

**FINANCE COMMITTEE  
NOVEMBER 18, 2013 – 3:30 P.M  
CITY MANAGER’S CONFERENCE ROOM**

**MINUTES**

**PRESENT:**

Chairman Mayor Pro Tem Moore, Council Members Wagner, Davis, and Mayor Sims

**OTHERS PRESENT:**

Council Members Mendenhall, Ewing, Douglas, Golden, and Smothers

**STAFF PRESENT:**

Strib Boynton, City Manager; Allen Oliver, Assistant City Manager; Randy McCaslin, Assistant City Manager; Jeron Hollis, Communications Officer; Jeff Moore, Director of Financial Services; Eric Olmedo, Budget & Evaluation Officer; Chris Thompson, Director of Public Services; Terry Houk, Interim Director of Public Services; Garey Edwards, Director of Electric Utilities; Lisa Vierling, City Clerk, Fred Baggett, Interim City Attorney, Dawn Sparks, Deputy City Clerk

**MEDIA PRESENT:**

Pat Kimbrough, *High Point Enterprise*

**OTHERS PRESENT:**

Bob High, Vice President Davenport & Company  
Ted Cole, Davenport & Company  
Jim Morgan, High Point Area Arts Council  
Debbie Lumpkins, High Point Area Arts Council  
Cynthia Davis, Planning & Zoning Commission

**City Council Discussion – Water & Sewer Capital Funding Strategy**

City Manager Strib Boynton stated that several years ago High Point went through a period of time of double-digit water and sewer rate increases that were necessary to finance needed water and sewer projects. During this time, the City hired Davenport to help better structure the water and sewer debt. Davenport developed a multi-year strategy which the City has been using for the past ten years, and it has reduced the double-digit rate increases into the 4% to 6% range to finance needed water and sewer capital improvements.

Presently, there are about \$39 million in projects underway now, which translates into the need to pay more, and the City will be issuing bonds shortly.

Jeff Moore stated the city engaged Davenport & Company at the same time they did the 2004 GO Bonds, which was almost \$74 million worth of general funding strategy.

Ted Cole, with Davenport, stated they will be going forward with this next issue of revenue bonds which Council will be considering in early December, then going forward with the process in January and February with the rating agency discussion and the actual issuance of debt.

When investors purchase bonds they are buying a pledge of the City's revenues. When operating revenues are brought in and expenses are paid, what is left is what is pledged to the bond holders for the repayment of debt. This credit was established in 2004 with the first issue of revenue bonds. Prior to that the City would issue GO bonds for utility improvements. When this was established in 2004 the City was an A1 and AA rated. In 2008 when they issued bonds again the city's credit rating was upgraded again and in 2010 all three ratings upgraded the city's credit rating. The 2014 issuance is with a goal of being at a minimum to maintain the current ratings and where possible enhance them again.

Prior to financial downturn in 2008 bond investors did very little to differentiate between lower and higher rated credits in the municipal bond sector. All were treated alike in terms of interest rates. Post 2008 and the credit crisis some of the more recent higher profiled credit concern cities were given attention by credit rating agencies. Maintaining the cities higher rate will correlate to better debt capacity.

In fiscal 2014 the City will be paying about \$16 million of debt service for utility purposes. Outstanding today is about \$163 million of debt. Parity Obligations, which are the senior most obligations that have the first lien on the revenues of the system, are about \$123 million. The City still has some GO bonds outstanding from the time back when the city issued GOs for utility purposes of about \$31 million, which will be rolling off. There are some revolving loans primarily with the state all at \$163 million. All existing debt is matured by 2036. All debt service is fixed which means the city does not have any variable rate debt.

Key utility credit considerations are:

Debt Service Coverage. The City is offering a pledge of their revenues to the bond holder and what they want to see at the end of the day is when they collect the operating revenues and pay the operating expenses, what is leftover is what is pledged to the debt service. Built into the bonds is a debt service coverage requirement of 1.2 times, which translates to every dollar of debt service that the City pays they have to demonstrate that they have \$1.20 in revenues in which to pay. Being that they are pledging revenues of the system, bond holders and rating agencies like to see that 20% cushion in the event that revenues should go down unexpectedly where expenses should go up.

System Reserves. The city wants to make sure that they have a critical mass of dollars available as cash flow in the system between billing and operating revenues and expenses. The City in 2004, Council adopted a policy as part of this long term utility plan that they would work to establish a goal of 50% reserves in the water and sewer fund, which they have done in the last year or two. This puts the City in very good standing.

