

Town of Garner  
Town Council  
June 7, 2010  
Special Meeting Minutes

The Garner Town Council conducted a special meeting on Monday, June 7, 2010 from 8:00 to 10:00 AM in the Town Council Meeting Room

**Roll Call:** Mayor Williams, Mayor Pro Tem Behringer and Council Members, Kennedy, Singleton and Marshburn and Jackie Johns an excused absence

**Staff Attending:** Hardin Watkins, Town Manager; Rodney Dickerson, Assistant Town Manager; Bill Anderson, Town Attorney; Brad Bass, Planning Director; Brandon Zuidema, Police Chief; Lin Jones, Finance Director and Tony Beasley, Economic Development Director

Hardin Watkins, Town Manager started the meeting with introductions. Mitch Brigulio, Associate Vice-President and Ted Cole, Senior Vice President of Davenport & Company.

Lin Jones, Finance Director advised the Council of upgrades to the Town's credit ratings. Rating by Standard & Poor's went from AA- to AA and Moody's Investors Service rating went from A1 to A2. Increases were related to a recalibration of the ratings to be comparable with corporate ratings.

Presentation by Davenport and Company  
RE: Debt Capacity Study and Fiscal Policy Guidelines

Goals and Objectives

- Review Town's historical financial performance
- Present detailed analysis of Town's existing debt profile
- Develop peer group medians
- Apply medians to series of key financial ratios
- Provide Town and Council initial perspective on "Affordability" (Debt Affordability)
- Form financial policies and guidelines
- Identify Capital Improvement Projects (Plan of Finance)

Peer Medians (National & North Carolina)

The Town of Garner is rated Aa2 by Moody's and AA by S&P. In order to establish the Town's relative strength amongst its peers Davenport has surveyed National and North Carolina Aa1 and Aa2 rated Cities and Towns to establish the median value for a number of Key Ratios including:

- General Fund Balance as a percent of Revenue
- 10-Year Payout Ratio
- Debt Per Capita
- Debt to Assessed Value
- Debt Service to Total Expenditures

## General Fund Balance

Davenport recommends the Town consider adopting unreserved, undesignated fund balance policy:

Minimum target of 30%, at no time to fall below 25%.

Funds in excess of 30% can be used for pay-as-you-go capital and other one-time expenses.

The Town of Garner total general fund balance is above the National Median and NC peers.

The Town of Garner total undesignated general fund balance is above the national median and NC peers.

Council Member Kennedy asked about the North Carolina Medians average saying it is well above the National Medians averages and is that correct.

Mr. Cole replied yes the North Carolina Medians typically looks better than the National Medians.

## Existing Debt

Outstanding tax supported debt:	\$6,469,606
General obligation	\$525,000
Installment purchases	\$5,944,606

Mr. Cole went over the 10-year payout ratio as well as the total existing tax supported debt service.

Mayor Williams asked what the norm is for a payoff. Mr. Cole replied it is about 85%. Council Member Kennedy asked how they got to the 85%. Mr. Brigulio replied you take the sum of the principal payments for the next 10 years and divide by the debt.

## Peer Medians: Key Debt Ratios

The Town's 10-year payout ratio is in-line with its NC Peers and above the National Medians. Davenport recommends the Town consider adopting a policy limiting the 10-year payout ratio to 50% or better.

## Existing Debt Ratios – Population Assumptions

5-year average growth	3.76%
10-year average growth	3.64%
Assumed growth	2.00%

## Debit Per Capita

FY2010	0.21%
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The Town's debt per capita is below North Carolina Medians and Nationals levels. Davenport would not recommend a debt per capita policy.

## Existing Debt Ratio – Assessed Value Assumptions

5-year average growth	9.35%
10-year average growth	7.24%
Assumed natural growth:	
FY2011	-1.06%
FY 2012	3.0%
FY2013 and beyond	3.5%

Debt to Assessed Value

FY2010	0.21%
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Peer Medians Key Debt Ratios

The Town’s debt to assessed value is below North Carolina Medians and National levels. Davenport recommends the Town consider adopting a Debt to Assessed Value limit of 2.0%.

Existing Debt Ratios – Governmental Expenditure Assumptions

5-year average growth	6.35%
10-year average growth	7.14%
Assumed growth:	
FY2011	-3.30%
FY 12 and beyond	3.50%

Debt Service vs. Expenditures

FY2010	4.15%
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The Town’s debt service vs. expenditure ratio is below North Carolina Medians and below National levels. Davenport recommends the Town consider adopting a Debt Service to Expenditures limit of 15%.

Capital Needs

Total Capital Needs	\$48,484,000
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Davenport noted in all cases the concept of utilizing various levels of utility capacity fees to help offset the costs associated with the purchase of water and sewer capacity.

