Mayor and Council Budget Workshop
6 p.m. May 24, 2022
Holly Springs Law Enforcement Center and Zoom

MINUTES

The Holly Springs Town Council held a budget workshop meeting on Tuesday, May 24, 2022 at the Law Enforcement Center and via livestream. Mayor Mayefskie presided, calling the meeting to order at 6:00 p.m. A quorum was established as the Mayor and four Council members were present as the meeting opened.

Council Members Present in the room: Mayor Sean Mayefskie, Mayor Pro Tem Dan Berry, Council members Aaron Wolff, Timothy Forrest, and Kristi Bennett.

Council Members present via electronic means: Shaun McGrath.

Staff Members Present in the room: Randy Harrington, Town Manager; Linda McKinney, Town Clerk (recording the minutes); Daniel Weeks, Assistant Town Manager; Scott Chase, Assistant Town Manager; Antwan Morrison, Finance Director; Corey Petersohn, Budget; Jeff Wilson, IT director; Mathew Muter, IT; John Schifano, Town Attorney; LeeAnn Plumer, Parks and Recreation Director; LeRoy Smith, Fire Chief; Kendra Parrish, Executive Director of Utilities and Infrastructure; Erika Philips, Director of Human Resources; Irena Krstanovic, Director of Economic Development; Paul Liquorie, Police Chief; Cassie Hack, Director of Communications and Marketing; Paige Scott, Director of Public Works; Seann Byrd, Utilities and Infrastructure; Chris Hills, Director of Development Services.

Mayor Mayefskie said the intent of tonight's meeting was to review the recommended budget, give feedback and get answers to questions.

1. Overview: Randy Harrington, Town Manager, gave an overview of the meeting agenda. He said that he made his presentation on the budget to the Council two weeks ago, last week was the public hearing, and now it was time for them to make sure that the budget meets their expectations and advances their priorities. He said that first he would offer some additional budget highlights.

2. Additional Budget Highlights:

Use of General Fund Fund Balance Policy Recommendation Mr. Harrington said that current fiscal policy is that available fund balances at the close of each fiscal year should be targeted in the range of 20-25% of General Fund expenditures with a minimum of 20%. Reserves beyond 20% of the Total Annual Operating Budget of the Town may be used for one-time use. He said that the proposed change would be to allocate General Fund fund balance above 30% to the General Fund Pay-As-You-Go (PAYGO) for the purpose of one-time capital uses in accordance with the Fiscal Policy.

Benefit Changes Mr. Harrington said that there will be two benefit changes in this budget. First, the Town is now offering full-time employees a new lower-cost option to increase affordability for families. He said that the other change involves post-employment benefits for new employees. Those employees starting after July 1, 2022 will no longer be eligible for health insurance coverage after retirement with 20+ years of Town service. This change does not apply to current town employees.

Cemetery Fee Recommendation Mr. Harrington said that the cost of a cemetery plot is recommended to increase by $175 per plot as a pass-through fee increase to match the proposed agreement with Wake Memorial.

Organizational Structure Changes Mr. Harrington said that the proposed organizational structure changes would create new functional areas within Administration: the Office of Customer Care; Budget, Innovation, and Strategy Office; and Risk Management. He said the Parks & Recreation management structure would be updated to increase the focus on Council's strategic plan by reclassifying the Hunt Center Manager to a second Parks and Recreation Assistant Director over "Events and Programs." The existing Assistant Director's duties will be over "Facilities & Operations."

$2.5 M State Grant from FY21-22 Legislative Session Mr. Harrington said that in the State's Appropriations Act of 2021, the Town was awarded $2.5 million State Capital and Infrastructure Fund (SCIF) Grant, which can only be applied to a municipally owned infrastructure project. The intention of the grant was to fund two additional bridge lanes on an NCDOT bridge on Old Holly Springs Apex Road. Due to the "municipal ownership" requirement, an alternative approach to fund the bridge has been developed. Mr. Harrington recommended applying the $2.5 million SCIF grant toward the construction of Fire Station 3, and re-purposing $2.5 million of the planned future Limited Obligation Bond debt for transfer to NCDOT for the additional two lanes on the Old Holly Springs Apex Road bridge (to provide a 4-lane bridge).

