

MINUTES
TRANSYLVANIA COUNTY BOARD OF COMMISSIONERS
November 1, 2016 – CAPITAL PLANNING WORKSHOP

The Board of Commissioners of Transylvania County met in special session on Tuesday, November 1, 2016 at 9:00 a.m. in Commissioners Chambers at the County Administration Building, located at 101 S. Broad Street, Brevard, NC. Commissioners met for the purposes of holding a capital planning workshop.

Commissioners present were Jason Chappell, Vice-Chairman Larry Chapman, Chairman Mike Hawkins, Page Lemel and Kelvin Phillips. Staffs present were County Manager Jaime Laughter, Finance Director Gay Poor, and Clerk to the Board Trisha Hogan. The consultant presenting today was David Cheatwood with First Tryon Advisors.

In addition, there were four citizens in the audience, including Parks and Recreation Director Carleen Dixon and Planning and Community Development Director Mark Burrows. There was no media present.

CALL TO ORDER

Chairman Mike Hawkins presiding declared a quorum was present and called the meeting to order at 9:07 a.m.

CAPITAL PLANNING WORKSHOP

The Manager stated as staff and Commissioners work together to prepare for capital improvement projects it is imperative to consider debt service projections and the overall impact to the budget. This can be difficult because assumptions are continuously changing. In an effort to learn how to minimize those changes, the Manager and Finance Director met with Financial Consultant David Cheatwood with First Tryon Advisors. As a result of that initial meeting, First Tryon Advisors developed a software model that allows users to plug in various projects and be able to see in real time the impact to their budget, debt service and tax rate based on several assumptions.

Mr. Cheatwood provided an overview of the County's current financial situation and spoke about different financing methods and revenues available to the County before delving into the software model. He also talked about the importance of capital planning and how the County can benefit from doing so.

Overview of County's Finances

The County has approximately \$5.15 million in long-term debt outstanding, comprised of general obligation bonds and installment financings. The general obligation bonds make up \$1.3 million of the debt and will be paid off in 2018. The County used installment financing methods to pay for the remaining portion of the Public Safety Facility, CTE Building at Rosman High School, and the new Board of Elections Center/Employee Wellness Clinic. The debt owed on the installment financing is \$3.8 million. The debt service structure on these debts is good in that it is a declining structure. In addition, the County's credit rating is strong: Moody's-Aa2; S&P-AA. The County's Unassigned Fund Balance is healthy as well. The County's historical trend analysis has remained steady. Although the County faces challenges with a moderate socioeconomic economy, the aforementioned strength factors put the County in a favorable position to consider other projects.

Financing Alternatives Available in North Carolina

There are four main financing alternatives available in North Carolina:

- General Obligation Bond
 - Voter referendum
 - Backed by full faith, credit and taxing power
 - 20-year term

- Low interest rate
- Limited Obligation Bond
 - Also called Certificates of Participation or Installment Financing
 - No tax pledge
 - Lien on property that is being financed
 - Higher interest rate
 - Commonly used for jails and courthouses
- Revenue Bonds
 - Mainly used for water and sewer infrastructure
- Special Obligation Bonds
 - Solid Waste projects, for example
 - Not commonly used

These bonds can be issued in one of two markets: public or bank. These bonds can be sold in one of two ways: negotiated or competitive.

Projects under Consideration

The County is considering a variety of capital projects over the coming years. Mr. Cheatwood will use these examples when he demonstrates the software model.

Project	Estimated Cost
Courthouse: renovation or addition to current building vs. constructing new facility at different site	\$16-24 million depending on site and parking needs
EMS Main Station	\$1.6 million
Transylvania County Schools: renovations/additions to existing schools	\$80-120 million
Parks and Recreation: Community Park/Sports Complex, Champion Park Pool, Multi-Generational Recreation Center/Neighborhood Park, miscellaneous projects	\$29.1 million

This project list does not include funding for water and sewer infrastructure or economic development projects, but these and other projects can easily be plugged into the model. This is just a starting point to determine how much debt load the County can carry and how comfortable Commissioners are with such debt.

Revenues Available

The County's primary revenue sources consist of property tax, sales tax and fund balance.

- Property tax
 - Transylvania County has the 13th lowest tax rate in the State; current rate is \$0.511/\$100 valuation
 - 1 cent increase equates to \$564,000
- Sales Tax
 - Article 39
 - 1 cent to be used for general purposes
 - Shared with municipalities
 - Brought in approximately \$3 million in FY 2016
 - Article 40
 - ½ cent to be used for general purposes and schools
 - Shared with municipalities
 - Brought in approximately \$2.2 million in FY 2016
 - Article 42
 - ½ cent to be used for general purposes and schools
 - Shared with municipalities

- Brought in approximately \$1.6 million in FY 2016
 - Article 46
 - ¼ cent to be used for general purposes
 - Currently not levied by the County
- Fund Balance
 - Total fund balance at the end of FY 2016 was \$24,776,921
 - Of this amount, \$12,458,779 was unassigned
 - This amount has grown over the past several years
 - Commissioners plan to use approximately \$3 million of this amount for economic development over a two-year period with the goal of receiving all or a portion of it back in the future
 - County has no formal fund balance policy, but would like to maintain an unassigned fund balance of at least 15% of expenditures

Importance of Capital Planning

Long-term capital planning is a key first step to any debt issuance process. The level and detail depends on the size and scope of the entity's capital improvement plan.

Developing a capital planning model/tool helps everyone understand if and how the projects can be funded and the resulting financial impact while also ensuring the continued compliance with certain financial policies. Without long-term capital planning, entities may be faced with unexpected or unwanted results that impact their ability to fund future projects.

