



Mayor
Elise Partin

Mayor Pro-Tem
Tim James

Council Members
Phil Carter
Hunter Sox
Byron Thomas

City Manager
Tracy Hegler

Deputy City Manager
Jim Crosland
Assistant City Manager
Michael Conley

**City of Cayce
Council Work Session
Wednesday, February 21, 2024**

The February 21, 2024, Council Work Session was held this afternoon at 2:00 p.m. in Council Chambers. Those present included Mayor Elise Partin, Mayor Pro Tem Tim James and Council Members Hunter Sox and Byron Thomas. City Manager Tracy Hegler, Deputy City Manager Jim Crosland, Assistant City Manager Michael Conley, Municipal Clerk Mendy Corder, Police Chief Chris Cowan, Fire Chief Steven Bullard, Finance Director Kelly McMullen, Utilities Director Betsy Catchings, Human Resources Director Lynn Dooley, IT Director Jamie Backham and City Attorney Danny Crowe were also in attendance.

Mayor Partin asked if members of the press and the public were duly notified of the meeting in accordance with the FOIA. Ms. Corder confirmed they were notified.

Call to Order

Mayor Partin called the meeting to order and Mayor Pro Tem James gave the invocation. Mayor Partin led the assembly in the Pledge of Allegiance.

Public Comment Regarding Items on the Agenda

No one signed up for Public Comment.

Work Session

A. Introduction of Utility Rate Study

City Manager Hegler stated that the City's bond counsel Lawrence Flynn was going to introduce the consultants for the rate study. She stated that Council did authorize and fund the rate study in the current budget and staff's goal was to have some timely information for Council as they consider the FY25 budget. She stated that the rate study had been a major recommendation of Mr. Flynn's as he helps guide the Council and staff through the City's current bonds and future bonding capacity. She stated that Mr. Flynn had been overseeing the process for the City and was going to introduce the consultants by giving some background on what they do, how they were going to do it and what to expect in the coming weeks and months.

Mr. Flynn stated that a bond counsel was a lawyer that helps when the City borrows money and there were basically two (2) ways to safeguard money. He stated one way was by general obligation debt, which was debt secured by your full bank credit tax and power, but the City did not have any debt secured by its tax base. He stated that the City also maintained separately its enterprise on the water and sewer

system that provides water and sewer services in your community, and outside your municipal limits by contract. Mr. Flynn stated that it was fairly expensive to run the City's water and sewer system and administer the system and the business enterprise in the City was established for that purpose. He stated that it helped the City grow and it sometimes served as a way of incentivizing people to annex into the City limits. He stated that through the years, the City had done a number of borrowings secured by the revenues of the combined utility system. He stated that there was a process by State law for how a municipality could borrow that money and it was explicitly recognized by the Constitution.

Mr. Flynn stated that when a municipality owns the utility system that municipality was not responsible to any other third-party oversight and the decision and the ultimate domain to raise and lower rates ultimately rested exclusively with City Council. He stated that they had that sole discretion and the ability to raise and lower rates as they otherwise saw fit to make sure that the City was not overburdening its customer base. He stated that part of that kind of independent ratemaking authority was that the City had to maintain and continue to sustain the system in a way that met the public health standards associated with the Clean Water Act and the Drinking Water Act which meant that when the City's water was ultimately treated that it was safe for potable water consumption and when the sanitary sewer was discharged after it had been treated, it could be pumped back into the river without causing any issues.

Mr. Flynn stated that when the City did big capital projects, they were expensive but the City could fund those out over a long period of time through a borrowing process, which was done on a parity basis. He stated that when money was borrowed in the utility markets, it was borrowed on a parity basis, which meant that every time one borrowed new money, one secured about the same source of revenues. He stated that each lender stood shoulder to shoulder from a security standpoint and in order to be able to continue to keep that security at a level where the banks would give more money in the future as the City needed additional capital projects, the City had to make sure that it was actively monitoring rates, sustaining its rates and building the rate structure that ultimately could support the daily operations of the City's facilities. He stated that the daily operations included paying for staff, paying for chemicals, paying for electricity costs, paying for the debt service, the annual principal and interest payments that the City has on its outstanding bonds, and then also planning for future borrowings that may be needed in the future.

