

City of High Point

*Municipal Office Building
211 S. Hamilton Street
High Point, NC 27260*



Minutes

Thursday, January 7, 2021

4:00 PM

3rd Floor Council Chambers

Finance Committee

Britt Moore, Mayor Pro Tem, Chair

Committee Members:

Michael Holmes

Monica Peters

Victor Jones

Jay Wagner, Mayor (Alternate)

As part of the city of High Point's on-going COVID-19 mitigation efforts, in-person attendance will not be allowed at this meeting. Instead, the meeting will be live-streamed and the public can listen to the meeting as it is being live-streamed by clicking on the following link www.HighPointNC.gov/VirtualPublicMeeting.

CALL TO ORDER

Chairman Moore called the meeting to order at 4:01 p.m.

Following a virtual roll call by Chairman Moore, the following Committee

Members were Present:

Mayor Pro Tem Britt Moore, Chairman
Council Member Michael Holmes (remote participation)
Council Member Victor Jones (physically present)
Council Member Monica Peters (physically present)

Other Council Members Present:

Council Member Wesley Hudson (physically present)
Council Member Cyril Jefferson (remote participation)

Staff Members Present:

Randy McCaslin, Interim City Manager (physically present); Greg Ferguson, Assistant City Manager (physically present); Eric Olmedo, Assistant City Manager (physically present); Terry Houk, Director of Public Services (remote participation); Robby Stone, Assistant Director of Public Services (physically present); Derrick Boone, Assistant Director of Public Services (remote participation); Mary Brooks, Deputy City Clerk (physically present); and Lisa Vierling, City Clerk (remote participation)

Others Present:

Judy Stalder, TREBIC (physically present); Jim Grdich, Blueridge Companies (remote participation); Marlene Sanford, TREBIC (remote participation); David Michaels, Windsor Homes (physically present); Scott Wallace, Keystone Developers (remote participation); Mark Walsh (physically present); Mark Morgan (physically present)

Present 4 - Chair Britt Moore, Michael Holmes, Monica Peters, and Victor Jones

PENDING ITEMS

[2020-528](#)

Resolution- Proposed System Development Fee

The required public hearing for this matter was held on Monday, December 21, 2020 at 5:30 p.m. At that time, action was taken to refer this matter to the Finance Committee for further discussion regarding adoption of a proposed System Development Fee assessed by the Water and Sewer Funds according to the provisions of GS 162A, "North Carolina Water and Sewer Authorities Act." The Resolution and Exhibit A have been modified to reflect Finance Committee recommendation.

Attachments: [TREBIC doc](#)
 [Joel Gillison Public Comment SDF.pdf](#)
 [Revised Final System Development Fees](#)
 [Revised System Development Fee Exhibit A](#)
 [Signed-RES System Development Fee](#)

Chairman Moore acknowledged members of the development community who participated in the meeting. He reported that today's matter deals with the proposed System Development Fees that will have an impact on the city, the development, and the city's future growth. Chairman Moore advised that the city hired a consultant to conduct a study and the results of the study were presented to the City Council and to members of the community as well. He then asked Public Services Director Terry Houk to provide an overview of the progress/development of the proposed System Development Fees so far.

Mr. Houk advised that Stantec Consulting did conduct a study; provided a presentation on the proposed System Development Fees to the City Council on two occasions; came up with recommendations based on the results of the study; provided the information to Council; a public hearing was held before the City Council on the proposed System Development Fees; and referred the matter back to the Finance Committee for further discussion and evaluation.

Interim City Manager Randy McCaslin advised that the 2017 legislation required that a study be done in order to implement the proposed System Development Fees; explained that the city currently charges frontage/acreage fees that are not backed up by any study; and reiterated that the city was required to engage a consultant to do the study in order to bring the city into compliance with the 2017 legislation.

Chairman Moore reported that Stantec Consulting presented three methods in which to approach the proposed System Development Fees as follows:

1. Buy-In Method
2. Incremental Cost Method
3. Combined Method

The consultants are recommending the Combined Method as the approach to take for the proposed System Development Fees. Chairman Moore spoke to how the study contained lots of benchmarking comparisons to cities equal in size

within the State; how the city must make changes in the method it currently has been operating under and move toward the proposed System Development Fees as a means to remain competitive and keep in good stead with the development and real estate community which are very, very critical to the city and its future growth.

Mr. Houk addressed the competitiveness of the study with the development community in Winston Salem and Greensboro; spoke to how the range for the proposed SDF are very comparable to the other nearby entities; and how the decision would be totally up to the City Council as to what amount of fees to charge.