Mr. Harrington reminded the audience that any Council additions, deletions, or amendments to the recommended budget would require support from at least three Council members. Additionally, state law requires a balanced budget, so any budget additions require an offsetting expenditure reduction or identification of new funding. Next steps are the budget being brought to the June 7th meeting for adoption.

3. Mayor & Council Discussion on the Recommended FY 2022-23 Budget

Mayor Mayefskie thanked staff for the time and effort involved in putting the budget together and opened the discussion.

Council member McGrath asked how much the Town is currently paying out for retiree health care benefits. Mr. Harrington said that the Town is a relatively young organization in terms of retirees. But the future liability is there. Antwan Morrison, Finance Director, said that he thinks it was around $100,000 last year. At the end of the year there was a $5.2 million outstanding liability in OPEP, but we have a trust with $600,000 - $700,000 in that trust to offset some of that liability.

Council member McGrath asked what the top items that were not funded in this budget were. Having a list at the ready would be good in case more funding was found later. Mr. Harrington said he has nine items that, if we had more revenue, would be recommended: an additional $10 million for putting the fleet garage in Phase 1 of the Operations Campus; vehicle replacements; fleet maintenance overall, especially preventive maintenance; economic development – we could consider a third position to expand our reach, especially to small businesses; add a police investigator; buildings inspections positions; license plate reader program is currently funded at half strength and could be expanded; swift water rescue capabilities in the fire department; and Cass Holt Park design which is partially funded, but not fully.

Council member Forrest asked what it would take to completely fund the license plate readers. Chief Liquorie said it is somewhat of a floating number. We recommended getting a pilot program started. We need to learn what it will cost and where it is most needed and we can build the program going forward. Council member Forrest asked if there was a way on the swift water rescue to start training personnel without the equipment. Mr. Harrington said we do have some, but this would be to take it to the next level. Chief Smith said training is through the state so we can get that now, but we were looking to add infrastructure. Mr. Harrington said the delta is about $22,500 between what we have now and full implementation. Council member Forrest asked if there was room in the budget to add it. Mr. Harrington said there is one item that was under budgeted, but from our perspective, we felt comfortable where we are as a starting place. Council member Forrest asked about how to find the HS11 public access channel, and who broadcasts it. Cassie Hack, Director of Communications and Marketing said we don't use it much anymore. It is not a cost, but we get some revenue from it. Council member Forrest asked about "water purchase for growth" under Utility Fund. Mr. Harrington said that was the purchase line for getting water from Harnett County. That reflects anticipated population growth and industrial growth.

MPT Berry asked clarification questions about the fund balance transfer. Mr. Morrison said that the fund balance above 30% after the audit for one fiscal year would be put into an account where it can be spent in a future fiscal year. He used the example of the funds dedicated for the Holly Springs Road widening, which aren't being spent right now, but put aside into an account where they can be spent.

MPT Berry said that one of the largest expense increases is into salaries and positions. He isn't sure that it has been explained what the service value is to residents of this increase. Council is behind this, but they will have to defend it and he would like talking points on what the tax payers can expect to get for this investment. Mr. Harrington said that was a valid question and he would be happy to help them address it. Every service we provide to residents requires people. Holly Springs isn't to the point some other places are, where they can't meet service demands because they don't have enough police officers, for example. But once you get to that point it takes a long time to recover and to change your reputation in the market place. We don't want to get there.

Council member Bennet said that there were so many positions requested that were not funded in this budget. She asked if the Town was already at the point in the market where we aren't able to recruit. She specifically asked about positions in Public Works. Mr. Harrington said that of all our departments Public Works faces the biggest challenges in recruitment and retention. There are currently 7 open positions. This is one of the areas we have had the most discussion about. They are front line, seeing the public every day. Council member Bennett said she agrees that we should invest in our staff, she was just surprised that we aren't expanding the number of positions. Mr. Harrington said that in this first phase, Paige Scott, Director of Public Works, has been focused on getting her leadership team in a good spot. We need to get to a place where our current positions are filled, but he anticipates recommending some new positions in the future. It will be a multi-year process.