Mr. Flynn stated that everyone recognized that everything was getting more expensive and it costs more money to keep the pump system and it cost more money to buy chemicals and maintain staff therefore the City needed to make sure it was paying particular attention to the rates and charges that it was levying within reason. He stated that as the independent regulatory authority for the City, they were required under the City's bond covenants to review the City's rates and charges on an annual basis and make sure that they were sufficient for all purposes that were otherwise needed. He

stated that a higher level of review was needed at times to make sure that the City's rates were uniformly applied and the City was not overcharging its industrial customers to the burden of the residential customers.

Mr. Flynn stated that there were a couple of unique firms that did rate study's and Raftelis was the firm that he had worked with a number of times and felt very comfortable about their work since that was what they exclusively did. He stated that when City staff contacted him about doing a rate study since they knew it was probably long overdue and they wanted to make sure that the City had that parity in their rate structure he thought the best firm to bring on was Raftelis. He stated that they had a long history of doing that type of work all over the southeast and their opinion was well recognized. Mr. Flynn stated there was some real validity in knowing that you have gone with an independent consultant that uses uniform standards for rate studies. He stated that part of their process was to work with staff and the City's bond counsel and build the rate model so they could say here is where the City currently is and here is where the City needs to ultimately get to and this is the revenue target we are trying to identify. He stated that Raftelis basically built out a full model that gives the City the ability to tweak and adjust and make all the necessary changes such that the City could support its system with a rate base that was equitable. Mr. Flynn stated that the major goal of the study was to be able to tell the City's customers when they see that their bill had increased that was the least amount of adjustment the City could do in light of inflation and a rate study was done through an independent consultant who said based on our plans, this was the necessary amount of labor that we need to continue to sustain our system.

Ms. Mihaela Coopersmith introduced herself to Council and stated that she was the Project Manager for the City's water rate study. She stated that Raftelis was the most experienced utility finance and management consulting firm. She stated that they exclusively did financial studies and had approximately 170 consultants throughout the country. She stated that they had served over 1,700 utilities and local governments. She stated that when they set rates their goal was to make sure the City generated sufficient revenues to cover its revenue requirements. She stated that they also wanted to make sure that the rates were defensible, if challenged and met the City's stakeholder's objectives. She stated that the stakeholders were the City's customers as well as the bondholders and anyone that had any kind of relation with the utility. She stated that they then wanted to make sure that they were consistent with industry best practices.

Ms. Coopersmith stated that the study was a layered process and they started with identifying kind of the overall financial and pricing objectives by looking at the City's bond coverage requirements. She stated that the City could not have a coverage that fell below a certain requirement, because that was what was in the bond documents. She stated that they also looked at the City's cash reserve and financial policies to make sure that they were familiar with those and what they were working towards, then

they looked at the revenue requirements and the demand for the City's carrier system. She stated that they allocated those costs across various customer classes and then looked at the design of a rate structure and then put that all back together and how that lined up with the pricing objectives that were discussed at the beginning of the process. Ms. Coopersmith stated that the pricing objectives were a balancing act. She stated that the objective was to have rates that were easy to implement, but also recoup the fair share cost of every customer class. She stated that the City wanted to make sure its rates were affordable but also have revenue and rate stability. She stated that the City did not want to have a situation where one year rates were raised 20%, and the next year decreased by 10%, and the next year raised again. She stated that the City needed to have an annual plan of consistent small rate increases and that was why they looked at 10-year plans and looked into 10 years of spending that the City needed to do and make sure they were easy for the City's customers to understand.

