

Aiken City Council MinutesWORK SESSION

November 7, 2016

Present: Mayor Osbon, Councilmembers Dewar, Diggs, Ebner, Homoki, Merry and Price.

Others Present: John Klimm, Stuart Bedenbaugh, Gary Smith, Sara Ridout, Charles Barranco, Kim Abney, Jessica Campbell, John McMichael, Michelle Jones, Joy Gillespie, Gary Pope, David Cheatwood, Dan Brown from the Aiken Standard, TV Channel 12, and about 9 citizens.

CALL TO ORDER

Mayor Osbon called the work session to order at 5:05 P.M. Mayor Osbon stated the purpose of the meeting was for a presentation by First Tryon Financial Advisors regarding financial modeling for major capital improvements.

CAPITAL PROJECTS PLAN

Mr. John Klimm, City Manager, stated last year we made significant gains on the operational budget side, changing the budget format and the budget document. This effort deals with our capital budget and the need to seriously entertain a long range capital plan. First Tryon has put a model together that they have used in many communities. He pointed out in the presentation that the numbers in the presentation are not relevant as we are not trying to pin down numbers, but to familiarize Council with a model that can be used for long range planning. Secondly, the list of capital needs does not list the utility capital needs, the pipes in the ground. It has been stated that it is our belief that if the citizens in Aiken choose to extend the Capital Projects Sales Tax for round IV that this should be a commitment to our infrastructure needs. The utilities capital planning which is funded through alternative sources is not a topic of the discussion at this meeting.

Mr. Klimm stated that staff had been working with David Cheatwood, Director at First Tryon Advisors, and Walter Goldsmith, along with Attorney Gary Pope who is an expert on what the laws in South Carolina allow for various funding sources. Mr. Klimm pointed out this meeting is not about numbers, but is a meeting about a financial model that we need to put into place so we can begin to have a conversation not only about our financial needs, but also what our options are in terms of implementing a real capital plan.

FIRST TRYONFinancial AdvisorsCapital Projects Model

Mr. David Cheatwood, Director, First Tryon Advisors, from Charlotte, North Carolina, distributed a copy of his presentation to the Councilmembers. He said his firm serves as financial advisors to cities, counties, special purpose districts, and water and sewer utilities across North and South Carolina. He said they work with the entities providing advice on capital planning, results from the capital planning if there is a bond issue or some sort of financing, and then after a bond issue or a capital planning phase some of the regulatory and compliance matters that come up. The phase at this meeting is the initial phase of capital planning.

Mr. Cheatwood stated the purpose of this meeting was to talk about capital planning in general and the importance of having a good capital plan in place that can be followed going forward. There would be an overview of some of the projects on the city's list. He said he would also focus on some of the city's available revenue sources. He said the

projects are important, but it is also important to know how we could pay for them. He said he would also mention some of the available financing alternatives available for proposed projects. He would also show Council the financial capital planning model they have developed. It is an in-house tool, an excel based model that they have developed which can be used to look at different scenarios for projects and funding.

Mr. Cheatwood reviewed some capital planning questions, such as: What is the process for completing a bond issue? How do we fund projects without raising taxes? Do we need credit ratings? What is this going to cost us? If we don't want to raise taxes, can we still afford these projects? How much fund balance should we maintain?

Mr. Cheatwood then talked about the importance of capital planning. He said long-term capital planning is a key first step for any debt issuance process, or any new capital projects. He said they have worked with a lot of entities, and there is no one size that fits all capital plans. He felt the level and detail depends on the size and scope of the entity's capital improvement plan. Some form of capital planning model is a huge first step when evaluating different projects. He said the step helps everyone, including staff and elected officials, to know whether they can afford the projects, the impact on their finances, and ensure compliance with certain financial policies, such as a minimum fund balance level. Without long-term capital planning, entities may be faced with unexpected or unwanted results that impact their ability to fund future projects.

Mr. Cheatwood reviewed the benefits of a Capital Planning Model. The benefits can be immediate and long-lasting. A Capital Planning Model can help educate the elected officials and the public on a plan of finance and whether the projects are affordable, help evaluate alternatives and see what the best use of funds would be. This also helps build a consensus of Council and the public on projects—the size and scope of the projects. A model can help maintain compliance with rating agency requirements; if there are any publicly issued debt the bonds are rated by credit rating agencies. They like to see a long range plan, and the city not just doing project by project. A model can immediately show an impact on the financials, and 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. It is not something you do one time and set it aside.

Mr. Cheatwood then reviewed some projects under consideration for the City of Aiken for Fiscal Year 2017-2018. Those projects include: Road projects, City Hall Rehabilitation, Parking Garage, Public Safety Headquarters Building, Public Safety Surveillance System, Weeks Center HVAC, and Undergrounding utilities. These were projects which had been discussed by city staff. Mr. Cheatwood pointed out the projects do not include utilities or solid waste projects. Separate models are set aside for those funds. He pointed out the projects listed are loaded in the capital planning model with costs estimated for illustrative purposes so Council can see how the model works. The numbers can be adjusted as costs are determined. He said assumptions had been made for the input in terms of timing and project size. Mr. Cheatwood stated the capital plans are presently set up as three plans, with projects in the General Fund, the Utilities Fund, and Solid Waste Fund. He noted that there are different revenue sources for each fund. The General Fund model would cover the projects listed. The Utilities Fund and the Solid Waste Fund have separate revenues.