At this time, Chairman Moore recognized Jim Grdich, who posed a question to Terry Houk. He asked Mr. Houk to if he could explain the rationale behind what he meant in an earlier statement when he said that the city "can charge" and the basis of the "can." Mr. Houk explained that the study is based on the 10-year Capital Improvement Program (CIP) and capacity that the city currently has and staff is recommending the "max" amount be charged. Mr. Houk further explained the study recommends the maximum amount the city can charge (based on the 10-year CIP and capacity of the water/sewer system) so the fees are competitive with nearby jurisdictions such as Winston Salem and Greensboro, but pointed out the decision as to exactly what amount to charge would be entirely up to the City Council..

Committee Member Holmes inquired about the calculations used to come up with the fee percentages currently in place. Mr. Houk explained it is based on the capacity and spoke to the process to which the fees were calculated based on the 10-year CIP, meter size, capacity of the water/sewer system, etc..... Committee Member Holmes asked if those numbers are consistent with the High Point CIP and what amount would be needed to move away from the current fee structure which is based on frontage/acreage and asked for clarification that the proposed SDF and study was done based on an analysis for the city's needs. Mr. Houk reiterated the study was conducted based on the city's 10-year CIP; spoke to the big volume of water/sewer projects coming up in excess of \$30 million; and the projections in the CIP being based on projections for expansions/upgrades, expansions with the next phase of the Piedmont Triad Regional Water Authority (PTRWA), and the transmission lines that will have to be installed.

Committee Member Holmes also inquired about the process for engaging the development community regarding any regulatory changes or changes to the fee structures and if they were aware of the 2017 legislation change. Mr. Houk advised that prior to COVID, TREBIC typically held quarterly meetings and things of this nature would be discussed then, and believed that it was a couple of years ago that this was first mentioned.

At this time, Judy Stalder, representing TREBIC (Triad Real Estate Building Industry Coalition), 115 S. Westgate Drive, Greensboro, stepped up to the podium in response to Committee Member Holmes' inquiries and to clear up a few statements that were made earlier. She acknowledged that TREBIC has no issues with changing the water/sewer fees as they are currently based on frontage/acreage fees to the System Development Fee because they feel it is a more fair way to charge than the frontage/acreage fees. She noted that when Mr. Houk said the System Development Fees were calculated on what can be charged, she believed he meant that it was the maximum that could be charged based on the city's water/sewer system and how it is calculated, and that did not necessarily mean that is how much that the city must charge. She pointed out that when the City of Greensboro moved to the System Development Fee, they remained revenue neutral and they made sure that the same development and apartment development that was developed under their old fee structure would pay the same amount after they changed to the System Development Fee model; so there was no immediate increase in fees. She wanted to make sure everyone was aware that there does not have to be an immediate increase in fees just because the city can charge those fees.

She questioned the justification for increasing the fees so dramatically and mentioned that she has been asked by TREBIC's members about what the city actually needs versus what the city can actually charge. She also asked if the city has reached out to all stakeholders such as the High Point Realtors and the High Point Builder's Association members because the builders would ultimately be the ones paying the proposed System Development Fees.

Regarding Ms. Stalder's inquiry about the justification for raising the fee structure, Mr. McCaslin replied that the entire study was based on the CIP and noted the CIP for the next five years reflects \$150 million in system upgrades and this is what the proposed fee is based on. He explained that the frontage/acreage and meter fees currently being charged and collected produce less than 1% of the total revenues for the water and sewer department and he spoke to how the bulk of the rest of it is the maintenance for the existing system, the operation of the existing system, and the future expansion of the system which is paid for by user fees every month based on consumption.

Committee Member Peters asked if the city put in property value comps for the property value differences between some of the other nearby cities to look at that percentage as well. Mr. Houk replied that the property values were not a consideration in the study. Mr. McCaslin explained that property values do not have any bearing on the future capital needs of the water/sewer system and Committee Member Peters advised that it does mean they may can bear the extra expense, whereas, the city's housing market may not be able to. Mr. McCaslin pointed out the city does not have a choice in the matter because these are projects/improvements that must happen in the next five years. He further

explained that there are currently two sources of revenues: monthly water/sewer bills from existing users in the system; and the new construction which adds new users in the system. He shared an analogy of the fees to a balloon and noted if the balloon is squeezed on one end, it goes to the other end.