Ms. Coopersmith stated that there were a lot of objectives they considered when looking at the City's rates. She stated that they started with a financial plan and work with staff to get data from the system. She stated that they started with the City's budget and looked at the City's billing data details, the capital plan, the beginning cash and debt service. She stated then they put those all in their model and project revenues and revenue requirements. She stated that they looked at the policies and objectives that they have set by working with staff and then generate an annual cash flow, which leads to recommended rate increases to generate the revenue the City needs. Ms. Coopersmith stated that they project the costs based on a variety of needs. She stated that they start with the City's operating budget and look at the expenses line by line and some of them have an inflationary rate increase. She stated that some of the expenses were a one-time cost and they make sure not to include them again. She stated that if the City needed to hire additional personnel, they made sure to account for that and budget for that. She stated that after they project the City's operating expenses, they look at the debt service and the capital plan. She stated that they looked at the City's demand by taking the billing data and looking at the number of accounts and the City's usage and calculate the revenues generated based on that billing data. She stated that then they compared that with what the City actually collected in the financial system. Ms. Coopersmith stated that they wanted to be sure that they were close but they were never going to be exact. She stated then they talked with staff and tried to understand what they were looking at in terms of growth. She stated for example, was the City expecting a lot of new developments over the next few years or expecting a large customer to leave the area and they determine their projections for the revenue, for the units and for the City's usage based on that. She stated then they applied whatever rate recommendations they built into the model to calculate the City's revenue projections.

Ms. Coopersmith stated that they would work with staff to make sure that the rate structure the City has makes sense for the system. She stated that typically they recommend that they work with staff annually to update the study and make sure that

whatever rating increases there are that they make sense based on whatever happens during the year. She stated that they also recommended that the City have an annual plan of some level of rate increases, because the costs were only rising. Mr. Flynn stated that it becomes easier once the City had been through this process where a structure is established that works. He stated that the goal was to build a fundamental equity into the rate base, so that all of the various classes within the system are being treated correctly then the City could do an across-the-board increase and 3% adjustment because everyone was being treated proportionally associated with this. He stated that first the City had to get to that place to know that its rates were set appropriately to begin with. He stated that would be part of the analysis and if there were adjustments that needed to be made to the existing rate structure.

Ms. Coopersmith stated that they would give the City recommendations based on what they would recommend in terms of what to do first, and what could wait and what could be done the next year and then ultimately Council would decide how they wanted to proceed. She stated that they would also recommend what they thought made the most sense and was most feasible to implement in what order.

B. Appointment Process

Mayor Partin stated that in the interest of trying to get Council to a good place, she had put together some thoughts and wanted Council to know that she had heard them very clearly regarding the City's appointment process. She stated that she did not think it was a broken system but she did think they could always do things better. She stated that she had reviewed the City of Rock Hill's potential member application and it had good questions and she thought it would be a good for the City to add a couple of other questions to its application so it would give Council a little bit more information about residents who wanted to volunteer but without being intimidating or possibly discouraging people from wanting to volunteer and getting involved with the City. She stated that Rock Hill's application asked why do you want to serve on a City of Rock Hill board, what specific contributions do you hope to make, what community topics concern you that relate to this board or commission and what experience or training qualifications do you have for this particular board or commission. Mayor Partin stated that they could also have the Police Department look to see if there was anything in the City's records that showed some safety or legal or behavioral concerns or issues that Council might not want somebody representing the City or wanting them in a position of authority. She stated that she thought these suggestions would hopefully get Council to a good place without being overly bureaucratic or cumbersome and achieve Council's goals.

Mayor Pro Tem James suggested that the Municipal Clerk notify interested residents the day and time that the board they were interested in met if she did not do that currently. Ms. Hegler suggested asking a resident that was interested in serving on multiple boards to fill out an application for each individual board. Council Member

Thomas suggested that each board and commission have at least one (1) person from each Council district. He stated for example if one (1) of the City's commissions or boards had one (1) opening and someone from Council Member Sox's district applied but his district was already represented but there was no one from Council Member Thomas' district he would want to recruit someone from his district for that position. Mayor Pro Tem James stated if there was a board or commission that Council Member Thomas' district did not have representation, he would support appointing that resident because they want the entire city to be represented. He stated that he did not know if a process would cure it but Council needed to try to make sure that they were representing those they served and mirror those they serve.