It was pointed out by Council that the projects need to be more specifically defined as we go forward otherwise there may be confusion. Capital Projects IV will be coming up in about 18 months. It was felt that we need to segregate the projects now so people don't get confused with Capital Projects IV projects and other long-range capital projects for the city. An example is undergrounding utilities. It was felt that should be defined as putting overhead lines underground or otherwise people may think it refers to water and sewer lines.

Mr. Cheatwood then reviewed the revenue sources that are available for the long-range capital projects. He pointed out property tax, hospitality tax, franchise fees, and some funds designated from Capital Projects Sales Tax CPST III, fund balance, and operating

revenue. Mr. Cheatwood then showed Council how the property tax revenue might be available through the model, showing a growth in the revenue assuming a 1% growth rate on the dollar. The value of a mill is about \$167,000. Currently the millage rate is 62 mills. It was noted the model shows the growth on the value of the dollar, not on any expected increase in millage rate. He then reviewed available revenues from the Hospitality Tax of about \$1,150,000 for projects and showed through the model how that revenue might grow. He said about \$1,130,000 was collected in franchise fees for fiscal 2015-16, and showed how that might increase at 1% per year. Those funds would be dedicated to road and public safety projects.

In answer to a question regarding the vehicle road tax, Mr. Klimm explained that the Road Maintenance Fee was not part of this plan because the Road Maintenance Fee has been envisioned as a cash program so as cash is received we fix roads. This fee has not been envisioned as part of a capital projects plan. It was pointed out that the Road Maintenance Fee specifically goes to road repairs. Mr. Klimm pointed out that roads in the Capital Projects Plan are new roads and there has to be a nexus between the roads that we build and visitors in the city, for example a partial solution to the Whiskey Road traffic.

Mr. Cheatwood then pointed out the City has \$3,600,000 of funds on hand from CPST III that are available which can be applied towards the City Hall addition/renovation and public safety projects. Those funds have been designated for City Hall and public safety projects. Possibly there will be some other funds available if CPST IV is passed.

Mr. Cheatwood noted another available revenue source as Fund Balance and Operating Revenues. Mr. Klimm pointed out that the city had not reached the percentage goal for the Unassigned Fund Balance yet so the possibility of using the Fund Balance to fund capital projects is not consistent with the city's financial policy of getting a 16% Unassigned Fund Balance.

Mr. Cheatwood stated if the city could reduce operating expenditures there could be some Operating Revenues available for projects. Mr. Klimm pointed out that the City of Aiken is unique in that we don't have any debt service. Usually in a municipal budget, as part of the operating budget, there is a line item for debt service. Councilman Ebner pointed out that the city's income had not been offsetting inflation so we are running short on money compared to collections. He said we have to reduce costs to offset inflation which the City Manager said he would do instead of raising property taxes this year. Councilman Ebner pointed out that he felt they should take inflation into consideration.

In answer to a question as to whether Federal funds or grants could be considered for revenue, Mr. Cheatwood stated they do not consider what might be available from Federal funds as they don't know what can be counted on. He said they look at what is within the city's control as far as available revenue sources.

Mr. Cheatwood pointed out that if projects materialize then the city has to consider what financing structures are available. He stated one thing to consider is what is allowed under state statutes and what financial resources are available to repay debt. In South Carolina the most common financial structure is General Obligation Bonds. GO Bonds can be issued by voter referendum or the city can issue GO bonds up to 8% of the city's assessed value without a voter referendum. There are also Installment Purchase Revenue Bonds and Revenue Bonds which must have a specific revenue stream. He pointed out the City of Aiken is in a unique situation as Aiken has no debt.

Mr. Cheatwood then reviewed the Capital Planning Model. He said the Capital Planning Model came about through a lot of conversations in trying to find something to let them look at different revenue sources and projects. The model is very interactive and dynamic in real time and allows change assumptions so we can see how the projects would affect finances and what is possible and affordable, both long-term and near-term. The model allows us to put in as many projects as one wants for as long a period one wants to see how it plays out. He said 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 near-term and long-term. He pointed out the model has two sections. Section 1 is Inputs. This section allows an entity to input a list of projects and specify the respective pertinent details, including cost, timing, debt service structure, term, and interest rate. The entity will be able to specify the funding source on a project-by-project basis, and the entity can also input its existing debt service payable from the same revenue source in order to take into account the increase in existing debt. Section 2 is Outputs. This shows the impact on taxes, hospitality tax, franchise fees, etc. It will show if the revenue will cover the debt and at what level. The entity will have the ability to specify an assessed value growth factor and designate other potential revenue streams available for debt service payment.

Mr. Cheatwood then reviewed for Council how the model would work with the projects that had been proposed by staff, showing proposed funding sources for the projects. He reviewed how the funding sources could be changed and the impact on revenues.

