

Workshop Session – November 17, 2020

The Graham County Board of Commissioners met Tuesday, November 17, 2020 at 4:30 p.m. in the Graham County Community Building located at 196 Knight Street Robbinsville, NC for their regular workshop session. Board present: Dale Wiggins, Lynn Cody, Connie Orr, and Keith Eller. Board absent: Jacob Nelms. Also, present Manager Becky Garland, Clerk Kim Crisp and Mitch Brigulio.

1. Chairman Wiggins called the meeting to order.
2. Chairman Wiggins asks Manager Garland to proceed, Manager Garland stated that Mr. Brigulio from Davenport Public Finance was here to discuss the counties debt modeling for the county to plan forward on our school and courthouse projects and how this debt will impact the county finances. Manager Garland stated that Project Manager Jason Marino and Mr. Brigulio have spent time going over the information for the new school construction and will give the board updated numbers and different scenarios of how this debt modeling will look like.
3. Mr. Brigulio stated that he has presented to the board in the past of the impacts for the debt and have updated the topics of discussion. Mr. Brigulio stated that he will go over Credit Rating Overview and Peer Comparatives; General Fund Operations and Fund Balance; Tax Supported Debt Profile – Key Debt Ratios, Debt Capacity, Debt Affordability and Capital Funding Analysis – Capital Projects Overview, Impacts on the County’s Tax Supported Debt Profile. Mr. Brigulio stated that the county has done an excellent job with their debt and have set up future debt nicely. Mr. Brigulio went over the counties credit rating. Mr. Brigulio stated that the rating agency methodology overview covers Economy/Tax Base, Finances, Management and Debt/Pensions where they determine the counties short term control or long-term control of financing. Mr. Brigulio stated that the county’s credit rating has a direct impact on the cost of borrowing, which in turn effects the County’s debt capacity. Mr. Brigulio stated that the credit spread is the premium an issuer pays to the purchaser of their bonds (I.e., higher interest rate) as compensation for increased credit risk. Mr. Brigulio stated that since the financial downturn in September 2008, credit quality of issuers has taken on a renewed importance to investors and the average spread for an A rated borrower has increased from 0.33% to 0.63% since December 2008.
4. Mr. Brigulio reviewed the General Fund Operations which include a summary of audits from the last six years and every year Graham County has added to fund balance since 2014 and are growing the fund balance. Mr. Brigulio stated that this chart gives the total revenues for 2019 of \$15,787,815.00, the total expenditures of \$15,374,858.00 for a surplus of \$412,957.00. Mr. Brigulio stated that the 2019 fund balance ending is \$8,860,776.00. Mr. Brigulio stated that if not already in place, the County may want to consider establishing a General Fund Balance Policy which would be a commitment to maintain to place a certain percentage of monies over the expenditures each year. Mr. Brigulio gave a general fund balance – peer comparatives.
5. Mr. Brigulio discussed the existing tax supported debt which includes of the 2005 QZAB and the \$325,000.00 USDA Loan for a garbage truck assuming a 2.75% interest rate and level debt service payments beginning in Fall 2021.
6. Mr. Brigulio discussed the Key Debt Ratio: Tax Supported Payout Ratio and stated that the 10-year payout ratio measures the amount of principal to be retired in the next ten years and the ratio is an important metric that indicates whether a locality is back-loading its debt. Mr. Brigulio

stated that if not already in place, the County may want to consider a policy establishing a minimum ten-year payout ratio.

