MINUTES OF MEETING/RETREAT OF THE
CITY COUNCIL OF THE CITY OF SANFORD
SANFORD, NORTH CAROLINA

The City Council met in retreat in the West End Conference Room at City Hall on Wednesday, March 25, 2009, at 8:30 A. M. The following people were present:

Mayor Cornelia Olive
Council Member Mike Stone
Council Member Charles Taylor
Council Member Steve Brewer
City Manager Hal Hegwer
City Clerk Bonnie D. White
Mayor Pro Tem Joseph E. Martin
Council Member James G. Williams
Council Member Walter H. McNeil, Jr.
Council Member Linwood S. Mann, Sr.
City Attorney Susan C. Patterson

Mayor Olive called the meeting to order.

Overview of Capital Improvements Plan by Public Works Director Vic Czar- (Exhibit A)

Mr. Czar introduced and reviewed a 5+ Year Capital Improvement Plan (CIP) for the City of Sanford. He detailed three levels of projects: those that are essential; those needed to maintain the level of service; and those considered to be enhancements. He urged Council to remember that this is not set in stone and staff will need their input on how to proceed. He stated that water and sewer come out of the Enterprise Fund; streets and general services, public safety (police and fire), and golf come out of the General Fund.

Using a slide presentation, Mr. Czar detailed the essential Capital Improvement Projects needed out of the Enterprise Fund for water from the 2009-2010 Budget and answered Council's questions:

Clearwell Rehabilitation—The clearwell is a two million gallon (140' x 140') concrete storage tank which is located at the water treatment plant. It is designed to perform the final treatment of water prior to distribution to our customers. It has served this purpose since its construction in 1971. The underside of the concrete roof has suffered deterioration and is in need of repair. Inspections have revealed concrete deterioration, exposed rebar, and other serious structural defects which require attention. Replacement of the roof is the most cost effective repair, and while the clearwell is out of service and the roof is removed, modifications can be made to improve the treatment process. Cost estimate is $525,000 in the 2009-2010 Budget.

Erection of Elevated Storage Facility for Potable Water—It is recommended that half of your average daily water use be provided to the distribution system in elevated storage capacity. The City's current capacity is approximately 3 million gallons with average daily flows between 6 and 7 million gallons. Without sufficient elevated storage, reduction in water pressures could be experienced during firefighting, and the system could experience water loss prior to correcting any needed repairs. Cost estimate is $1,500,000 in the 2012-2013 Budget.

Hawkins Avenue Waterline—Increasing demands such as major expansions to Industrial Park, a twelve- hundred acre mixed use development, and increasing wholesale sales to Chatham County require reinforcement of our water distribution system for the northern portion of Lee County. A 16-inch waterline approximately three miles in length is required north on Hawkins Avenue from Weatherspoon Street to the entrance of the Industrial Park. This improvement is anticipated to handle growth in this portion of the system for twenty years. Estimated cost is $4,000,000 with $250,000 in the 2011-2012 Budget and $3,750,000 in the 2012-2013 Budget.

Water Treatment Plant Expansion—Continued growth in demand for potable water creates the need for the City to expand its treatment facility. Under current demand with anticipated growth, the current facility will need to be expanded in the Year 2015. The expansion will be constructed to handle water demands for a minimum of 20 years into the future. Staff will monitor the situation closely as it can change quickly. Changes may postpone or accelerate the schedule. Construction will be four flocculation basins, two sedimentation basins, four multi-media filters, and the related piping and equipment to operate. Estimated cost is $48,000,000.

Mr. Czar continued his presentation to detail the essential Wastewater Capital Improvement Projects that are needed from the Enterprise Fund for the 2009-2010 Budget and answered Council's questions:

Wastewater Treatment Plant Expansion—In the early 1990s, Big Buffalo Wastewater Treatment Facility underwent an expansion to its current capacity of 6.8 mgd. As anticipated, this capacity is planned to be met in the year 2015. To ensure capacity for industrial and residential growth for twenty years, an expansion to 12 mgd is currently underway. Design for this expansion is anticipated to be complete in the spring of 2009 with construction to follow soon thereafter. Expansion of treatment facilities and construction of a new administration building is anticipated to attain a minimum of LEED (Leadership in Energy and Environmental Design) Silver Certification. Cost estimate is $68,684,492 with $12,600,000 in the 2009-2010 Budget.

