SANFORD CITY COUNCIL
WORK SESSION
Tuesday, January 5, 2016
225 East Weatherspoon Street, Sanford, NC

The City Council held a work session on Tuesday, January 5, 2016, at 5:00 P.M. in the West End Conference Room at City Hall to discuss sewer extension policy and future growth strategy. The following people were present:

Mayor T. Chet Mann
Council Member Byron Buckels
Council Member Charles Taylor
Council Member James Williams
City Manager Hal Hegwer
City Attorney Susan Patterson
Mayor Pro Tem Sam Gaskins
Council Member Jimmy Haire
Council Member Norman Charles Post, III
Council Member Rebecca Wyhof
City Clerk Bonnie Davis

Work Session

Mayor Chet Mann called the work session to order.

Victor Czar, Public Works Director, presented maps (Exhibit A) illustrating the city's growth and sewer collection line locations through time, noting that the city limits were tighter and less sprawling in the past. There are approximately 25 square acres of land in the city (excluding Deep River Forest subdivision) and approximately 18 of these are developable (excluding streets, rights-of-way, creeks, flood plain, etc.). Approximately nine square acres are served by public sewer with about 200 miles of collection lines. He explained the four methods currently used to expand the sewer system:

- Developer driven: Developer pays for all infrastructure to and in a site.
- Grants: Sewer line is extended to a site where development will create jobs and a grant pays for a portion of the cost, offsetting the city's share of the expense.
- Forced annexation: Service is extended to areas annexed into the city in the same manner as provided in existing city limits (uncommon under current regulations).
- Petition Assessment Policy: Service is extended if requested by a majority of owners in a designated area. The city extends service and pays the cost, which is then assessed proportionately to all property owners who benefit from extension.

Mr. Czar explained that the current system is market driven: development occurs in areas selected by developers. This may or may not be the best areas for the city to grow since it may create sprawl. More fire stations may be needed to serve those areas as opposed to areas nearer the existing city center; more police officers may be needed for higher call volume and there may be more miles of road to patrol. Costs for leaf and limb pickup may also increase, affecting rates for solid waste collection. He noted that utility service affects city development (Exhibit B).

Mr. Czar explained that historically, the city has been pro-active, investing in treatment capacity such as the recent expansion of the Wastewater Treatment Plant, at a cost of more than $50 million. This provides the opportunity to extend sanitary sewer service, critical to growth in this area due to the soil. He also acknowledged that some lines are more than 100 years old and many are fragile clay pipe. As indicated in the Wastewater Master Plan, a significant number of

sewer lines need repair or rehabilitation and some should be enlarged. Approximately $600,000 has been budgeted annually for the ongoing cycle of rehabilitation of manholes and lines. Mr. Czar also reminded everyone there are weak links in the system which experience problems during heavy rainfall.

Mayor Mann stated that he believes current economic momentum presents opportunities for growth and many believe that Sanford and Lee County could benefit from expansion of infrastructure. He hopes to determine how it can be delivered and growth directed to areas which would be most meaningful and impactful and provide it to citizens affordably, noting this will require a change in the model and mindset. City Manager Hegwer stressed that the current model is not broken and has worked well over the years; however, growth which is spread out over larger areas is more expensive and inefficient. Perhaps a different model could be more efficient.

Marshall Downey, Community Development Director, reminded everyone that Sanford's population is much less dense than other comparable communities. Infill should be a priority when considering future growth and updating the Land Use Plan and Waste Water Master Plan. He acknowledged that market economics and external influences determine growth, as shown by satellite annexations such as Deep River Forest and Tramway. Staff is working with consultants to determine where it would be most efficient to expand city borders. A preliminary report has been received analyzing several areas ("study areas") being considered for potential expansion. Analysis includes information on sub-basins for sewer, since the Wastewater Master plan will be updated and this would affect costs. Also included are estimates on costs to provide infrastructure, police and fire services, and recurring costs. Consultants will also analyze various "build-out" scenarios, ranging from 30 to 70 percent. Another factor to be considered would be the tax benefit, based on the tax base, number of potential residential and non-residential units, sizes of these units and densities.

Mr. Downey used one study area as an example: "Area 2" located in northern Lee County, along the US Highway 1 corridor, near Colon Road and the industrial park. Information included in the analysis is total land area; land supply (defined as undeveloped parcels ten acres or larger, suitable for development); estimates of how much land would likely be used for residential purposes and how much used for non-residential; the estimated number of dwellings and gross floor area of those dwellings; and estimated annual revenue. He noted that "low" density estimates are for fewer than four dwellings per acre, whereas our current zoning standard is two per acre, meaning that their "low" density estimates are actually "medium" for us and their "medium" would actually be "high" for us. Estimates for one-time capital costs to extend city utilities were also included. A similar analysis has been completed for all areas seen as potential targets for future expansion. He noted that the "cost to serve" analysis does not need to be the criteria used to determine which areas may be attractive for growth; however, lower costs of service would be a significant factor and could be used to identify and prioritize areas being considered. When this analysis is finalized, it will be forwarded to Council, along with recommendations and Council can then determine how to proceed.

Public Works Director Victor Czar noted that the capital cost of extending utilities is fixed but lowers proportionately as density increases. He explained that if a developer proposes development outside a targeted growth area, it could certainly be considered but would not be as

attractive financially. He also confirmed that lines could be extended without annexation and associated recurring services.

Community Development Director Downey explained that the Joint Planning Commission will be included in updating the Land Use Policy. Knowing Council's vision on infrastructure policy is very important in this process. With direction from Council and adoption of the Waste Water Master Plan, growth areas and related extension policies will provide an important platform to begin updating the Land Use Plan.

