Mayor and Council Workshop
6 p.m. July 12, 2022
Holly Springs Law Enforcement Center and Zoom

MINUTES

The Holly Springs Town Council held a workshop meeting on Tuesday, July 12, 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 three Council members were present as the meeting opened.

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

Council Members present via electronic means: none.

Council Members absent: Shaun McGrath and Tim Forrest

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; Mathew Mutter, IT; John Schifano, Town Attorney; Cassie Hack, Director of Communications and Marketing; Kendra Parrish, Executive Director of Utilities and Infrastructure; Aaron Levitt, Utilities and Infrastructure; Carrie Kennedy, Utilities and Infrastructure; Elizabeth Goodson, Development Services; Matt Beard, Parks and Recreation.

1. Overview: Randy Harrington, Town Manager, gave an overview of the meeting agenda.

2. Debt Affordability

Kendra Parrish, Executive Director of Utilities and Infrastructure, said the purpose of this item was to present the newly developed Utility Fund Debt Affordability model to Council and request direction on its implementation. She reminded Council of the just completed rate study that had been presented to Council earlier. She listed the ten primary projects on the 5-year CIP along with estimates of their costs, followed by six secondary utility projects and their costs. The estimates for these projects were given in 2022 dollars. She said that Council also needed to keep in mind that there were seven additional projects on the horizon that would be needed to maintain service to residents and businesses. There was discussion about whether the cost estimates were totals, or the town share of a shared expense. Ms. Parrish introduced Doug and Andrew Carter of DEC, the Town's financial advisors.

Mr. Doug Carter explained the benchmarks being used to create the model, which is driven by rating metrics. He said that Debt Service Coverage was calculated as total revenue, minus operating expenses, with a minimum target of 1.75, meaning revenue must be 75% higher than debt service. This is important to meet the AA rating standard and to increase PAYGO to diversify capital funding. He said that Days Cash on Hand is calculated by dividing cash by operating expenses times 365. The minimum target for this is 200 days, which means the ending cash balance must be equal to 200 days of annual Operating Expenses. This is important for meeting the AA rating standards and to provide for adequate cash flow.

Mr. Carter said that he would present the assumptions used to create the debt model, explain the drivers behind the model, and present six possible scenarios. The assumptions are a ten-year planning period, customer/usage growth of 2.5% to 5.5% per year, and must meet minimum annual targets of 1.75 DSC and 200 days cash on hand. The drivers are the CIP or the rate, depending on the scenario. He said that the comparison would be between three approaches and each approach evaluated under a full annual projected System Development Fees (SDF) collections model and a conservative SDF collections model. The three approaches are: funding the full CIP; funding those projects that can be funded with a 6% rate increase; or funding those projects that can be funded with a 4% rate increase. There was discussion about what happened to the model if the "actuals" were different from what is predicted.

Mr. Carter showed the amount of debt possible and PAYGO required under each of these approaches and how it would affect a residential bill assuming a ¾" connection and 4,000 gallons usage. Mr. Carter then showed what percentage of the 10-year Capital Needs would be funded under each scenario, and what the shortfall would be under the 6% and 4% scenarios.

Ms. Parrish described the impact to the development community and the existing customers for each scenario, and which projects would be covered and which not covered. Mr. Carter said that they used a 30-year amortization on this model.

Mr. Andrew Carter said that for the General Government Debt Model update, the Town's current debt capacity is $5 million dollars. He broke down the projected new General Government debt for the Fire Station 3, new fire truck, Operations Campus, Transportation Bond and Parks and Recreation Bond. He said those were affordable in the current model. He said that two debt issuances of $30 million each in 2026 and 2028 would equal a 2.25 cent increase; two debt issuances of $30 million each in 2024 and 2025 would equal 3.40 cents, and one debt issuance in 2025 would equal 5.50 cents.

Mayor Mayefskie asked what staff needed from Council, and Randy Harrington said that no specific decision was needed tonight, but staff would like Council to think about this model, and what their appetite was for rate increases versus not completing all the utility projects. Council asked about the timeline, and Mr. Harrington said that this would probably come back to Council at the retreat or the March workshop in 2023. Questions were asked about how our utility bills compared to neighboring municipalities. Ms. Parrish said that Holly Springs' rates have been lower than our neighbors, and Mr. Harrington said that staff could share the School of Government dashboard of local utility rates with Council.