Carr Creek Pump Station Replacement—The lift station, approximately thirty years old, is nearing the end of its service life. Continued deterioration of the existing lift station could result in loss of service, non-permitted discharge of wastewater to waters in the state, fines, and possibly Special Orders by Consent issued to the City. Estimated cost is $1,000,000 in the 2010-2011 Budget.

Gum Fork Branch Force Main Replacement—Gum Fork Branch lift station services a large undeveloped drainage basin. The lift station is capable of handling the drainage basin at full development. The force main will need upgrading to provide the same level of service as the lift station. Failure to replace the force main will limit the development that could take place in the drainage basin. Cost estimate is $1,000,000 in the 2013-2014 Budget.

Pump Station Generator Installation—Currently the City owns and maintains four lift stations that do not have onsite power generation capability which is required to maintain operation during interruptions of power service from the utility provider. This combination

could result in non-permitted discharge of wastewater from this location. Estimated cost is $400,000 in the 2010-2011 Budget.

Mr. Czar continued by discussing the essential Street and General Services Capital Improvement Projects that are needed to come out of the General Fund and answered Council's questions:

Parking Expansion at Service Center—Growth of the workforce working out of the service center, combined with demands placed on parking as outside organizations utilize the meeting room at the service center, have created a situation where adequate parking does not exist for the facility. This expansion will increase parking by 102 spaces. Estimated cost is $150,000 in the 2010-2011 Budget.

Remodel/Renovate City Hall—Sanford's City Hall, occupied in 1981, is a 56,000 square foot facility that houses several departments including the Sanford Police Department. Other than routine maintenance, no improvements have been performed on the building. Therefore, the facility is in need of refurbishing due to interior wear as well as improving the efficiencies of mechanical, electrical and plumbing systems. Renovations will be performed such that all planning functions can be performed at City Hall. (Currently, a portion of the planning department is located off-site. Additionally, renovations will be performed to achieve a LEED (Leadership in Energy & Environmental Design) certification to the silver level. Estimated cost is $2,500,000 in the 2013-1014 Budget.

Vehicle, Salt, Sand, and Rock Storage Buildings—Currently, some city vehicles are being stored outside which promotes premature wear and reduces longevity of the vehicles. The existing salt, sand, and rock storage facility has limited storage available which requires smaller, more frequent loads of material to be brought to the site. Additionally, the existing structure has incurred damage through its use. Estimated cost is $1,000,000 in the 2010-2011 Budget.

Sidewalk Installation—A study has been performed which indicates 21,760 linear feet of sidewalk need to be installed at various locations throughout the City to "fill in" missing segments and connect strategic locations in the City. The study is being incorporated into an on-going pedestrian study whose scope is to make Sanford more walkable by recommending installation of sidewalk which connects neighborhoods to downtown, parks to schools, greenways to sidewalks, etc. Estimated cost is $1,000,000 in the 2012-2013 Budget.

Pedestrian Study—Community Development, with the help of McGill & Associates, is in the process of developing a Comprehensive Pedestrian Plan for the City of Sanford. The goal of this project is to create a document that will guide the City in completing any gaps in the current public sidewalk system; expanding the public sidewalk system to gain better access to our schools, parks, medical facilities, and elderly housing; encouraging sidewalks in new private residential and commercial developments; embarking on a greenway system that is connected throughout the City and County; ensuring that an adequate crossing system is available to highly foot- trafficked areas; and educating the public in a collaborative manner about the importance of an active lifestyle that includes walking.

Greenway System Development – The City is in the process of developing a twenty-eight mile greenway system which will parallel Little Buffalo and Big Buffalo Creeks as well as a portion of the Deep River. This trail will be developed in conjunction with the pedestrian plan and streetscape to make Sanford a more walkable City and increase recreational opportunities. Currently, plans have been developed and funding is in place for approximately 1.7 of the 28-mile system. Estimated cost is $30,000,000, with $1,500,000 in the 2009-2010 Budget.