7. Mr. Brigulio discussed the Key Debt Ratio: Debt to Assessed Value and suggests that if not already in place, the County may want to consider a policy establishing a maximum Debt to Assessed Value.
8. Mr. Brigulio discussed the Debt Service versus Expenditures and stated that if not already in place, the County may want to consider a policy establishing a maximum level of Debt Service of Expenditures.
9. Mr. Brigulio discussed the Debt Affordability Analysis for the existing county debt and for the existing school debt.
10. Mr. Brigulio stated the county and schools are in the process of considering the following capital projects. Board of Elections project, Recreation Department Building, Cemetery Grounds Maintenance Building, and a New Justice Center. Mr. Brigulio stated that the schools are currently considering an 11,600 square foot expansion and other renovation projects at Robbinsville Middle School with an estimated total project cost of \$4,266,667.00 with \$3.2 million coming from a Needs Based School Capital Fund Grant and a required county contribution of \$1,066,667.00 in matching local funds.
11. Mr. Brigulio gave a summary of cases to provide perspective on the potential impact of the projects under consideration with the option to fund the projects through either a Direct Bank Loan or USDA (United States Department of Agriculture) funding. The funding methods include two cases where 15-year Direct Bank Loan was used and a 20-year Direct Bank Loan. The second case contained a 15-year Direct Bank Loan or a 30-year USDA Loan. Mr. Brigulio discussed the Case Assumptions Comparisons of the Direct Bank Loan Funding as well as the USDA Funding. Mr. Brigulio showed the debt ratios with the tax equivalent impact with a tax increase beginning FY 2022. Mr. Brigulio stated that the funding capacity without a tax impact is \$8,905,000.00 for the county; \$2,200,000.00 for the schools for a total of \$11,105,000.00 for direct loan funding and a \$14,065,000.00 county and \$2,200,000.00 for a total of \$16,265,000.00 for the direct bank loan and the USDA funding.
12. Mr. Brigulio discussed the proposed tax supported debt service with the current projects being Debt Issued: \$21,626,667.00 for a Debt Service of \$32,647,200.00
13. Mr. Brigulio discussed the Debt Affordability Analysis for the existing and proposed county debt stating that alternatively, the County could utilize \$14,470,094.00 of other revenues or reserves to offset the need for a future tax impact.
14. Mr. Brigulio stated that the cost of the projects has gone up due to COVID19 impacts and they used a 4% interest rate which is higher than current at this time of 2.5%. Mr. Brigulio stated that they wanted to present a good conservative picture and he would be happy to go through further detail if the board desired.
15. Manager Garland stated that our goal was to take more sales tax proceeds and put those in the capital reserve fund which would continue to build the reserve. Mr. Brigulio stated that the faster the county builds the capital reserve the more likely the tax burden will be less than predicted.
16. Chairman Wiggins asks what impact this will have on our county tax system if we do this and say we must raise taxes should be go ahead now gradually instead of creating a trigger type reaction. Mr. Brigulio stated that is a correct statement that if your fund balance falls below the

threshold that you set by policy then you will have to work to rebuild the fund balance to the original equation. Mr. Brigulio stated that the more the county can put into the debt service without raising the taxes the better a position this puts the county in without raising taxes. Chairman Wiggins asks if we have these policies in place. Manager Garland stated that we are governed by the Local Government Commission and we do follow their guidance and have been good stewards of the taxpayer dollars. Manager Garland stated that if future boards would continue the policies as set by this board then we would be in a much healthier area and well within the borrowing ability. Chairman Wiggins asks if we need to formally adopt these policies. Mr. Brigulio stated that this does give more credit when a bank is looking at, you are for borrowing capabilities. Commissioner Orr stated that it appears that the county is holding the number eventually and we will need to keep an eye on the ranges as presented. Commissioner Orr asks if we can adopt the policies as we go along when needed. Mr. Brigulio stated that the policies would be helpful to have in place. Commissioner Orr stated that the county needed to hold the percentages moving forward and use the model to keep us where we need to be. The board all agreed that we need to keep moving forward with measures to ensure that the county maintains borrowing capabilities as needed.

17. Chairman Wiggins thanked Mr. Brigulio for his time and information and asks for a motion to adjourn. Commissioner Eller made the motion to adjourn. Commissioner Orr seconded this motion. Vote unanimous.