Mayor Pro Tem James stated that he thought potential member applications needed to be submitted to the Municipal Clerk two (2) weeks prior to any nomination period. Council Member Sox stated that some of the applications he reviewed asked the applicant how many meetings of the board they were applying for had they attended in the past six (6) months. He stated that all board and commission meetings were open to the public and if an interested candidate had already attended meetings that showed initiative. Mayor Pro Tem James asked if the staff liaison for each board and commission ever rotated. City Manager Hegler stated that the liaisons were chosen based on their position of expertise and it was part of their job description. Mayor Pro Tem James asked if Council needed to consider term limits for the boards and commissions. Ms. Corder was asked to compile how long each member had served on each board and send that to Council for their consideration.

Police Chief Cowan stated that in regard to background checks on applicants the application should clearly state that research was going to be done on the applicant's background. He asked if they were doing an internal in-house search or a public index search. Mayor Partin stated just an internal search. Mayor Partin asked Chief Cowan if he thought just a statement on the application saying there would be a check would suffice or did the applicant need to check a box acknowledging that they knew a check would be done. Chief Cowan stated that as long as they were just doing a records check and not a background check just check the box stating the applicant was acknowledging that they were aware of that internal records check and that information would be public information. City Manager Hegler asked that staff talk through it offline and revise the application and stated that she thought it would work out that as long as it did not take the police two weeks, staff could turn the application around by the next reasonable meeting.

Mayor Partin asked if Council wanted to make the suggested changes retroactive. Mayor Pro Tem James stated that he did not think it needed to be applied retroactively and the rest of Council agreed.

C. General Projects Update

City Manager Hegler stated that staff was working on a lot of projects. She stated that she was quickly going to list four (4) pages of projects that staff was working on above and beyond the daily day to day operations. She stated that staff was managing the \$500,000 Brownfields grant, managing \$10,000,000 of SCIP grants, trying to wrap up the Knox Abbott Drive streetscape project, building a kayak launch, upgrades to Kelly Jones Park, working on improving the City's parks and recreation, Taylor Street and Spencer Place. She stated that the City was constantly working on City properties, some paving was needed, new gates at some of the City's facilities were needed, more space and mobile offices were needed. She stated that staff just finished upgrades in Council Chambers and staff just started an ongoing review of conditions on all City facilities. She stated that staff was constantly maintaining the City's reservoir and staff was looking at new signage for the Riverwalk. City Manager Hegler stated that staff was trying to improve the City's employee affairs by updating the employee handbook, updating the leave policy and reviewing benefits. She stated that staff was updating the City's onboarding while looking at consolidated fire dispatch along with dealing with the county road maintenance agreement. She stated that staff was looking into station alerting for the firehouse and had just started the FY25 budget. She stated that the City needed prosecutors and needed to purchase police radios.

City Manager Hegler stated that the City had over 10 grant applications that were pending and staff was writing and waiting and managing grants all the time. She stated that there was event planning that was on top of Ms. Corder and Ms. Rowan's everyday expectations for what they do for the City. She stated that there was the Fall Fest, Soiree on State, Christmas in Cayce and staff was always wanting to add more events because they were doing a good job with the City's events. She stated that FOIA's were submitted to the City all the time and there was a zoning lawsuit on a home on M Avenue. She stated that there were several sidewalk projects on Frink Street with SCDOT and another one for the City's county IGA projects. She stated that staff was tracking franchise payments, the City was undergoing a rate study and completing Axon and Smart Cop. City Manager Hegler stated that the City was getting ready to do a huge gateway project with Airport Boulevard, staff was working on the 12,000 Year History Park Visitor Center and redistricting and code rewrites were needed. She stated that the City had ongoing SCDOT maintenance issues with several new signs in the City that were terrible. She stated that staff was implementing police software. She stated that staff was working on legislative affairs and Ms. Catchings was working hard to make sure there was a good plan in place for the Utility Department.