Streetscape Improvements—The City is undertaking a streetscape project in its downtown sections of Jonesboro and Sanford. Approximately four miles of the project remain following the recent completion of a 1,200 foot section in downtown. The project is designed to help revitalize downtown as well as creating recreational opportunities by connecting with the City's greenway system in several locations. Included in the project are sidewalk and curb and gutter adjusting rehabilitation, utilities, addition of period lighting, and planting of street trees. Approximately 3,000 linear feet of the project is designed and awaiting full funding. Estimated cost is $10,000,000, with $625,000 in the 2010-2011 Budget.

Park Development—Citizens of Sanford are continuing to demand more quality of life services be provided by the City. The development of these parks addresses this request. Estimated cost is $375,000; with $75,000 in the 2009-2010 Budget.

Mr. Czar continued by discussing the essential Public Safety Capital Improvement Projects that are needed to come out of the General Fund and answered Council's questions:

No. 4 Fire Station—With the rapidly increasing expansion and growth of our response area, it has become imperative that a fourth station be built to provide better and quicker response to different areas within the City. This station could be located in the southern area of the City where the current trend of growth is seeing increases in commercial and residential development, thus requiring more responses by our personnel and equipment, leaving the City with minimal response capabilities in the main business districts and increasing residential development areas in the more northerly areas of the City.

As our response area increases, so does the number of simultaneous alarms, causing personnel and apparatus coverage to be thinned at larger incidents. Structural alarms and incidents requiring dual response of apparatus in the southern areas of the City, often have delays in response of the second-in unit due to increased traffic flow along South Horner Boulevard, Highways #421 and #87 and Lee Avenue. Estimated cost in the 2011-2012 Budget is $1,500,000.

Public Safety Facility—Currently, the police facility is located in the downstairs portion of the municipal building. Due to growth in the department and other departments in the City, the area is becoming overcrowded. Estimated cost in the 2009-2010 Budget is $25,000 with an overall estimated cost of $12,775,000.

Equipment Storage Building—Current space restrictions in our three fire stations require that additional space be provided to house "old Betsy" (1925 American LaFrance), a reserve Mack Pumper, the confined space trailer, the SAFE-KIDS trailer, and miscellaneous firefighting

appliances and equipment. Interior storage for these trailer units has become more imperative to lessen deterioration and the opportunity for vandalism and/or theft.

Equipment and miscellaneous appliance storage in the three current stations have become vastly overcrowded and maintaining a working inventory is problematic as there is no space to store spare inventory for repairs and/or replacement of failed equipment. If a second engine company were to be run out of Station #2, the storage of "old Betsy" would be a major issue to be resolved and this storage space would play heavily in handling this problem. Estimated cost in the 2009-2010 Budget is $140,000.

Renovation of No. 2 Fire Station—This project is necessary to our #2 Fire Station to allow for improved dormitory area, which is currently open-style with fold-down (Murphy-type) beds and a singular restroom/shower area. The project includes renovation of approximately 798 square feet of existing area and the addition of approximately 704 square feet. The current configuration is not conducive to multi-gender assignment to the station. The new configuration will have five sleeping rooms with two beds each and an additional restroom/shower facility and an expanded HVAC system; the current system is approximately ten years old.

Should an additional engine company be able to be put into service, this project would allow (albeit cramped day room and kitchen areas) for the temporary housing of the new engine company until a fourth fire station can be completed and placed into service. Estimated cost is $225,000 in the 2010-2011 Budget.

Mr. Czar continued by discussing the essential Golf Capital Improvement Projects that are needed to come out of the General Fund and answered Council's questions:

Cart Storage Facility—The cart storage facility is the building where golf carts are stored when not in use and/or recharged. The existing building is in excess of thirty years in age; it is a tin building on wooden studs with a concrete floor. Portions of the interior wood is rotting; the roof is rusting and leaking; surface runoff runs through the building during rainy weather due to poor drainage and rusted out sections of wall where it contacts the floor. During cold weather, this can result in a hazardous situation when runoff freezes on the building floor. Estimated cost is $200,000 in the 2013-2014 Budget.