Committee Member Peters then asked Ms. Stalder if she felt the increase in the proposed fees might possibly affect economic growth in the development realm in High Point. Ms. Stalder replied that, unfortunately, it would and pointed out most of the builders that build in High Point, particularly the larger projects, also build in other parts of Guilford County, Winston Salem, and the Triangle as well, and they would, of course, build where it makes the most sense staying away from building where it would cost them more while appraising for less. She spoke to High Point having a very exciting future; how builders like building in High Point; and that High Point needs to think about how the fees are going to be implemented and figure out a way to do it so it does not affect development going forward. She explained it is a matter of balancing it in the public and private sector.

Ms. Stalder shared that they did look at the numbers and although the base fee is comparable to Greensboro and Winston, that Greensboro and Winston Salem's fees are lower. She reiterated that Greensboro does give a discount for high density development and spoke to how the proposed SDF fees in High Point would add \$3,200 to the cost of a single-family dwelling, which is approximately \$1,100 more than in Winston Salem or Greensboro. She pointed out it would cost less to build a house in Greensboro or Winston Salem where the system development fees are concerned and referenced a spreadsheet that she sent out with numbers for comparison. She clarified that the data and numbers in the spreadsheet were obtained from city officials in Greensboro and Winston Salem and felt the stark figure is the difference between the fees currently in place and those proposed. She spoke to how it is such a big amount for developers to take out right at the beginning because they start planning a development two years before they actually put anything in the ground.

Chairman Moore pointed out that according to Stantec's recommendation in the study, it appears that the proposed residential water/sewer comparisons on a 3/4 meter would be in the middle between what Greensboro and Winston Salem charges. Ms. Stalder reiterated that Greensboro does give an additional discount on apartments. Chairman Moore suggested that High Point could possibly look at something similar as well. Ms. Stalder advised that capacity use fees have been around for a while and after a series of legal challenges, the State created the statute in 2017 to standardize it into system development fees.

Chairman Moore spoke to how it has been almost two decades since these types of fees have been adjusted or increased and stated he was a little confused as to why the bigger builders/developers would feel like High Point is not necessarily going to be as viable of a market if the fees go up and it puts High Point in the

same area where they are currently developing in the rest of the Triad area. Ms. Stalder reiterated that High Point's system development fees as proposed would increase the price of a single-family dwelling by \$3,200, which is about \$1,100 more than Winston and Greensboro based on how they calculate their fees. She stated she was not sure why High Point would think they can be competitive with higher fees because everybody wants to build everywhere and mentioned that Greensboro reaches out to the development community on a daily basis to see what they can do there. She applauded High Point for building its infrastructure, but until that happens, High Point could easily price itself back out of the market. Chairman Moore advised that is not something that High Point intends to do, but the objective is to make the best decisions that will make High Point the very best High Point it can be. Ms. Stalder expressed her love for High Point and spoke to it being a smaller city that does not have the same things to offer yet.

At this time, Chairman Moore recognized Council Member Jefferson. Council Member Jefferson shared that it is known that High Point does have a staff that does an incredible job in attracting builders and encouraging folks to come to High Point and spoke to how High Point has seen considerable growth over the last several years. He asked what might happen if the system development fees are not increased and High Point holds the line for the next foreseeable future? And what the ramifications might mean for the every day residents of High Point-those that own their own home and are trying to work hard to get through the current Pandemic and economic crisis.

Mr. McCaslin replied that if the fees are kept at the same level, producing the same amount of revenue, it would be a total of less than 1% of all the revenues generated by water and sewer and reiterated that the city does have approximately \$150 million in CIP projects scheduled for the next five years. He further explained that as part of the budget process, Davenport Associates, reviews the city's water/sewer operations based on the CIP, based on the debt, based on upcoming projects, they make a recommendation on water/sewer rate increases and that recommendation is brought to the City Council as part of the budget process. For the last ten years, those increases have been in the neighborhood of 4%-6% a year, so the current users of the system are seeing their water/sewer rates, go up at a rate of 4%-6% a year based on their monthly usage. Mr. McCaslin cautioned Council that if they leave the water/sewer revenue as it currently is, there is a good expectation that the 4%-6% per year rate increases will go up higher because of the substantial capital projects over the next five years. He noted that the current users do not need these expansions, but the new users would. He stated this is a policy decision that Council has to make to either leave it where it is, go to 100% of the recommended proposed development fees, or somewhere in between.

Chairman Moore felt it was important to note that based on the legislation, the proposed system development fees, once adopted, would be set for five years

and any changes within that period of time would trigger another study by a consultant to do the in-depth analysis.