Benefit of Capital Planning Model

The benefits of a capital planning model can be immediate and long-lasting:

- Help educate the elected officials and the public on a plan of finance
- Help evaluate alternatives
- Build consensus on priority of projects and use of resources
- Maintain compliance with LGC requirements and rating agency requirements
- Balance competing needs
- Show impact on financials
- Look at different repayment schedules

A capital planning model is built to be a living document that continues to get updated as projects, priorities, elected officials, revenue sources, etc. change.

Overview of the Capital Planning Model

The Capital Planning model is a tool developed by First Tryon that gives entities the ability to forecast the impact of funding proposed capital projects over both a near-term and long-term horizon. The model is designed to be interactive and to allow an entity to run multiple scenarios with different assumptions in a timely manner.

The inputs section of the model allows an entity to input a list of projects and specify the respective pertinent details, including cost, timing, debt service structure, and interest rate. The entity will also be able to specify the funding source on a project-by-project basis. The entity also inputs its existing debt service payable from the same revenue source in order to take into account the increase or decrease in existing debt.

After the inputs section is complete, the model will output the tax impact of the proposed borrowings, taking into account existing debt service. The entity will have the ability to specify an assessed value growth factor and designate other potential revenue streams available for debt service repayment. This section of the model will also layer on the proposed debt service or use of fund balance and project the primary financial ratios issuers/rating agencies typically track.

Mr. Cheatwood provided a sample model that incorporated the County's historical financial data, debt service and projects for illustrative purposes.

Board Discussion

Commissioner Lemel inquired about why the County would want to incur debt at such levels when we have a history of paying as we go. Mr. Cheatwood stated that the sheer size of some of the projects is unaffordable. For example, a \$20 million courthouse facility would deplete the County's cash reserves. The payback of the debt should be spread over the life of the building and assessed to all citizens and taxpayers utilizing and benefiting from its existence.

Commissioner Chapman expressed concern about the County's ability to fund both a Courthouse and school bond at the same time. The Manager stated that these projects should not be viewed as either or, because the County is mandated to provide adequate facilities for both the judicial system and School System. She reminded Commissioners of the option to assess a ¼ cent sales tax so that the whole burden is not placed upon property owners.

Commissioners discussed various scenarios and Mr. Cheatwood manipulated the model to give them a visual example of those scenarios. Commissioners also noted that once they begin serious discussions about these and other projects that they need to consider additional factors, including conservative tax collection rates and growth factors, operating expenses, construction inflation, and varying interest rates.

Next Steps

Commissioners discussed next steps in the capital planning process, to include:

1. Understanding the needs of the School System and process to hold referendum in 2018
 - a. 18 months to prepare for bond referendum
 - b. Requires public education component and buy-in for support
 - c. Tax rate impact of bond could be as high as 11 cents
2. Making a decision about the Courthouse
 - a. Cost estimates would be narrowed down in design phase
3. Thinking of other scenarios to consider in decision-making for capital projects

The sole purpose of this meeting was to show the Board there is a model available to assist with their planning. Commissioners thanked Mr. Cheatwood for the work that went into developing the capital planning model.

ADJOURNMENT

There being no further business to come before the Board, **Chairman Hawkins moved to adjourn the meeting at 11:40 a.m., seconded by Commissioner Chappell and unanimously carried.**

Mike Hawkins, Chair
Transylvania County Board of Commissioners

ATTEST:

Trisha M. Hogan, Clerk to the Board

**MINUTES & GENERAL ACCOUNT
TRANSYLVANIA COUNTY BOARD OF COMMISSIONERS
November 1, 2016 – RECESSED MEETING**

The Board of Commissioners of Transylvania County reconvened the recessed special session from October 28, 2016 on November 1, 2016 immediately following the capital planning workshop at 11:45 a.m. The meeting was held in Commissioners Chambers at the County Administration Building, located at 101 S. Broad Street, Brevard, NC. The purpose of the meeting was to allow Commissioners to discuss a personnel matter in closed session as allowed per North Carolina General Statute.

Commissioners present were Jason Chappell, Vice-Chairman Larry Chapman, Chairman Mike Hawkins, Page Lemel and Kelvin Phillips. Also present were County Manager Jaime Laughter, Human Resources Director Sheila Cozart, and Clerk to the Board Trisha Hogan.

There were no media or any other members of the public present.

Chairman Hawkins presiding declared a quorum was present.

Chairman Hawkins moved to reconvene the recessed special meeting at 11:45 a.m., seconded by Commissioner Chapman and unanimously approved.

Chairman Hawkins moved to enter into closed session per NCGS 143-318.11 (a) (6) to consider the qualifications, competence, performance, condition of employment of a public officer or employee or prospective public officer or employee, seconded by Commissioner Lemel and unanimously carried.

Commissioners discussed the input received from the assessment center representatives on October 28, 2016 on the performance of the Tax Administrator candidates and instructed staff to set up interviews with candidates on November 30, 2016.

Chairman Hawkins moved to leave closed session, seconded by Commissioner Lemel and unanimously carried.

OPEN SESSION

Chairman Hawkins moved to seal the minutes of the closed session until such time that opening the minutes does not frustrate the purpose of the closed session, seconded by Commissioner Phillips and unanimously approved.

ADJOURNMENT

There being no further business to come before the Board, **Commissioner Lemel moved to adjourn the meeting at 12:05 p.m., seconded by Commissioner Phillips and unanimously approved.**

Mike Hawkins, Chair
Transylvania County Board of Commissioners

ATTEST:

Trisha M. Hogan, Clerk to the Board