moving forward on the splashpad/park project but delaying the greenway project. He also reminded Council that the parks capital reserve fund balance was up to \$200,000 and these funds could be used toward a park project.

Council Member Haire commented that he has received a great deal of feedback on the potential sanitation fee increase, with several "empty-nesters" telling him they don't have as much garbage as they have in the past. He noted that several cities charge more but provide fewer pickups and some charge by the month. Mr. Hegwer responded that we stopped monthly billing years ago due to trouble with cancelling and restoring service. Mayor Pro Tem Salmon commented that some areas charge based on the size of the receptacles or "pay as you throw" (based on weight).

Mrs. Kelly reviewed a Sales Tax Revenue graph (attached as Exhibit E) showing how the gap has widened between the City and the County's share of sales tax revenue after the distribution method changed. Since 2009, revenue to the City increased \$863,000 while the County's increased almost \$7.6 million.

Regarding a possible increase in the property tax, Mr. Hegwer pointed out that a one-cent tax increase on a house valued at \$150,000 (the median value of a house in Sanford) would be about \$15 per year. He suggested the prudent course would be to include some revenue increase to avoid creating a financial bind for citizens in the future.

Recess

A brief dinner recess was taken at 6:25 p.m. and the meeting was reconvened at 6:45 p.m.

Various topics regarding the splashpad project were discussed, including whether a fee would be charged; offering sponsorships; and handling personnel. Mayor Pro Tem Salmon questioned whether any efficiencies could be created with the County Parks Department or whether the department could be reorganized. Mr. Hegwer confirmed that he had spoken with County Manager Crumpton and he was willing to discuss this possibility. He also informed Council that a pre-bid conference was held today but very few contractors attended. If the bid comes in at \$2 million, using the capital reserve account (\$200,000) and the PARTF grant (\$350,000) would reduce the amount to be financed to about \$1.5 million.

Mayor Mann suggested holding another Budget Workshop, which was set for Wednesday, May 30 at 5:30 p.m. Council Member Gaskins requested an updated spreadsheet incorporating various revenue and expenditure options and Council Member Post suggested including several combinations. Mr. Hegwer explained that the proposed four cent property tax increase would not be needed if the greenway project was removed.

Council Member Haire noted that there was a “trifecta” of possible revenue increases: a tax increase, a sanitation fee increase, and adding a vehicle tax fee. He suggested dropping the sanitation fee increase and reminded everyone that the vehicle fee would help fund paving needs. Mr. Hegwer noted that each additional dollar over the first \$5 of the vehicle fee would produce about \$23,000, generating about \$690,000 in revenue for resurfacing from a \$30 vehicle fee.

Council Member Taylor suggested that the sanitation fee should be based on the actual cost to cover the service, which citizens would find more palatable than a new fee or a tax increase.

Council Member Buckels pointed out that fees affect different people in different ways, and suggested that the vehicle fee would be regressive, hitting lower-income citizens harder than others. He also suggested that any increase in the sanitation fee be delayed.

Other Business

Mayor Pro Tem Salmon passed out material (“Road to Viability”) from a recent Triangle J meeting on the infrastructure master plan and was proud to note that the City has already taken advantage of nearly every opportunity suggested.

Council Member Taylor encouraged continued prayers for the family of Britton Buchanan, who represented Sanford well on the recent season of “The Voice”. He suggested giving the family time to adjust before working with them on an appropriate celebration of his accomplishments.

Mayor Mann reminded everyone of the Opioid Forum follow-up meeting scheduled for Thursday, May 24, and the W.B. Wicker School ground-breaking ceremony scheduled for Thursday, May 24, at 10:30 a.m. He also thanked everyone for their work on the budget.

Adjournment

Council Member Post made the motion to adjourn the workshop. Seconded by Council Member Gaskins, the motion carried unanimously.

ALL EXHIBITS CONTAINED HEREIN ARE HEREBY INCORPORATED BY REFERENCE AND MADE A PART OF THESE MINUTES.

Respectfully Submitted,



T. CHET MANN, MAYOR

ATTEST:



BONNIE DAVIS, CITY CLERK