Case Summary

- The total debt service in case 1 is \$74,911,981
- The total debt service in case 2 is \$78,831,250
- The total debt service in case 3 is \$68,768,875

Observations and Next Steps

Observations:

- The Town has consistently maintained a strong General Fund Balance
- The Town currently has a moderate debt burden when compared against its peers.
- As the Town implements its Capital Funding Plan, key Debt Ratios will increase.
- In conjunction with this increase in Key Debt Ratios, the Town should consider adopting/amending Financial Policy Guidelines
- Financial Policies will memorialize sound financial management practices of the Town and provide comfort to Rating Analysts and Credit Markets.

Next Steps:

Review and amend financial model and assumptions as necessary with staff in order to develop a Plan of Finance.

Mayor Williams asked for a Question & Answer Session

Council Member Kennedy asked about the structured principal. Mr. Brigulio said the amortization assumption is 20-year structured principal amortization at 5.0% interest rate.

Mr. Cole stated the structuring of the debt payments can be used to make it more affordable. The structure must meet the 4 to 1 ratio rule whereby no annual principal payment can be more than 4 times the lowest annual principal payment.

Mr. Watkins said the Town's challenge is in the year 2017. There will be six loans to pay at that time and this could really hurt the Town. He said this creates the affordability problem. Mr. Watkins said the Town needs to make sure we are doing the right thing because the Town could not afford additional borrowing for awhile.

Council Member Kennedy said the whole scenario is to show a dramatic impact with the total capital needs of \$48,484,000. He said this is a challenge to fund over a short period of time and to do it right, it is all in the timing.

Council Member Singleton said the three projects, White Deer Park, Timber Drive and Vandora Round-About with the cost of \$6,000,000 has not yet been counted. Mr. Cole said the reserves do not take those funds into account.

Council Member Kennedy said this is not a proposal it is an analytical analysis.

Council Member Marshburn asked what the downtown road improvements for \$5,000,000 related to. Mr. Jones said this is the Highway 70 project. Mr. Watkins said this amount is for improving the road from I-40 to NC50. Mr. Bass went on to explain the improvements further.

Council Member Marshburn said the policy recommendations are very important. Mr. Cole said the policies are broken into five major sections: Capital Improvement Budget Policies, Debt Policies, Reserve Policies, Budget Development Policies and Cash Management and Investment Policies.

Council Member Kennedy asked about the assessed value assumptions of 5-year, 10-year and assumed natural growth and how they compare to the comprehensive growth plan. Mr. Bass explained it is just under 4% growth under the 10-year growth pattern. The annexations are added to the growth percentage.

Mayor Williams asked if it will take three to five years to recover. Council Member Kennedy said it depends. The commercial side is a very short timeframe. Depending on the cost of the houses the more expensive the house the more time it takes to collect funds back.

Mr. Cole said the Town is now looking at the capital side and the debt side.

Mayor Pro Tem Behringer asked what would be the total tax increase. Mr. Cole replied if the Town does the debt over time and phase in the tax impact, we are looking at 10 to 11 pennies. Mr. Jones said our tax rate would be .59 cent.

Mr. Watkins said the lowest tax increase possible is 6.7cents. He said the Council may only want to vote once on any tax increase. Mr. Watkins said the Town needs to plan the expenditure side as well as the project side. He said the Town is looking for a grant to help fund some of the projects and looking for partners with a match of monies to get our tax rate down. The years of 2016, 2017 and 2018 are the years to monitor closely and back off on the expenditures.

Mr. Cole said the Town needs to ask themselves how many projects they can handle each year as well as the timing factor that will drive the managing of the projects.

Council Member Kennedy said this presentation was chock full of information. He said the decision making and structure itself was educational and put in the proper content. Putting this presentation in plain English helps us understand the Town's position and are able to communicate to the public with our position on tax rate and so forth. This was an excellent job with understandable data and information with a reasonable optimistic outlook.

Mayor Williams said we will need to inform the citizens on the tax rate before they vote.

Mayor Pro Tem Behringer said the presentation was thorough and thanked Mr. Cole and Mr. Brigulio.

Council Member Marshburn asked if Davenport and Company's obligation with the Town is basically done. Mr. Jones replied Davenport will help us long term all the way through the process.

Council Member Singleton said Council will have a lot of discussions and thanked them for the presentation.

There being no further business the meeting was adjourned.

**Adjournment:            10:00 AM**

Motion:            Kennedy  
Second:            Singleton  
Vote:                Unanimous

Respectfully Submitted,  
Catherine Reynolds, Deputy Town Clerk