Study/Redesign of Fourth and Fifth Holes—Sanford's golf course is an eighteen-holed, par 71 championship facility. It was initially established as a nine-hole course and opened in 1934. Remodeling in the late 1960s moved it to an eighteen-hole facility and continued improvements through the mid 1970s made for better routing and course layout. Redesign in the early 2000s resulted in opening in 2002 in its current layout and vastly improved practice facility.

History shows continuing efforts to improve the course and the experiences golfers have while playing. Looking at the configuration of the front nine is another step on the same path. Estimated cost is $20,000 in the 2011-2012 Budget.

Club House Renovations—Renovation of the existing facility to a more functional and multipurpose building built to be LEED (Leadership in Energy and Environmental Design) certified. The existing facility was constructed in the 1930s with minimal maintenance provided since. The layout of the building is not very functional, and it is not very energy efficient. Estimated cost is 1,250,000, with $950,000 in the 2011-2012 Budget and $300,000 in the 2012-2013 Budget.

Renovation of Cart Paths –During the recent upgrade, approximately half of the cart paths were resurfaced. The remaining portions of the cart paths have experienced significant wear and are deteriorating. They have exceeded their service life and require resurfacing. Continued deterioration of the cart paths could have a negative impact on the amount of play and the longevity of the City's golf carts. Estimated cost is $125,000 in the 2010-2011 Budget.

Mr. Czar briefly reviewed the information he has on the American Recovery Resource Act (Stimulus Package) and American Recovery Resource Act (Stimulus Package). The purpose of the American Recovery Resource Act is to create jobs quickly. It will impact water, wastewater, DOT, and Greenway. City of Sanford applications have been submitted.

Financial Services Director Melissa Cardinali – Discussion with Financial Advisor – First Southwest - (Exhibit B)

Financial Services Director Melissa Cardinali stated that our financial advisors, First Southwest, will take us through whatever financing projects Council chooses to do. They are going to walk us through the process with the Local Government Commission (LGC) in getting our bond rating and making sure we do what is best financially for the City of Sanford. They have taken the capital improvement projects Public Works Director Vic Czar just spoke about and developed a model. The First Southwest Advisors are going to talk about their proposals for how we finance those projects based on what they have seen of our financial situation.

Mrs. Cardinali introduced Walter Goldsmith, Senior Vice-President; Janice T. Burke, Senior Vice-President; and Patrick Smith, Associate from First Southwest.

Mr. Goldsmith gave a background on Southwest and what a financial advisor does and what their role is in our process. He advised that they work out of the Charlotte, North Carolina, First Southwest office. Their firm focuses nationwide on providing financial advisory services to cities and counties and state governments. Their practice, collectively the three of them, focuses on North Carolina debt issuance. The reason that people hire financial advisors is because when you get ready to issue debt, the bond markets are fairly complex, and it does not make sense for a county or city to have a staff of bond related people who are only going to be used periodically. He said Southwest does not benefit if they issue one type of debt over another, or if you issue more or less debt. They are independent advisors giving independent advice. Once they give Council the information to help them decide what projects the City wants to finance and when they want to finance, then First Southwest's job is to get the City the best interest rate possible and the best debt structure that will give the City the maximum flexibility. First Southwest's goal here today is to talk about the different ways the City can finance projects under the North Carolina Statutes and what debt types are available.

Mr. Goldsmith stated that they have taken a look at our preliminary wish list and prepared some debt model assumptions for Council's review.

Janice Burke talked about the three types of debt – general obligation bonds, installment purchases, and revenue bonds. She stated that the general obligation bonds require a referendum. The bonds would be secured by the issuer's full faith, credit and ad valorem taxing power of the City and have the absolute strongest pledge that we can give to the bondholders. The general obligation bonds have the lowest interest rate.

She said that in the late 90s, the installment purchase financing became popular because it does not require a referendum; however, it does require public hearings. The security in installment purchase financing is a lien given on a portion of the project or asset. Because the security is not quite as great of return as the full faith, credit and ad valorem taxing power is, the credit rating is one-half a notch below the general obligation bond rating. When your credit rating is little bit lower, you are not going to get the best interest rate. However, banks have been very competitive with interest rates.