Council Member Jefferson pointed out its either we have folks coming down the road paying to cover what they can come in to do, or we have the folks who are already here paying for the new folks who will come in. He suggested there is a lot of what could be done and that in between, but this is something that would need to be figured out. He agreed with Chairman Moore that there may be some creative things that could be done such as how Greensboro incentivizes and offers discounts for higher density development. He stressed that it needs to be clear to everyone on Council and to the public that Council not only has a responsibility to the development community, but also has a responsibility to the average High Pointer who is living and trying to make ends meet with the 4%-6% water/sewer rate increases each year.

In response to Council member Jefferson's statement, Ms. Stalder stated it is very easy to say that we want to protect our current citizens and noted that she, too, is a citizen in High Point; however, she felt Council needs to consider that the new people and the new houses that are being built are also being built for High Point citizens and this would be transferring that burden to them. She acknowledged there is a need for expansion of the water/sewer system because that is how the city will continue to grow and increase its tax base to keep fees and taxes down, but that Council should consider everybody who lives in High Point.

Ms. Stalder advised there are other cities that have found themselves in similar situations where fees were not raised on a consistent basis for various reasons, but she has seen some creative solutions which requires a review of fees across-the-board that the city charges. She suggested it might be time for High Point to re-examine all fees across the city and come up with a way to implement the fees so that it is lease damaging to the future growth.

She pointed out that the city could get the cost of the calculations by the consultant back from one development and that TREBIC is willing to talk about a number. Chairman Moore asked Ms. Stalder if she was prepared with a number today. Ms. Stalder stated she could come up with a number, but she wanted to say that the system development fee collection statute was changed last year and can now be collected at final plat or at the time the building permit is issued, so it would be the builders that would be bearing the brunt of the system development fees. She asked, again, if High Point had included the High Point Building Association in any of the discussions regarding the system development fees. She felt COVID is a great excuse not to get together, but pointed out everybody's input is still needed.

Council Member Jones asked for clarification on the effective date if Council decides to implement the system development fees. Mr. McCaslin replied that

staff is recommending an effective date of October 1, 2021 because that is generally when the water/sewer rate increases go into effect; however, it would be totally up to the City Council. Council Member Jones inquired as to if the fees, once implemented, could change at all during the 5-year period. Mr. McCaslin stated that the consultants did imply that the fees could not change within the 5-year period without another study being conducted. Council Member Jones pointed out many of the building projects are already underway and that in future years 3, 4, and 5, the developers would be able to build that into their pro-formas to determine what the development is going to cost, what the sale price and rent will be, etc.... He expressed concerns about how years 1 and 2 might negatively affect projects currently underway and wondered if it could possibly be adjusted and some of those costs absorbed.

Council Member Holmes asked for clarification on the CIP because he heard the 5-year CIP mentioned as well as the 10-year CIP. Mr. McCaslin explained that the study was based on a 10-year CIP, but the 5-year CIP is generally included in the budget and the projections for projects in the 5-year CIP is \$150 million.

At this time, Chairman Moore recognized David Michaels to speak from the podium.

David Michaels with Windsor Homes spoke to how they have been actively building and developing in High Point for many years and have a number of projects currently going on. He pointed out the projects in the CIP are long-term projects with a long life span and are financed with a lot of debt which does affect the calculation. He questioned how the 5-year and 10-year window would affect the calculations. In looking at the 5-year window and the fees being locked in for five years, he questioned if it is a more favorable rate to the development/builder community. He admitted that they are obviously looking for the most favorable, slowest impact to projects they currently have underway and that they do hope to continue doing many things in High Point. Mr. McCaslin replied that the consultant ran these calculations based on the 10-year CIP and confirmed that the city does finance these larger projects generally with 25-year bonds. He pointed out that the maximum amount for the system development fees recommended by the consultant would not come close to generating the revenue needed.

Mr. McCaslin reiterated that this is a policy decision the City Council will have to make as to whether or not to implement the fees, and how much--whether it be the maximum amount recommended by the consultant, something less, something in between, etc... He stressed the importance of having the option of adopting some form of system development fees to get away from the frontage and acreage fees because they are not defensible.

Mr. Michaels agreed that the system development fees are a more equitable way to raise revenue versus the frontage and acreage fees. He stated that High Point

has always been a great location to work and has been receptive to developers. He pointed out that the Piedmont Centre ended up in High Point because of the water and sewer policies that were in place at the time which made it an incentive to annex the entire development into High Point rather than Greensboro. He stated they want something that they can transition into the market pricing and this would be an increase that is going to have to be absorbed in the market for which the market would have to respond to it.