3. Cass Holt Road Park

Matt Beard, Parks and Recreation, gave an overview of the concept plan for the Cass Holt Road Park that was approved in March of 2022, and discussed the refinements that have been made to the concept. He said that to make it an attractive option to teens, there would be a tech lobby/community gathering space as well as a snack bar in the building. The gymnasium will have four multi-use courts that would be high school regulation size, and lined for different sports, as well as three meeting/classrooms with a warming kitchen to support them. Staff is proposing an adventure walking/training track which would be more than just a walking oval and would include other activities along the way. There would be an indoor playground and gathering space for younger families, as well as an office suite and storage to support the programs.

Mr. Beard outlined the preliminary construction costs with breakdowns for sitework, architectural items, public art, and offsite improvements, with a total estimated cost of between $44 and $47 million based on March 2022 figures.

He said that Council gave policy direction on funding and a timeline for the construction of the park in May and June of 2022. Next steps are initiating the design, which could be a 15 to 18-month process. In November of 2023 there would be a bond referendum with funding sources in the FY24-25 budget, with the bond issuance and construction beginning in 2024 or 2025.

Mr. Beard introduced the design team and asked if Council had any questions for him or the design team. There were questions about what the sitework covered, and when the bond referendum should be held. There was discussion about a reimbursement referendum to allow work to proceed, and whether that should be decided tonight or if it should be added to the July 19th agenda or the September workshop. Mr. Harrington said that there was some funding in this year's budget to continue work, and it could be brought up at the August business meeting. Consensus was to address this at the August meeting.

4. Friendship Utility Investment Project/Budget Update

Aaron Levitt, Utilities and Infrastructure, said that this item would update Council on the progress with the Friendship Utilities project. He said that in August of 2021 Amgen announced the Friendship Site for their future facility. The Town, the state of NC, and the developer committed to serving the site with Town utilities. The State of North Carolina committed $8 million in state funds with the remainder to be shared between the developer and the Town. The cost of oversizing the utilities would be the Town's responsibility. Challenges to the schedule were caused by the previous utility extension design needing revision, the oversizing of utilities for future development, and procuring material due to COVID and supply chain impacts.

Mr. Levitt said that the design has been finalized and permits are being obtained with the State Water permit approved and sewer, reclaimed, and land disturbance permits under review. He said that material procurement is a continued success with the majority of pipe and fittings on hand or in transit. He said that land acquisition is in progress.

Mr. Levitt said that the prior estimate of $24 million has been affected by cost escalations and needed plan changes, and the current projected cost is around $30 million. He said that negotiations are ongoing, but that the estimate is for $8 million from the State Economic Development, $10-12 million from the developer, with $8-9 million cost share from the Town and an additional $3-5 million from the Town for oversizing to meet future demand. He said that there would be added value as the pump station would initially serve about 400 acres with the capability to expand to serve over 900 acres with the addition of two pump stations. There would be no Town contribution for water and reclaimed water oversizing. This accommodates future phases of FUJI and Amgen with enhanced screening provided at the pump station.

There was discussion about how the increased costs were going to be funded. Antwan Morrison, Finance Director, said that it was included in the debt models shown earlier in the evening, that it would come out of PAYGO. Mr. Levitt said that some would also be covered by the System Development Fees coming in from these projects.

Mr. Harrington introduced Carrie Kennedy, a new member of the Utilities and Infrastructure department.

Open Discussion

Mayor Mayefskie asked if anyone had anything for open discussion. Council member Bennett said that this workshop was very helpful, and Council needs to address the things our residents have asked for, and figure out how to pay for them. Council member Berry said that this was a dense agenda for the summer schedule and a lot of big decisions will need to be made in short order, so he appreciated all the detail given. Mayor Mayefskie said that staff will be getting lots of questions about this, so be prepared.

6. Adjournment: There being no further business for the evening, motion to adjourn was made by MPT Berry second by Council member Bennett and passed with a unanimous vote. The July 12, 2022 meeting of the Holly Springs Town Council was adjourned at 7:51 pm.

Respectfully Submitted on Tuesday, August 16, 2022.

Linda C. McKinney

Linda McKinney
Town Clerk