Council discussed how the model works and asked various questions. It was pointed out that wording for the projects needs to be clearly defined to avoid misunderstanding as to what the project is. There was a question as to what happens if there is a downturn in revenue, and Mr. Cheatwood responded that would depend on the financial structure in place. If there was a GO bond which is backed by the city's tax revenue, and the revenue goes down then taxes would have to be increased to pay the bond. Some concerns were there is a limitation as to how much money the city can get for projects. Another concern is that there is so much on the plate for the city right now. Mr. Klimm stated the initial capital planning budget being put together assumes existing revenues are what we have for the General Fund. We are not assuming tax increases. Council has raised selected fees, such as the Hospitality Tax, etc. If a transfer station and new equipment are approved if they are cost efficient, we would have to buy new equipment for the Solid Waste Division. Then Council would have to decide if they are going to raise rates to make the enterprise fund self-sustaining. The initial modeling for the city for the General Fund assumes that we are not raising taxes, but the question is, what is our capacity to begin a process of funding projects that should have been funded years ago. The available funding will ultimately dictate what projects we do.

Councilman Dewar felt we should not hold the Hospitality Tax as an absolute guarantee because in the past the City had to give up the Hospitality Tax to get the Capital Projects Sales Tax passed.

Mr. Klimm pointed out that is a political issue. Once we contemplate spending the Hospitality Tax for items that we would have to borrow money for, then we would be committing ourselves. Presently we are putting money aside in a fund for new roads and other money for the downtown parking challenges, but once Council decides what they want to do, if borrowing is involved, Council would be committing the city.

Councilman Merry pointed out there are other considerations for other revenue sources which don't include new taxes, but could help avoid dependence on certain funding such as the Hospitality Tax. Those sources are through some of the other structures that the state allows such as a TIF. Those can provide revenue and offset borrowing without using current revenue sources or a General Obligation Bond. Mr. Cheatwood stated a Tax Increment District is a revenue source, but that would have to be set up and that takes some time. It could be a revenue source in the future.

Mr. Klimm stated the goal in a series of two or three meetings is to significantly increase our capacity to understand what tools are available within existing resources to fund some of the projects. Mr. Gary Pope will talk about the alternatives for revenue sources at another meeting. He said we have made significant advancement in our understanding of our infrastructure needs in the last six months. We have evaluated all of our buildings which has not been done before. He felt we are in a much better position today than we were a year ago in terms of understanding what our needs will be in the next 10 to 15 years.

Councilman Merry stated it was very important to use the right terminology for the projects. He felt a plan like this which identifies all the needs has not been done before and if we never pull together all our needs, problems, issues and challenges and goals, we will never have a plan.

Mr. Klimm stated the tough decision that Council will need to make is what is a want and what is a need. Council also needs to know what the existing capacity is. What we are trying to do is explain the existing capacity and within that capacity go through a list of projects and decide on supporting certain projects.

Councilwoman Price pointed out that staff had given Council seven projects for consideration. She said the question is, based on our current revenue, can we do these projects. She pointed out that when the plan is laid out to the public and the cost, the question will be how we will fund these projects. She pointed out that we had talked about kicking the can down the road and not doing anything. She felt the community needs to come together in some visioning for the community and make some tough decisions as to where we want to go.

Mr. Klimm pointed out one of the tools being made available to Council is the Capital Planning Model. The model can be used to make all kinds scenarios, and he felt it would make it clear to Council and the citizens what the options are.

Mr. Cheatwood stated the model is designed to determine within the existing revenues whether the city afford to do the projects. If revenue is not available, then it is a decision as to whether there could be an increase in property taxes, or some other fees.

Mr. Cheatwood stated the proposed projects had been input into the model as well as a proposed cost for the projects, the timing of the project, and a funding type. He pointed out that in looking at the model various funding could be considered for the projects to determine what is available and what will work for each project. Some of the funding sources are property tax, Hospitality Tax, franchise fees, and CPST III. He then worked with the model and showed Council how various funding could be determined for the projects with the various features of the model.

Mr. Cheatwood stated the goal of this meeting was to show case the model as a tool that is available to look at different options.

Mr. Klimm pointed out that just like the operating budget, none of the projects would happen without significant discussion and approval by City Council. Mr. Klimm stated we are going forward with the assumption that we have the revenues that we have. He said we could lose some of the revenues and that means we need to figure out what the consequences would be if we lost a certain revenue. He said in this practice we are not proposing adding new revenues.

Council members pointed out that the model condenses a lot of work. Without the model many, many hours would have to be spent to consider the various options.

Mr. Klimm stated we will be doing much more analysis for capital items than in the past. He noted that Ms. Michelle Jones and staff will be making a presentation in December on the issue of infrastructure (pipes in the ground). Mr. Coakley will make a presentation in a couple of weeks dealing with yard trash and equipment needed and the possibility of a transfer station.

Mr. Klimm pointed out that Mr. Cheatwood would be available for any questions after the meeting.

ADJOURNMENT

Councilman Ebner moved that the work session end. The motion was seconded by Councilman Merry and unanimously approved. The work session adjourned at 6:40 p.m.

  
Sara B. Ridout  
City Clerk

  
  