City Manager Hegler stated that there were future ideas that staff was always working on such as a budget book, what to do with the City's I-77 gateway, a tree canopy study, new software and an economic development strategy. She stated that staff was going to discuss with Council how to do more with the City's tax increment financing district. She stated that a new City Hall was needed, staff had vacant property ideas and staff wanted to work on how to process events better throughout the city. She stated that the scrapyards was an issue even though it was in the county. She

stated that wayfinding signage was needed as well as a comp plan update. She stated that the Museum was doing great work but managing a museum was not normal day to day operations for a city but staff loved it. City Manager Helger stated that staff was working on Baily Bill planning and there were major developments like Southern Commons. She stated that staff wanted to develop or be a part of Main Street USA and up the City's marketing to do a better job of telling people what was done at the city and what was done with tax dollars. She stated that staff wanted to look into annexation. She stated that she wanted to share with Council the breadth of all that staff had going on outside of day-to-day operations, quality of service and quality of life for citizens, managing staff, managing the City's assets and managing the dollar. She stated that she wanted to share all that information with Council as they think about going into the budget season and everything staff has requested. She stated that staff was excited about new ideas but had to keep in mind what was the capacity of staff to take on some big things. She stated that she was going to ask Council more and more to tell her how to prioritize new projects.

Mayor Pro Tem James asked City Manager Hegler to forward Council the list of projects that she just reviewed with them. He asked how the human resources time sheet was working that Council had approved in a previous budget. City Manager Hegler stated that she reported to Council that staff had to cancel that contract because the software did not perform what it was promised it would.

D. 177 Gateway Overlay

City Manager Hegler asked that this item be discussed at a later time.

E. Budget Preparation

City Manager Hegler stated that she asked the City's Chief Financial Officer, Ms. McMullen, to pull together some analytics to transition into the budget season. She stated that Council had a Utility Work Session where they would hear from the Utility departments about their specific needs and would do the same with the General Fund department as well. She stated that Ms. McMullen was going to give Council a lay of the land and it was not necessarily where we the City was currently but what Council needed to think about and what they could use as tools throughout the budget process.

Ms. McMullen stated that first she would review the United States unemployment rates versus South Carolina unemployment rates as of December 23. She stated that South Carolina's unemployment rate was 3% which was actually below the national rate of 3.7%. She stated that in the job market, there was less than one (1) unemployed job seeker for every job national opening. She stated that the City not only had to compete against state and local governments but also the private sector. She stated that in comparing private versus local government in regard to state and local government wage and salary growth for the first time since 2010, local and state government wage

growth had exceeded the private sector. Ms. McMullen stated that in reviewing conventional mortgage rates the rates skyrocketed around October 2023 to 7.62%. She stated that Wells Fargo was anticipating it to level out somewhere right above 6% and hold steady there for the forecasted horizon.

Ms. McMullen stated that in looking at inflation it was forecasting through June 2025 and is expected for the CPI to downturn which it already had, but rest somewhere right above the 2% level. She stated that the problem was costs were not lowering with the lowering of the CPI. She stated that the Governor's executive budget summary indicated that there was going to be another 9.7% increase to the employer portion of health insurance and that was on top of at least two (2) past pretty large increases to employer portions. She stated that it did not indicate how much if any, was going to be passed to the participating employers but there was potential for a 9.7% increase and that was a financial consideration to think about when planning for the budget.

Ms. McMullen stated that in looking at the socio-economic side of things there was a budget proviso which proposes to close the South Carolina Retirement System to new hires effective December 31, 2024. She stated that it had not gone anywhere past the proposal but it was something to consider. She stated that also dictated by the State budget was the millage rate increase limitation. She stated that the City was limited to millage increases by two (2) components. She stated that one (1) component was the inflation component and the Revenue Fiscal Affairs Office had already come out with the 2024-2025 cpi increase component of 4.12%. She stated that the second component was the population component and that would not be available until May 2024.

Ms. McMullen stated that another financial impact to the City that was also related to PEBA was the health insurance contribution rate. She stated that these were growing costs to the City and something that must be considered. She stated that another thing to be mindful of was insurance costs to include property insurance, vehicle insurance, liability insurance, etc. and they had more than doubled in cost. She stated that in focusing more on the City's General Fund, the City had several revenue sources and staff tried to diversify the General Fund portfolio as much as possible. She stated that property taxes came in at 4.9 and that was 25% of the total revenues for the year. She stated that one of the things that staff tried to be very aware to not sit the majority of the budget on property taxes. She stated that it was best practice to try to diversify your real estate market and your property tax market fluctuates with time through normal business processes, staff tried to stick to around a 25% property tax to ensure that the City had a stable revenue source across multiple sources. City Manager Hegler stated that not every municipality did that and kudos to Finance staff for finding other sources. She stated that the City had a heavy grant year the past year but she did not want Council to think that the budget would always be \$19.7 million. She stated that the City would not always have so many grant opportunities, but staff

spent so much time seeking them and so much effort seeking them to keep the 25% diversification.

