

WORK SESSION OF MARCH 19, 2019

The City of Kings Mountain, North Carolina met in a Special Session at 5:30 p.m. on Tuesday, March 19, 2019 in the Conference Room at Public Works with Mayor Scott Neisler presiding.

ATTENDANCE

The following Councilmembers were present: Keith Miller, Mike Butler, Annie Thombs, Tommy Hawkins, Jay Rhodes, and Rodney Gordon. David Allen was absent due to another obligation.

Also present: Marilyn H. Sellers, City Manager, Nick Hendricks, Energy Services Director/Assistant City Manager, Mickey Corry, City Attorney, Karen Tucker, City Clerk, Holly Black, Energy Services, and Chris Costner, Finance Director.

INVOCATION

The invocation was given by Councilmember Jay Rhodes.

PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Mayor Scott Neisler.

WORK SESSION

Dynamic Transfer Agreement with Duke Energy, NTE and the City of Kings Mountain

Nick Hendricks, Energy Services Director/Assistant City Manager opened the meeting stating that he wanted to first address the Dynamic Transfer Agreement with Duke Energy, NTE and the City of Kings Mountain, as Mickey Corry was asked to attend to discuss this item and has to leave for a prior engagement. Mr. Hendricks stated that NTE wishes to dynamically schedule power from its Kings Mountain Energy Complex. The City is in agreement with this request as the receiver of the power from NTE and in order for this to happen this contract is needed. Mickey Corry stated that after reviewing this contract, he found issue with the arbitration language. The original language did not allow the City to participate in arbitration, if that ever became a need. He spoke with Duke's attorney, and it was determined that the City was left out in error. Mr. Corry stated that Duke's attorney sent a modified version that is acceptable. Nick Hendricks stated that this contract would appear on the Consent Agenda for the March 26, 2019 Council Meeting.

Energy Rate Restructure

Mr. Hendricks stated that during previous work sessions, the fact has been discussed that the City should be able to restructure the electric rates once we started with NTE and completed our payment for the Coal Ash settlement. The City began the NTE Contract on January 1, 2019; however, at that time, we still had an outstanding balance for Coal Ash. He stated that he was very excited to announce that the City has now completed the payment on the Coal Ash Settlement. The City

recovered \$1,438,344.65 and of that amount, \$1,137,718.26 has been paid to Duke. This leaves us with approximately \$300,000 in fund balance.

Mr. Hendricks stated that customers would experience approximately ten percent (10%) cost reduction through this electric rate restructure. This savings is possible due to the following:

- On the current billing statement there is a PPA/CAR rider (0.01130/kWh) which accounts for three components of our Duke Energy wholesale purchase:
 - \$0.0050/kWh Coal Ash
 - \$0.0043/kWh Carry over demand wholesale cost
 - \$0.0020/kWh Carry over energy wholesale cost

He stated that since the City has completed the payment to Duke for our portion of Coal Ash, his recommendation is to drop the \$0.0050/kWh charge. In going with NTE, the City is no longer accountable for any future coal ash costs. Also, he is recommending dropping the \$0.0043/kWh, which was an additional cost to the City for understated demand charges that had to be trued-up by December 31, 2018. The \$0.0020/kWh energy cost will be rolled into the base electric rates per kWh. This would not be an increase, just a shift into the base rate. Customer overall cost remains neutral. This is a fixed cost so it cannot be left in a rider. He stated that once we have twelve months of actual data with NTE, it is anticipated that the data will show additional savings. At that time, these savings will be accounted for and allocated to Electric Capital with any remaining savings to be allocated for further rate reduction, stabilization fund and/or any other General Fund Capital needs.

Mr. Hendricks demonstrated how this rate restructure will affect customer cost in six different rate classes using a comparison with existing rates, which include the PPA/CAR of \$0.0113/kWh then with the recommended rate restructuring. He did the comparison using residential, commercial and industrial users. The average cost savings for the six different rate classes was 10.83%. Mr. Hendricks stated that is a great economic development strategy for the City. “We are competitive and better than our peers.”

Mr. Hendricks stated that moving forward with NTE, the hope is that our Fuel (Energy) cost will be mitigated to as low as possible, because of our wholesale contract structure as well as the benefits of prepay natural gas; however, he stated that he would be remiss in preparing for possible fuel cost fluctuations. Also, if the fuel cost drops to below the original savings comparison we could actually see a negative Fuel (Energy) rider. It is possible that during the winter months, when our electric load is the lowest, we could see a positive rider. Then in the summer months when our electric load is the highest, we could see a negative rider. This is another savings advantage to using natural gas as an electric fuel source.

This item will be on the Regular Meeting Agenda for the March 26, 2019 Council Meeting.

2019-20 FY Budget Kick-off

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Chris Costner, Finance Director updated Council on budget goals for various funds. He stated that the department heads are already working on their budget requests and strategic planning goals. Economic development is a major priority. Because our population is not growing it is vital to bring in jobs and thus more revenue. Another priority is decreasing transfers.

Mr. Costner reviewed budget goals for various departments as follows:

General Fund

- To not have any significant changes regarding services the City is currently offering
- To not increase Property Taxes. An increase is not planned at this time **assuming property tax valuation continues to increase**
- Sanitation fees may increase due to increases in landfill costs (this is necessary to keep up with increases through the County)
- Hold all other City fees constant
- Do not use General Fund, fund balance to cover operating expenditures
- Hold constant or reduce the operating transfer from the Electric Fund to the General Fund

Utility Fund

Increased sales volume or cost savings (purchased power) will enable us to meet our needs without rate increases this next budget year.