Mayor Mayefskie said that he got a request from the Triangle Community Coalition and the Homebuilders Association regarding the system development fees. The question came up about grandfathering in those who have come to the point of construction drawings or plot plans. He wants to know what the breaking point is for anything like that, and what number of units would trigger this. Scott Chase, Assistant Town Manager, said the estimated the cut line for lots that are ready to be built on and platted would be about 600 homes. Chris Hills, Director of Development Services said that those at Construction Drawing review is about 1200 with another 1000 or so in the preliminary phases. Charging different rates for different projects could cause some accounting problems. Perhaps a phased approach could be a better practice, so that we are not giving disparate treatment to different projects. Council member Wolff said if 600 homes were grandfathered in it's over $2 million in lost revenue. Mr. Harrington said that, if you leverage that for debt, it would be $29 million worth of infrastructure. Council member Wolff said he also had long conversations with builders' groups. He asked what the benefit to residents would be for grandfathering. And he didn't get a good answer. They said the result of this would be a one to one increase on home prices. It therefore does not impact residents, it affects new home buyers. He sees a benefit to builders but not to residents. Mayor Mayefskie asked, on the 600 homes, is there any breakdown on the size of the builders? Maybe there aren't any custom builders in that group, but those were the builders he was concerned about. Mr. Chase said there are looking at fewer than ten builders. Council member Wolff asked if it was legal to base fees on the size of the builder. Mr. Hills said you could not base the fee on the size of the builder. You could look at the timing of a plat or something of that nature. But if there is an opportunity to evaluate this, the most reasonable way to do it would be a phased increase to the SDF. Different rates for different builders could cause accounting errors. Mayor Mayefskie asked, from a management perspective, how difficult is it to manage that phased increase. Mr. Chase said it would have an administrative effect, and staff time, to flag any projects that would be grandfathered in. Council member Forrest asked when the Town lays out the fee structure for a developer. Mr. Hills said we begin early in the process. It is usually one of the first questions they ask. It is industry standard that certain fees are due at certain processes, and that the fee assessed is that which is in the fee schedule at the time it is scheduled to be paid. We share with builders when a fee change is coming up, and they can pay them before the fee goes up.

Council member McGrath asked how prevalent is this kind of practice, increasing SDF across other municipalities, and if this is something people should expect in a rapidly growing community. Mr. Harrington said he is aware of other jurisdictions near us who are also going through the process to update their SDF and asked Kendra Parrish, Executive Director of Utilities and Infrastructure to comment. Ms. Parrish said she doesn't know which ones are raising their fee, because they are still working on their studies. But General Statutes require municipalities to revisit these fees every 5 years, and rapidly-growing communities need to do it more often. Mr. Harrington said that Fuquay-Varina is going through this now. Each water system is different, so there is no apples to apples comparison, but they have similar challenges to Holly Springs.

MPT Berry said he was not in favor of grandfathering. If we leave the fee as is our ratepayers are subsidizing development at a rate of 44%. This new fee cuts it in half and people will only subsidize it by 21%. This could be argued as being too high. He has no problem raising the fee. He said the Home Builders Association did not reach out to him directly, but the question he would have raised is when the fee went down, no one reached out. Now that we're going up, there are certain members who aren't happy, but our rate payers will be happy that we are cutting the subsidy. In a growing community we have to be prepared to balance our fee structure. When HB 436 was introduced in 2014, no one knew how to do this, and we probably set the fees too low. Now we're playing catch up. Council member Forrest asked when the next study would take place. Ms. Parrish said that as fast as we are growing, three years out is the recommended time frame. If we continue to see costs going up, we may need to revisit it a little sooner. Council member Forrest asked if this would be a good discussion topic for next years' retreat. MPT Berry said the report we had from last year allows us to raise the fee to $20,000, so we don't need a new report to do that. We aren't raising the fee nearly as high as we could. Mr. Harrington said there might be two considerations. If inflation continues at its current pace, that will throw a wrinkle in our plans. The other is, once we get further along in our new water acquisition, that might influence the level of need and risk to the current funded plan. Staff will keep an eye on it and share with Council if there is perceived risk and need to revisit.