Ms. McMullen stated that millage was the tax rate set by the City. She stated that the value of a mil was the amount of property tax revenue one mil would generate so it was basically 1/1000 of the assessed value of the property. She stated that the millage increase limitation was set by State code and it only applied to the City's General Fund operating millage. She stated that if the City were to ever issue general obligation debt, it would not apply to debt service debt or millage. She stated that property taxes were calculated based on the appraised value or fair market value of a home times its ratio. She stated that the ratio could fluctuate if one lived in their home permanently and could be 4% but if it was a rental, it would be 6%. Ms. McMullen stated that Cayce's current millage was 58.1 mills. She stated that the assessed value according to the Lexington County Auditor for 2024 was \$64,158.20. She stated to gauge how much tax revenue that brought in, one could multiply the value of one mil times the number of mills and that equaled \$3.7 million. She stated when looking at property taxes it was important to pay attention to mills but it was also very important to pay attention to the total assessed value within the City limits, which then would equate to the value of one mil within your city. She stated that if one lived in a \$200,000 fair market value home and it was a full-time legal residence then it would come to about \$464.80 annually.

Ms. McMullen stated that the City could focus more on the assessed value of the property owned in the City. She stated that if the City did not increase millage at all but created more of a tax base, the assessed value within the City limits would increase. She stated that currently the City's assessment value was \$64 million which brings in tax revenues of \$3.7 million but if it was increased from \$64 million to \$70 million in the tax base, the City would receive an additional \$339,000 without impacting that \$200,000 homeowner. She stated that the City charges a sanitation fee in lieu of charging for sanitation through property taxes. She stated that the City utilized user charges for sanitation in lieu of ad valorem taxes because sanitation services could be individually identified and costs for the service could be directly related to a level of service. Ms. McMullen stated that the City was able to charge a sanitation fee directly to households that received the service, instead of charging the City's entire tax base through ad valorem taxes. She stated that the pros of charging sanitation through millage was the City sees higher sanitation revenues due to increased millage on all taxable properties, and City residents did not see an additional fee on their utility bills. She stated that the pros of charging sanitation through a fee were the average citizen would pay less annually, a fluctuating market economy would not cause the same fluctuations in the amount paid for sanitation, and properties that did not receive the service (i.e. businesses) would not be charged for the service. City Manager Hegler stated that the City's fee for sanitation did not cover the cost to run the department. She stated that gap needed to be looked at and analyzed moving forward. Mayor Partin stated that City Manager Hegler recommended last year that Council increase the fee. City Manager

Hegler stated that even then it would not have covered the costs. She stated that in fact the City was supplementing the sanitation fee with partial millage.

Ms. McMullen stated that in regard to fee in lieu of taxes the City did not have any data to help support the numbers. She stated that she and City Manager Hegler were working together to find a solution to be able to gain more reporting for these numbers. City Manager Hegler stated staff could not tell what any of the numbers meant, except that the City received a check for that amount each year. She stated that there were agreements via the county for properties to have fee in lieu of taxes but the City did not know who they were with or how much they were. She stated that the City received one (1) check a year but staff was trying to get those details.

Ms. McMullen stated that the City's local accommodations tax and the hospitality tax were revenue sources. She stated that the City had seen a steady growth on the hospitality tax funds and had a little bit of a fund balance. She stated that staff was working diligently trying to get the fund balance down and put that into tourism related projects. City Manager Hegler stated that there was not an issue with having a healthy hospitality tax fund balance and she stated that it was a possible revenue source for the City as well. Ms. McMullen stated that there was a slight decrease in the State accommodations tax funds because she did a true up of all of the City's State accommodations tax money in FY 21/22 to make sure that every money that was allocated was spent. She stated that at that point staff realized that there was a little bit of money owed to the 30% entities, the advertising agencies, so staff did a true up on that money. She stated that the fund balance was restricted for tourism. City Manager Hegler stated that State tax legislation did not want there to be a fund balance.