- Electric rate increases not planned
- Water/Wastewater rate increase not planned
- Stormwater rate increase not planned
- Natural Gas rate increase not planned

All Funds

- 2.5% Rate subsidy/COLA proposed for all employees
- To not increase Health Insurance premiums for employees
- Continue to fund all vacant positions anticipating that they will be filled if the position is justified by the department head

Budget Assumptions – General Fund

- We are assuming revenue streams (property taxes /sales taxes primarily) will increase sufficiently to account for “inflationary increases”.
- We anticipate a “flat” budget adjusted for inflationary increases.
- Significant new heads (employees) will not be added to the budget.
- Priority will be given to greatest need if resources for adding heads exist-this will be based upon discussions with department heads and if equal needs exist, priority will be given to “essential” functions.

Budget Assumptions – Utility Fund

- We are assuming rates will be sufficient given increases in volume (for Water, Gas, Stormwater), thus no rate increases will be required.
- For Electric, cost savings related to purchased power will enable rate reductions in March of this year, and will enable rates to be held constant in 19-20.
- We will have limited NTE “real” data for this upcoming budget year (19-20) and will do projections based upon the actual activity that we have.

Mr. Costner stated that as of today, we are unsure what NTE property taxes for 2019-20 will be as they have not yet filed their property tax listing. The City will continue to collect actual NTE usage data to build our budgeting database.

He stated that he, along with the City Manager and City Attorney are looking at the incentive agreements that are currently in place and plan to hold the industries that have these agreements accountable for their end of the deal. These incentive agreements were done before data centers were able to opt out of franchise tax. Besides water usage, at the lowest industrial rates, the City is receiving no revenue from these agreements. Regardless, these payments have to be budgeted.

Mr. Costner stated that roughly twenty five percent of the City’s valuation is residential real and personal property. Even raising property taxes one cent would be equivalent to \$150,000 in net revenue. Based upon \$100,000 in valuation, the tax bill will increase \$10 for every one cent increase.

Marilyn Sellers stated that she wants to be sure that Staff are looking at the budget the way Council would want them to. She stated that we have to be mindful of our rates because it is hard to raise rates on citizens when our median income is \$38,000.

Nick Hendricks stated that we need to look at some sort of funding for economic development. He stated that we cannot make it with the County. We would like to take the lead on projects, but we will all have to work together or everyone loses. It will take a tremendous effort on both parts.

Councilmember Jay Rhodes commended Chris Costner and Staff for requesting money from Cleveland County for the Senior Center and Library, noting that the County gets a large amount of taxes from Kings Mountain residents.

Councilmember Rodney Gordon questioned if “no new heads” would affect the promotions at the Police Department that have not been made. Mr. Costner stated that that department is fully funded.

Councilmember Annie Thombs stated that we should make sure that consideration is made for staff needed for economic development. She stated that we cannot make economic development a priority if it is not a priority.

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Councilmember Mike Butler thanked Staff and stated that “this was the best meeting that we have had in a long time.”

Consensus among Council is that they are on the same page and Staff is on the right track, as far as the 2019-20 FY Budget is concerned.

Update on Projects

Mayor Neisler stated that Phil Dee has approached him regarding the purchase of the cabooses that are housed at the Depot. Mr. Dee has purchased a restaurant and would like to move one of the cabooses to the Patriot Jack’s parking lot and use it to sell barbecue at certain times. He stated that Mickey indicated that these were given to the City, and it would be alright to sell them. As more information becomes available, he would pass that along to Council. Councilmember Keith Miller suggested that in an effort to be transparent, it would be recommended to utilize the upset bid process.

Mayor Neisler updated Council on the “Send a Student to College” scholarship program. He asked Council to look over the requirements and give any feedback they may have, as he would like to unveil the project very soon. The Dacey Foundation has contributed approximately \$3,000 already, and AT&T has pledged \$2,000.

Mayor Neisler updated Council regarding the stagnation of the Powell Bill Fund. He stated that N.C.G.S. allows for a tag tax of up to \$30 per year. He is recommending \$20 per year. This would generate additional revenue for paving projects that we have not been able to do in about four years. Marilyn Sellers, City Manager and Chris Costner, Finance Director stated that they felt the same thing could be accomplished by raising taxes by one cent. We would be able to restrict those funds specifically for paving projects.

Mayor Neisler updated Council regarding the Catawba Casino stating that a bill has been sent to Committee. He stated that he fully supports the project and that it is all about economic impact.

Nick Hendricks stated that there are different opinions about the project; however, we have to evaluate the process as it comes. The City has a right to fight for the utilities, and if they get to choose, we want to be their choice.

Councilmember Rodney Gordon stated that we should not send a negative message. If we do and they take the project elsewhere it may be close enough that the City would reap any negative effects. He stated that he wants the revenue from the utilities if the project does come to Kings Mountain.

Councilmember Annie Thombs stated when and if the casino comes that we all need to remember that we all have bad behaviors that still need work.

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Councilmember Tommy Hawkins stated that he has done extensive research on the moral effects that the casino would bring including more crime, debt, and divorces. He asked that Council look at the big picture on the effects that it will have in Kings Mountain and Cleveland County and ask themselves "Do we really need this?"

Councilmember Keith Miller stated that he has composed a letter to Senators Tillis, Burr and Graham but he has not sent it yet. His letter is spiritually motivated. He stated that he would be sending the letter to Council for any comment prior to its mailing.

ADJOURNMENT

Upon motion by Councilmember Annie Thombs, seconded by Councilmember Jay Rhodes it was unanimously voted to adjourn the Work Session of the City Council at 9:15 p.m.

ATTEST:

G. Scott Neisler, Mayor

Karen A. Tucker, CMC
City Clerk