Ms. Burke added that it takes about three months to get through the referendum process. The risk you have with the GO bonds is, if you have a project you have to do and the voters do not vote for it, then you have to consider how to proceed.

Ms. Burke explained the revenue bonds do not require a referendum and, most of the time, this is the type of debt you issue for large water and sewer projects. There is no tax pledge. The only security at all with revenue bonds is the rates and charges of the system; it is a pledge of the whole system. Because of that, it requires "fail-safe" mechanisms which are a debt service reserve fund, coverage requirements, and additional bonds test. When you issue bonds, you issue enough bonds to fund the debt service reserve fund which is equal to the first payment of debt interest and principal. If a problem occurs, this fund could be used for payment and if not, this is normally saved for the last payment of the debt service. There are coverage requirements; you want to have enough revenue to cover your operating expenses and enough revenue to cover your debt service, which you need at least 1.2 times coverage to pay debt service. There is an additional bonds test and there are several types of tests. You make sure that your rates and charges can cover your future debt service. Credit ratings are based on the strength of the utility system and are usually lower than the GO bond rating of the City. It puts the burden on the water and sewer users and not the taxpayers.

Mr. Goldsmith said people are always asking them what they recommend when it comes to financing major projects. He replied that there is no hard and fast rule. He said they recommend fixed rates for debt service. If rates drop down in the future, then you can do "refunding" or what is called refinancing. Mr. Goldsmith said that if you can approve all the projects by the voters, that is going to be the lowest cost of funds. But sometimes you have essential projects and you may not be able to get those past the voters in a referendum. Revenue bond financing may costs a little more, but you want to run the enterprise fund like a business. When you need to raise rates, you want that entity to raise rates and not shift the burden to the General Fund. If you are want to borrow $2 million for a project, it would be better to do that with installment purchase financing.

Mr. Hegwer commented that we have a wastewater plant expansion that we probably need to go with revenue bonds, and by setting up our revenue bond structure, whenever the water treatment plant comes along for expansion and we need another $20 million, you have a tool set up to manage that scenario. Mr. Goldsmith added that once you make the decision to start issuing revenue bonds, the lawyers will create a "trust indenture" and it is a complex document that spells out the exact flow of funds and how an issuance of debt is issued under this master set of documents. You do that one time and as each project comes along, we issue under that set of documents that is set up. Issuance costs are less for future years.

Models will change over time. When things happen, such as the stimulus package that may impact your borrowing costs, we will take that into consideration and every time you get ready to borrow, they will look at what is the absolute cheapest way. He said there is something called "Bank Qualified Limit." That refers to historically if you issue less than $10 million in debt each year, you could issue it as bank qualified debt. Banks could buy that debt from you and they could write off the expense of holding that debt for the balance. They are going to buy it at a lower interest rate. Part of the changes they have seen in the last six months is the provision that the limit was raised from $10 million to $30 million, which is good news for the City. For example, if you told them the City wanted to borrow $45 million, they might look at whether you borrow $30 million in December and the next $15 million the next year.

Mr. Goldsmith explained the revenue bond process. He said that this process usually takes about three to four months from the time Council tells them they want to go with revenue bonds. It requires a feasibility study and this is something that the investors, the Local Government Commission, and Council will want to see. They project out revenues from the utility system, the expenses, and the debt service costs and make sure the project is feasible. It is an independent study performed by a feasibility consultant, and not from the First Southwest firm. It will be performed by the firm of Raftelis, who is well-known in the industry. Before you can issue the debt, you will need to secure all the required permits for the project. The City will need to select an underwriting firm to sell the bonds, which would be a bank such as the Bank of America, Wachovia, or Merrill Lynch. First Southwest will help with the process of selecting an underwriter for the bonds. First Southwest will assemble the working group which includes the City's attorney, the underwriter and their attorney, and the trustee to put together all these documents for the legal framework to issue the debit. They would submit the application to the LGC and receive its approval. Before any debt is issued, it will come back to Council several times for its approval and sign off. Then, a credit rating is secured. The three credit rating agencies are Moody's, Standard and Poor's, and Fitch's and their job is to apply a credit rating on these bonds because the investors who buy them may not spend a tremendous amount of time studying the City's utility system and expansion. They will help us put together the package that is sent to the credit rating agencies and make the presentation to them to get the highest rating possible; the better the rating, the lower the interest rate. The official statement will be sent to all the potential investors, such as institutional pension funds and insurance funds, all the way down to just retail investors. Then they will have the pricing of the bonds which is jargon for the day they set the interest rates. The underwriter will tell what the interest rates will be on the bonds. He said that it would take about two weeks from that date to close the bond issue to the day they wire the money into the City's account. He gave sample guidelines for the issuance of revenue bonds as included in Exhibit B.