Capital Improvement Plan Funding Sources: The City has always maintained a very good balance between debt versus equity and is not over reliant on any one source of funding. When policies were established the City did adopt a policy that said on a rolling five years they would like to be able to demonstrate that the City contributes to capital at least 10% per cash sources. Davenport feels historically the City has done better than that.

System Rates: City Council's willingness and ability to set rates and charges where they need to be to maintain the debt service coverage to maintain system reserves and the capital planning.

The City has managed to maintain a level of reserves at 50% of the utility budget. Council Member Moore asked if the 50% is a number that was mandated. Mr. Cole stated that Davenport put in place the 50% goal by way of policy since 2004 and it is not an absolute mandated number. Jeff Moore stated that it was 2006 when City Council adopted the policy coming out of the City's first initial 2004 bonds, some of the feedback the City received from all three of the rating agencies was if council adopted a policy maintaining a level of reserves it would improve the strength to the City's credit. One of the things they came back to the City with was they wanted a 100% level of reserve, which could not be done, but by Council adopting a policy of maintaining a level of reserves at 50% it showed a very disciplined conservative approach and High Point has been that way for 14 ½ years.

Council Member Davis asked since they have reached that 50% balance will they reduce the amount they contribute to that level every year. Mr. Moore stated they will be talking about that and noted that they were able to achieve that level without a rate increase in 2013, but they are bringing on more debt. Mr. Cole stated that back in 2004 they recognized that getting to that 50% level was going to take a number of years rather than happening overnight.

Mr. Cole stated that Davenport has included in their report some comparatives with other North Carolina water and sewer utilities. The City of Charlotte and Town of Cary are both AAA rated, and Durham, Greensboro, Orange, Raleigh and Winston-Salem are Aa1 rated. High Point is at about 1.5 times a total debt service coverage, which is right in line with the AA1 medians. High Point is at about a 3 times parity debt service coverage, which is comfortably ahead of the AA1 credits are.

The City has two bond issues that it is currently considering. The first quarter of 2014 about \$39 million and third quarter of 2015 about \$38 million. These amounts would be

in addition to the existing debt on the new money revenue bonds they typically do which have 25 year terms, level payments, and are assuming a 5% interest rate.

Growth assumptions on revenues and expenses are pretty consistent with the past several years, which will ultimately they will solve some future rate increases. Beginning with 2013 projections of a 3.9% rate increase per year is anticipated. The City is maintaining those levels pretty consistently. The fund balance is growing a little bit higher than the 51%, which is something they will look at every year and make adjustments as they go for operating revenues and expenses.

Mayor Sims asked when Davenport looked at the rates over the past eleven years, did it ever look at them in comparison to what other municipalities of the same size are doing. Mr. Cole stated that every time they go to the bond market part of the analysis is looking at rates and charges, particularly in the region. They will look at comparative analysis and look at City rates are compared to others. Mr. Cole felt that historically those rates have compared pretty well. Mr. Moore stated that to some degree across this particular region High Point has been a little bit higher than some of the neighboring communities, but that is also because the City of High Point went ahead and made the commitment to take care of the infrastructure a little bit earlier than some of the neighboring communities. Council Member Smothers stated that something to keep in mind is that in this period of time High Point's system has been rebuilt, and there are very few communities that have made that commitment. Council Member Davis asked what the projection of debt is over the next ten years. Strib Boynton stated that there will be ongoing investments in water and sewer with a significant strategy in place to look at these numbers each year.

(Note: A copy of the Davenport & Company Report is attached to and made part of these minutes.)

**130303      Contract – Bid No. 02 – Restoration of Lexington Avenue Elevated Tank**

Approval of contract awarding Bid No. 02 for upgrades and restoration of the Lexington Avenue elevated tank. Purchasing and the Public Services Department recommends that contract be awarded to Caldwell Tanks, Inc. in the amount of \$623,300.00, which is the lowest responsible and responsive bidder meeting specifications.

*Terry Houk, Interim Director of Public Services, explained that this project is required to clean and paint the interior and exterior of the tank, repair the concrete foundations, improve electrical control systems and upgrade structure to meet with current OSHA requirements.*

***A motion was made by Council Member Moore, seconded by Council Member Davis to forward this matter to Council with a favorable recommendation of adoption. Motion passed unanimously.***

**130304      Contract Bid No. 25 - Reclosures**

Approval of contract awarding Bid No. 25 for the purchase of ten (10) reclosers. Purchasing and the Electric Department recommends that contract be awarded to Lekson Associates, Inc. (G&W) in the amount of \$169,960.00 which is the lowest responsible and responsive bidder meeting specifications.