Council member McGrath said he agrees that these numbers aren't getting better and our taxpayers are continuing to subsidize development. There was discussion about whether, if the fee were to be raised, if there would need to be another 45-day comment period. John Schifano, Town Attorney, said you don't have to republish the report. If you change a fee as part of the annual budget there is no special notice required. If you change a fee outside of the budget process you need a 30-day notice.

Council member Wolff said we are going to talk about storm water fee again at the next retreat, because we wanted to make increase it gradually. So he doesn't think this needs to be revisited unless it is part of a gradual increase. Mr. Harrington said that at the June workshop we are scheduled to have the financial advisor come and talk about the utility fund and the debt side of that. That will give you a sense of how much debt capacity we currently have and how much new revenue enhancements we would need to fund the infrastructure investments that we have. That might give you more context.

Council member Forrest said the Town spent money on the affordable housing study and it should be finishing up in mid-fall. Council member Wolff and I have been attending the meetings. When the study comes back, there's no implementation in place among town staff. He suggested that we need a full-time staff member. Not by July 1st, but an employee in the fourth quarter could help. If we do not dedicate a staff person to this by 3rd or 4th quarter, we are going to continue to be behind. His recommendation to Council would be to add a staff position to start a Community Development Office or some other title, to implement the housing study plan. If that could be squeezed into the budget we could start working on it. There was discussion about what that person would do and whether it makes sense to hire someone before deciding what actions the Town wants to take. Council member Bennett expressed concern about hiring someone for an undefined position when there are other positions that we haven't funded. Consensus was not to add this to the budget, to discuss the report at the 2023 retreat, and then decide how to proceed.

Council member Bennett asked for clarification on the use of the state grant, and when the bridge would be constructed. Ms. Parrish said the bridge construction is forecast for 2024 according to the latest schedule from NCDOT.

Council member Forrest asked if it was worthwhile to have a discussion about a Parks & Rec bond in the fall. Council member Wolff asked what that time line looks like and when does

Council need to have that discussion. Mr. Harrington said that in anticipation of this, he prepared a recommended timeline: in May or June Council would provide policy direction, vote on funding and timeline for the Cass Holt Park; in 2022-23 initiate design for the Cass Holt Road Park, a 15-18-month process; in November of 2023 hold a bond referendum; and in 2024-25 funding sources included in the budget, bond issuance, and construction. This lines up with what our financial advisor was talking about, that this 2025 period lines up to give the lowest impact on the property tax rate. Council member Forrest said his concern is that costs are not going to go down and the costs could be significantly more if we wait. The top priorities in the community survey are parks and greenways. He is proud that we aren't raising tax rates, when those around us are. But he is not sure we can afford to wait on this. He thinks it might be worthwhile to push for a shorter time frame.

Council member Wolff said he is not sure enough information can be offered in a shorter time frame to inform residents. John Schifano, Town Attorney said we would have to prepare a resolution for the June 7th meeting in order to get a referendum on the ballot. The first half of June is the deadline to get it to the Board of Elections. It is pushing it. And, without a design, it is difficult to get people to vote for a bond.

Mayor Mayefskie asked if we should start the process at the June workshop. There was discussion about how specific bonds need to be to particular projects and how much time is needed to communication with the public, and line up partners to advocate for the bond. There was discussion about the required process and the higher tax rate increase that would be required if this was moved up, before older debt has rolled off.

Mayor Mayefskie asked for a bullet point list at the June workshop to discuss. Council member McGrath said we all know that home sales prices have gone up, and with '24-'25 being a revaluation year, that is going to go up. Council member Bennet asked for can we get an idea of what a bond would look like if we just do Cass Holt park, and if we do a larger P & R bond - a range of options. Mr. Harrington said that would work well for June because our financial advisor will be here and could give an update on the general fund debt affordability as well as the utility fund. He then said that he was mistaken, the financial advisor is coming in July, not June. Consensus was that there was nothing to be gained by pushing the bond process up.

4. Adjournment: There being no further business for the evening, Motion to adjourn was made by MPT Berry second by Council member Forrest and passed with a unanimous vote. The May 24, 2022 meeting of the Holly Springs Town Council was adjourned at 7:42 pm.

Respectfully Submitted on Tuesday, June 21, 2022.

Linda C. McKinney

Linda McKinney
Town Clerk