Mr. Goldsmith went over the summary of debt outstanding in the enterprise fund. He said that the City is paying down this debt fairly rapidly with the last payment on June 30, 2022. He said the City has front-loaded its debt, which is a good, conservative thing. If he saw it go the opposite way, your debt over time is going to get higher and it sends off red flags. Mr. Hegwer praised the Council for raising the rates on water and sewer even when it was not popular to keep our utility fund healthy. Mr. McNeil complimented staff on keeping Council abreast of what is needed to stay on top of things.

Ms. Burke spoke about the General Fund balance available for appropriation. She said that this law was put into effect in the 1930s after the Depression by the General Assembly. The City had 52 percent in fund balance in 2008 and that fund balance is better than most cities our size. She complimented the City of Sanford on its healthy fund balance. Financial Services Director Melissa Cardinali stated that First Southwest will be using audited financial statements and as she talked about on Monday, the fund balance will be down by approximately $3 million (8.3 percent) at the end of this fiscal year and that will put the fund balance between 28 and 30 percent. Ms. Burke reminded council that one major event could wipe the fund balance out. Ms. Burke said that they look at the debt ratio and the City's debt/assessed valuation is 0.07 percent and the average for cities our size is 0.58 percent. This average came from the analysis of Debt of NC Municipalities at June 30, 2008, population group of 25,000 – 49,999, by the NC Department of State Treasurer. This excludes the enterprise debt. She added that before salaries, debt service has to be budgeted and the City of Sanford's is 3.25 percent of budget, which is very low and you need this flexibility.

Ms. Burke gave a summary of the General Fund Debt Model Assumptions. In preparing the model, First Southwest assumed no growth in assessed valuation in fiscal year 2009 and 2010; afterwards, assumed a 2 percent growth rate in future years except for revaluation years which were increased by 10 percent; assumed no growth in the assessed valuations for vehicles; the assessed valuation used for fiscal year 2009 is $2,017,354,663 as reported in the 2008 audited financial statements. She discussed the debt structure and terms for the general fund debt. Ms. Burke went over projects that were listed in the Capital Improvement Plan and gave the tax rate equivalent for the various projects. City Manager Hegwer advised that staff was trying to give Council some concepts what each project would cost, both essential and future projects.

Financial Services Director Melissa Cardinali stated that Council can use this information to help prioritize projects, then staff can get with First Southwest and bond counsel to monitor the financial situation; they need a guideline on what Council wants to do. Mr. Hegwer added that we have some very large projects coming along such as public safety and an additional fire station. We have low General Fund obligation debt now and Council can see the major expenditures the City is facing. It is time for Council to think about these projects and decide what the City needs to do.

OTHER BUSINESS

Council Member Charles Taylor presented Council with information from the City of Santa Fe regarding Animal Services Division – City Ordinance Summary (Exhibit C); and Information on a Dog Park in Cary, North Carolina – (Exhibit D).

Council Member McNeil said that he received a phone call from Ellis Hankins, Executive Director of the NC League of Municipalities, asking the Council to send a thank you letter to House of Representative Jimmy Love for endorsing the bill for annexation which the League endorsed. Attorney Patterson advised that she had thanked Mr. Love on the phone and in person. It was a compromise bill the League put together with other people who were both for and against. Mr. Hegwer will send a thank you letter.

ADJOURNMENT

Following the closed session and with no further business to come before the council, the meeting was adjourned on motion of Council Member Steve Brewer; seconded by Council Member Mike Stone, the motion carried unanimously.

Respectfully submitted,

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CORNELIA P. OLIVE, MAYOR

ATTEST:

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Bonnie D. White, City Clerk