*Garey Edwards, Director of Electric Utilities, explained that these reclosures will be used to protect the City's large underground circuits.*

***A motion was made by Council Member Moore, seconded by Council Member Wagner to forward this matter to Council with a favorable recommendation of approval. Motion passed unanimously.***

**130305      Contract – Bid No. 32 – Circuit Switchers**

Approval of contract awarding Bid No. 32 for purchase of two (2) circuit switchers. Purchasing and the Electric Department recommends that contract be awarded to Chapman Company (S&C Electric) in the amount of \$104,797.00, which is the lowest responsible and responsive bidder meeting specifications.

*Garey Edwards stated that the circuit switchers will be used at the City's Commerce and North Substations.*

***A motion was made by Council Member Moore, seconded by Council Member Davis to forward this matter to Council with a favorable recommendation of approval. Motion passed unanimously.***

**130306      Contract – Bid No. 29 – Incinerator Equipment Upgrade at Eastside Wastewater Treatment Plant**

Approval of contract awarding Bid No. 29 for the procurement of specialized air emissions equipment and repair of the Eastside Waste Water Treatment Plant incinerator. Purchasing and the Public Services Department recommends that contract be awarded to Infilco Degremont, Inc. in the amount of \$7,784,900.00, which is the lowest responsible and responsive bidder meeting specifications.

*Terry Houk stated that the total bid package should be \$16 million, which includes everything, including the equipment that gets the material to the incinerator. The amount is mostly EPA driven.*

***A motion was made by Council Member Moore, seconded by Mayor Sims to forward this matter to Council with a favorable recommendation of approval. Motion passed unanimously.***

**130307      Contract – Change Order Request – ALS of North Carolina, Inc.**

Council is requested to approve a change order in the amount of \$145,000.00 to the ALS of North Carolina, Inc. contract for the traffic signal work at the intersection of Montlieu Avenue and Centennial Street.

*Mark McDonald stated that the change order is for the addition of another intersection at Montlieu and Centennial, and is the budget amendment council approved two weeks ago. Council Member Davis asked if this is the last intersection to be done. Mr. McDonald stated that there is another one coming at Lexington and Centennial that could be done in the future. Council Member Ewing asked of the City had the ability to rebid the project. Mr. McDonald stated they do have that ability.*

***A motion was made by Council Member Moore, seconded by Council Member Wagner to forward this matter to Council with a favorable recommendation of approval. Motion passed unanimously.***

**130308      Resolution – Lease – Purchase Financing – Bank of America Public Capital Corporation**

City Council is requested to authorize the City Manager and Financial Services Director to accept the financing proposal to authorize the borrowing through adopting the "Resolution Approving Financing Terms for an Installment Contract with Bank of America Public Capital Corp," and to authorize the preparation and execution of the necessary documents in connection with the installment financing agreement for purchase of fire trucks and front end loader.

*Jeff Moore advised that this financing is for the two fire trucks that council awarded in August and front end loader that was approved in September, the only other item that has not been ordered yet is a self-contained breathing apparatus recharge truck, which specs are being worked on now.*

***A motion was made by Council Member Moore, seconded by Mayor Sims to forward this matter to Council with a favorable recommendation of adoption. Motion passed unanimously.***

**130309      Resolution – Local Government Commission – Proposed Issuance of Bonds**

City Council is requested to adopt "Resolution Making Certain Findings and Determinations and Authorizing the Filing of an Application with the Local Government Commission in Connection with the Proposed Issuance of Transportation Improvement Bonds, Parks and Recreation Improvement Bonds and Firefighting Facilities Bonds by the City of High Point, North Carolina; and establish the date of Monday, December 2, 2013 at 5:30 p.m. as required by state law on the issuance of the reference 2/3 bonds.

*Jeff Moore stated that this is the first legal step for the two thirds bond authorizations process. The funding for this was approved on October 23<sup>rd</sup> by Council. This step does require a public hearing.*

***A motion was made by Council Member Wagner, seconded by Mayor Sims to forward this matter to Council with a favorable recommendation of approval. Motion passed unanimously.***

**130310      Resolution – North Carolina Department of Transportation – Home Furnishings Market Grant**

Council is requested to adopt a Resolution authorizing the City Manager to execute documents to enter into an agreement (FY14 Demonstration Grant Program with the North Carolina Department of Transportation (NCDOT) in the amount of \$1,200,000.00 for support of transportation activities for the bi-annual International Home Furnishings Market in High Point.