Ms. McMullen stated that fund balances were divided into classifications that represented a level of constraint the City had placed on the amount for specific purposes. She stated that non-spendable fund balance was prepaid expenses - inventory, self-insured items, items not in a spendable form, therefore they could not be spent. She stated that restricted fund balance had limitations imposed through legislation, federal legislation, state legislation, grantors, creditors, people that had authority externally putting a restriction on the money. She stated committed fund balance was funds that could only be used for specific purposes imposed by a formal action of Council through Ordinance. She stated that assigned fund balance were funds that were intended for a specific purpose. She stated lastly was unassigned fund balance which was residual funds that were not classified under any of the other criteria for fund balance and was available for any purpose. Ms. McMullen stated that a healthy fund balance was actually very good for the City. She stated that some of the advantages to having a healthy fund balance was it provided cash flow for operating needs. She stated that cash flows were cyclical in nature so at times the City had cash flows that were very delayed, but the City still had to function the entire several months before those revenues start coming in so the fund balance helped to bridge that gap.

Ms. McMullen stated that tax increment financing (TIF) was another financial tool that municipalities could use to take what could be a blighted district and redevelop it. She stated that this allowed the municipality to incur debt in order to fund their redevelopment project area and the TIF would generate redevelopment in the area which would increase the assessment value in that income area, which would incur revenues so that the City could pay off that debt. She stated that the TIF was holding a fund balance that had to be used for the redevelopment district unless Council chooses otherwise. She stated that the TIF fund balance was currently \$5.2 million. She stated that she would recommend that Council restrict \$650,000 to \$700,000 annually to cover the debt service payments on the TIF bond. She stated that the TIF bond was set to mature and the City would stop making payments on it in 2037.

Ms. McMullen discussed the differences between the General Fund versus the Enterprise Fund. She stated that the General Fund was a type of governmental fund and those funds were used to record and report resources of government day-to-day operations. She stated that when referring to a fund balance, those were related to governmental activity types of funds, which include the general fund, the TIF and local option permits. She stated that they were always the representative of the main operating functions of the City. She stated that a proprietary fund was funded by user charges and fees directly related to the service. She stated that the utility fund was an example of a proprietary fund. She stated that on the utility side a fund balance was called a net position and it was even more restricted than the general fund. Ms. McMullen stated that she had to restrict the City's net investment in the City's capital assets. She stated that reserves were very important in the utility side and that was something the City's utility staff did very well. She stated that some of the major revenue sources were sewer sales, water sales and capacity charges.

Ms. McMullen stated that the City had four (4) major sources of capital reserves. She stated that a capacity reserve was a fund set aside for large projects that the operating budget just could not handle in that moment. She stated that the wastewater reserve was money that had to be spent only on improvements related to the wastewater plant pursuant to the agreement the City had with Lexington County and the Lexington County Joint Water & Sewer Commission. She stated that the capital reserves and capital equipment reserve fund were set aside for everything else and were both funded by the budget. She stated that capital equipment reserve consisted of large equipment purchases that were needed immediately. She stated that the capital reserve consisted of necessary repairs. She stated that the City's utilities did finish FY23 with an unrestricted net position of \$4.2 million and that was healthy for a utility fund. She stated that the total reserves for the utility fund at the end of 2023 was \$11.7 million, which was approximately 51% of annual operating expenses. City Manager Hegler thanked Ms. McMullen for her excellent presentation. She stated that it was 4:30pm so the meeting would have to conclude at this point.

F. Procurement Process Update

G. Hate Crime Ordinance

City Manager's Report

There were no City Manager comments.

Council Comments

There were no Council comments.

Adjourn

Council Member Thomas made a motion to adjourn the work session. Council Member Sox seconded the motion which was unanimously approved by roll call vote. There being no further business, the meeting adjourned at 4:30 p.m.

Elise Partin, Mayor

ATTEST:

Mendy Corder, CMC, Municipal Clerk