Chairman Moore thanked Mr. Michaels for what he has done and what he will continue to do in terms of development in High Point. He pointed out there are many ways to look at numbers, but from a numerical standpoint he felt the numbers in the consultant's recommendation put High Point in line with Greensboro and Winston Salem. He asked Mr. Michaels if he could expound on the difference between fees in the jurisdictions. Mr. Michaels advised that it is an increase from where High Point has been and noted these fees are being implemented all over the Triad. He shared that as a developer, they would consider location first to determine what product they think they can sell at the location, what price they think they can sell a house for, etc... He felt it seems to make High Point a little less competitive than previously, but going forward the market would make that determination.

Mr. Michaels expressed appreciation for the dialogue and discussion taking place. He mentioned that in the 1990s there were opportunities to do a financing program for these sorts of fees and suggested this might be something to consider.

Jim Grdich with BlueRidge Companies asked what percentage of the \$150 million in capital projects is targeted to come from the proposed system development fees. Mr. McCaslin stated he was not certain, but the consultant should be able to answer the question. Mr. Grdich explained it would be helpful to the development community if they are aware of what the impact will be and what share they would be responsible for. He referenced the chart that Judy Stalder put together and pointed out the Keystone Development on Penny Road would currently pay \$43,000 in fees versus \$450,000 if the proposed system development fees are implemented. Mr. McCaslin advised it would go to \$542,000 in Greensboro and \$624,000 in Winston Salem.

Scott Wallace with Keystone, pointed out they have made a tremendous investment in High Point based on the current fees not only on the Keystone at Penny Road project, but several other hundred acres. He spoke to how important this is to them because they used the current numbers to proforma these projects; how they do agree the feeds need to be increased; how they would appreciate a system that would best the projects they already have in place; and expressed appreciation for the City of High Point working with and partnering with them on this.

Chairman Moore expressed extreme appreciation to the development community for the investments made in High Point. He agreed that it would take everyone working together to come up with the best, fairest solution possible.

Committee Member Peters stated it appears in most of the categories, we are looking at a ten times increase. She hoped the city could be more diligent moving forward watching all the fees to make sure they are very incremental for an easier transition.

Ms. Stalder felt Mr. Wallace made an important point regarding vesting the approved projects that are already in High Point so that they can come in at the current fees that will feed into their developments. She stated that she is not aware of anything that would prohibit the city adopting a fee, then applying a discount to that fee. She provided an example that if the city agrees that 50% of what can be charged would be a fair fee, and if the current projects were vested and a 50% discount applied for the first 2.5 years, then the full amount the next 2.5 years with a recalculation of fees after five years. She explained that in five years, they would be aware of what is coming and it would be based on real calculations and knowing what their questions are going to be for justification of charges and what percentage they would be expected to be responsible for.

Committee Member Jones pointed out offering a discount would not generate the necessary revenues. He asked if the system development fees are not implemented, if the users in the system would be paying the \$400,000 portion of that versus the developer. Mr. McCaslin explained that even if the system development fees are implemented at 100% of the maximum proposed, it would only generate a small percentage of the total revenue in the whole fund. He felt it would be difficult to draw a parallel between the users and what they are currently paying and what the new proposed system development fees would bring in.

Ms. Stalder asked Council to also be mindful that not only is the city doing expansion of the system, that developers are doing expansions as well such as building outfalls across their property, and in some cases these are outfalls that they cannot even use, ones that are put in place for future development. She advised that the developer goes in and builds every bit of the infrastructure that is needed for a particular development.

Chairman Moore asked if there were any additional comments or questions at this point. Committee Member Jones thanked everyone who participated in the meeting; thanked Chairman Moore for putting the meeting together; and spoke to how he feels better after hearing the input and feedback because he would rely on their input in making this tough decision.

Chairman Moore advised the objective is to figure out how to equitably squeeze

the balloon, follow the current legislation, and give staff a workable policy. Ms. Stalder reiterated that system development fees are acceptable and pointed out everyone seems to be in agreement about that.

Hearing no further comments, Chairman Moore recommended this matter remain pending in the Finance Committee with the intention of addressing some things that were mentioned and he hoped the Committee would soon be able to come to a final decision on where the numbers will fall.

For Information Only

ADJOURNMENT

There being nothing further to come before the Finance Committee, Chairman Moore asked if there were any objects to adjourn the meeting. Hearing none, the meeting was adjourned at 5:23 p.m.

Respectfully Submitted,

Britt W. Moore, Chairman

Attest:

Lisa B. Vierling, Clty Clerk