*Mark McDonald stated that this is the annual renewal for state funding for Market Transportation Services for 2014.*

***A motion was made by Mayor Sims, seconded by Council Member Wagner to forward this matter to Council with a favorable recommendation of approval. Motion passed unanimously.***

**NONPROFIT FUNDING**

Council Member Smothers asked if it is the intent that Finance Committee to make a recommendation to the Council regarding nonprofits and the Arts Council Challenge Grant. Council Member Moore stated that at this point most Council Members have whatever information they need. Council Member Davis stated that they did not make too many changes from the original proposal. They changed the application where it included the vision statement to include the criteria that was in the nonprofit proposal. They kept the original time frame for nonprofit submittal. They did make the change that the application be submitted to budget department and then back to the clerk,

manager and the committee. Council Member Davis stated he would like to go ahead and finalize this tonight. Council Member Mendenhall stated that under the funding application it states that the City Council has identified goals, and stated that identified goals are part of the application which would automatically assume the Council has acted on priority areas for funding. Mayor Sims stated they should change the wording from "identify goals" to "identify priorities".

A motion was made by Council Member Davis, seconded by Mayor Smothers to forward the nonprofit policy to Council with a favorable recommendation of approval. Motion passed unanimously.

### **ARTS COUNCIL CHALLENGE GRANT**

Council Member Wagner presented a proposed Centennial Station Challenge Grant for Council discussion and approval.

- The first part of the grant states that the amount will be up to \$200,000 for every dollar paid, and not include any dollars pledged or paid up until today. It is completely for just new money from the time the grant starts.
- There is no offset, which essentially means this is separate money and not designed to offset or enhance any funds the city has given the arts council for any other purpose.
- Timing states that when the Arts Council actually collects pledges to bring that money in and the City will provide the match on a quarterly basis. The grant will end on December 31, 2014. The Arts Council would like for Council to go ahead and consider this now so it will give the Arts Council two year end giving cycles.

Jim Morgan stated that this grant says that the City is behind the Arts Council which is very important to their donators.

Council Member Mendenhall asked what the source of the City's monies will come from. Council Member Wagner stated that the funds will come out of the fund balance. Mr. Morgan stated that they have not received any pledges since the October 30, 2013, and they do have several grant proposals out. Strib Boynton asked in terms of cash coming in the financial statement said the balance to be raised is \$500,000. Mr. Morgan stated that they have had some pledges paid down. The Arts Council owes the bank now \$591,384.00.

Council Member Davis stated that the Arts Council's building is not a building that tax payers will have any ownership in, and was concerned of setting a precedent for other agencies coming in and asking for the same kind of money. Mr. Morgan stated that he feels this is different, in that High Point is the only city in North Carolina to not have a cultural arts center, and that arts are not just fun and games but are huge generators of income and economic development. Council Member Davis stated that High Point is a



city of 108,000 residents with thousands of businesses and non-profit foundations, and with all those possible donors the Arts Council has a list of possible 29 donors, and if the public is not supporting the Arts Council what is he supposed to say to the public. Mr. Morgan stated that they have a lot of major donors and others are looking to see what the city's support will be. Council Member Davis noted that if you take out the government agencies the Arts Council has raised about \$70,000 from the general public for its capital campaign, and as a new council member he raised \$15,000 to run for council and he found it hard to believe that they could not get more support from the general public. Mr. Morgan stated that they have been very quiet about it up to this point and have been waiting for almost a year to try and bring this to a conclusion with the council. Mr. Morgan stated he is convinced if Council passes this they will get this building paid for quickly.

Council Member Smothers asked why they assumed there was going to be \$200,000 funding available from the City. Mr. Morgan stated he did not assume anything, but they have waited for a response from the council to see what they could do and there were some on the county commissioners that wanted them to ask for more, because the County gave \$200,000, and he asked Council to only match what the County did. Mr. Morgan stated he made no commitment to the County that the Council would do anything.

Council Member Wagner stated that this is a challenge to the community to go out and decide for themselves if they are going to support the arts.

Council Member Smothers asked what grants the Arts have applied for. Debbie Lumpkins stated that they have a grant outstanding right now that is at \$25,000. Mr. Morgan stated that there is another grant that was very informal made by a group here in High Point, who said if they will show an email they will put it on their agenda, and the Arts Council has requested \$25,000 from that group. Mr. Morgan stated that there are some groups he has not asked yet because he is waiting for Council's support.

Council Member Davis stated he attended the Theater Study meeting, and he did not know what the outcome of that study was going to be, but he felt the committee is leaning towards keeping the theater and will be looking for some capital liens.

Council Member Wagner made a motion, seconded by Mayor Sims to forward this matter to Council with a favorable recommendation of approval. Motion passed on a vote of 7 to 2. (No Votes: Council Members Davis and Golden)

**ADJOURNMENT**

The meeting adjourned at 4:40 p.m. on a motion duly made and seconded.

Respectfully Submitted,

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Dawn J. Sparks, CMC  
Deputy City Clerk

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Mayor Pro Tem, Britt Moore