Mr. Czar explained that another option for generating revenue for future expansion is some type of Capital Recovery Fee ("CRF"), an adjustment to the assessment cost, a fee offsetting the future cost of major capital improvements to the City's water and sewer system driven by impacts of new development. The fee is calculated for each new customer of the water and sewer system and based on the customer's calculated daily flow rate and location. The existing utility system has capacity to serve this growth and existing rate payers are paying for it even though it is not currently being used. There is an argument that when a request is made for new water service, that fee should be higher than just the cost to connect to the line: there should be a charge to cover a proportionate share of that capacity already existing in the water or sewer line that will service that connection. Mr. Czar informed Council of the fees charged by other communities, ranging up to $13,000 in Holly Springs. Staff is researching and working with consultants now to determine potential fees, which would apply to properties with existing access to water and sewer lines. Mr. Czar emphasized that these fees would then be used to extend lines in growth areas, rather than charging developers or individuals. He suggested a fee in the range of $1,500 for water and $1,500 for sewer (even though a higher fee could be justified), along with a tap fee of approximately $1,250, for a total in the $5,000 range rather than our current total of $1,300. He also explained that these fees would be determined by a consultant working with staff and would apply to both water and sewer taps. Mr. Hegwer stated that it is typical across the state to assess CRFs for each unit of multi-family apartment projects and this subsidizes costs for others. The goal is to address the need for services without deterring growth or stifling development and to also potentially reduce extension costs.

Council Member Taylor questioned whether CRFs are essentially "impact fees". Mr. Czar explained that these fees offset the cost of providing an existing system which already has capacity to serve new customers, whereas impact fees are used to provide new schools and services of that nature. These fees would be based on the system itself, not the cost to extend the lines, which is the basis of the current system.

There was discussion as to whether CRFs would replace current policy which requires residents in areas without lines to pay for the cost of extension. Mr. Czar suggested the possibility of modifying that policy and capping the maximum cost. Mr. Taylor suggested some type of sliding scale adjustment for residents who have paid the capital cost but did not connect.

City Manager Hegwer explained that fees going to the Utility Fund through the Capital Recovery Fund could be used for system improvements, rehabilitation of sewer lines, extending sewer lines or other designated uses. He noted that municipalities' collection of garbage reduces the overall cost of that service and that charges are not lower for some and higher for others in

less accessible areas. In theory, it works out over time and lowers overall cost. He also noted that recent sewer extension to the VA Facility in the Tramway area will allow others to connect and fees may exceed the cost of extension, although that may not always be the case.

Community Development Director Downey stressed the relationship between these issues and the Land Use Plan, noting that growth can be directed to certain areas through incentives. Directing growth and encouraging density would increase efficiency in the delivery of services. He reminded everyone that more fire stations would be needed for increased call volume and longer response times to areas farther out if growth is spread over larger areas. If population growth is within the existing city limits, fewer fire stations would be needed.

Public Works Director Czar emphasized that CRFs are not to recoup costs for a particular line; they are system-related, for capacity of the system. Funds have been invested in the system and are not available to also extend lines. If the goal is to extend lines and use them to direct growth, CRFs can serve as a revenue source, rather than increasing rates to existing customers.

Mayor Mann stated that the City may be missing opportunities for growth since many companies want to locate in industrial parks where infrastructure (water, sewer, broadband, fiber optic line) is already in place or will be available in a short period of time (typically no more than 60 days). Mr. Czar informed Council that the County is currently negotiating with the provider of high speed fiber optic on service to Enterprise Park (approximately 300 acres), recently certified as "site ready" by Duke Energy. Mr. Hegwer noted that the County also has an agreement to extend fiber service to the airport, where current bandwidth is inadequate. It was recently discovered that the line is nearer to the airport than originally anticipated, which will lower the expense. There is a tremendous need for increased bandwidth to handle equipment for the airport (security cameras, payment processing), as well as for aircraft (some valued at up to $40 million) using the facility.

There was discussion on the existing lift station in the park and sewer lines located on the western side of US Highway 1 but not throughout the entire park. While there are no water lines currently in place, there is capacity to extend them. Mayor Mann commented that Triassic Park (appr. 500 acres) has not yet been developed to the same level as Enterprise Park. He also noted that if Council deems these areas to be highly-desirable and impactful, extending lines could serve as an incentive to encourage companies to locate and create jobs here.

City Manager Hegwer stressed that the Tramway area near the VA Facility will serve as a test case. Policy and fees must be established for connection to the new sewer line, which will encourage infill in the surrounding area. He commented that the City participated in extending sewer line and a lift station at Purgatory Branch to the West Fall (now Autumn Wood) residential development off Valley Road for gravity sewer. Although development began slower than originally anticipated, several residences are now under construction.

Mr. Czar concluded by stating that there is potential to revise current sewer extension policy and additional revenue in the Utility Fund will be required. The Capital Recovery Fee is one source of funding. There are methods to determine what and where to extend, including analysis of service costs to determine how the city can grow in a manner reasonable for

providing services efficiently and that analysis relates to the Land Use Plan, which is scheduled for updating. Another factor would be identifying areas seen as potentially having the most meaningful impact.

Council Member Williams requested that staff give a recommendation on proposed fees, which Mr. Czar explained would be included in the process. Council Member Buckels questioned whether household income could impact fees for residents not currently connected to water and sewer lines or whether fees would be established "across the board". There was additional discussion on where these properties are located and various models for determining fees. Public Works Director Czar explained that although the proposed CRF would increase costs for new customers, it also gives them the opportunity to access existing capacity and to also provide service to existing residents who will benefit greatly from the extension.

Adjournment

Mayor Pro Tem Gaskins made the motion to adjourn the meeting; seconded by Council Member Post, the motion carried unanimously.

Respectfully Submitted,

T. Chet Mann, Mayor

ATTEST:

Bonnie Davis, City Clerk