

The Smithfield Town Council held a Special Called Meeting on Tuesday, September 22, 2020 at 6:30pm in the Council Chambers of the Smithfield Town Hall, Mayor M. Andy Moore presided.

Councilmen Present:

John Dunn, Mayor Pro-Tem
Marlon Lee, District 1
David Stevens, District 2
Travis Scott, District 3
Dr. David Barbour, District 4
Stephen Rabil, At-Large
Roger Wood, At-Large

Administrative Staff Present

Michael Scott, Town Manager
Ted Credle, Public Utilities Director
Tim Kerigan, Human Resources/PIO
Shannan Parrish, Town Clerk
Greg Siler, Finance Director

Call to Order

Mayor Moore called the meeting to order at 6:32

Invocation

Councilman Scott offered the invocation followed by the Pledge of Allegiance.

Approval of the Agenda

Councilman Wood made a motion, seconded by Councilman Barbour, to approve the agenda as submitted. Unanimously approved.

1. Public Hearing

- a. Community Development Block Grant: The Town of Smithfield is considering submitting a Covid-19 Community Development Block Grant Program (CDBG-CV). The purpose of the public hearing is to obtain citizen input into the identification of community needs and desired CDBG activities**

Councilman Rabil made a motion, seconded by Councilman Barbour, to open the public hearing. Unanimously approved.

Town Manager Michael Scott introduced Skip Green. Mr. Green has assisted the Town with various CDBG grants. Mr. Green stated this was the first of two required public hearings. He explained the Town of Smithfield was interested in seeking funds from the State's Small Cities Community Development Block Grant Program (CDBG). The CDBG program is administered by the North Carolina Department of Commerce and the North Carolina Department of Environment and Natural Resources. Mr. Green explained the State of North Carolina's CDBG Program permits grant funds to be used toward infrastructure projects that address health/safety needs such as; public water and sewer projects, as well as, public service, public facilities, and economic development to address pandemic's such as COVID-19. It also allows for funds to be used for neighborhood revitalization needs which included: housing development, acquisition, disposition, clearance and remediation activities, relocation, public facilities such as: senior center, housing for homeless persons, housing or shelters for victims of domestic violence, transitional housing facility, community, neighborhood, or recreation facility. Funds can be used for public infrastructure which includes building demolition and vacant building renovation. Funds can be used to support Economic Development projects. Applications for Economic Development must show that more than 60% of the CDBG will benefit low or moderate-income persons through job creation or retention. Applications for other CDBG programs, unless specified by program regulations, must show that funded activities: (1) will provide greater than a 50% benefit to low-or-moderate income persons; (2) benefit identified special need populations; (3) address health and safety needs; or (4) eliminate slum & blight.

Mr. Green informed the Council that the State recently released a COVID-19 program to assist businesses, nonprofit organizations and the public for COVID-19 related issues. In all instances, the applicant would have to be the Town of Smithfield. If the Town chose to work with any group, it would be through interlocal agreement.

Mayor Moore asked if there were any questions from the Council. There were none.

Mayor Moore asked if anyone in attendance wished to speak on the matter.

Peter Hulth of 215 North Third Street questioned the amount of allocated funds. Mr. Green responded that each grant was individual. The COVID-19 has a maximum dollar amount of \$900,000. The Neighborhood Revitalization has a maximum dollar amount of \$750,000. Since Johnston County is a tier three county, the maximum dollar amount for economic development purposes would be \$750,000. A locality cannot receive more than \$1.25 million in a fiscal year. Exceptions can be made in special circumstances such as COVID-19.

Councilman Barbour made a motion, seconded by Councilman Wood, to close the public hearing. Unanimously approved.

No action was needed or taken by the Council.

Councilman Lee asked Mr. Green to provide an update on the current CDBG Housing Revitalization grant at the next Council meeting. Mr. Green responded those wishing to participate in the program have completed their formal application. The Town has advertised twice for legal services, but there have been no responses. Legal services are needed for title searches of the properties. It was important to have all the legal work completed before the housing write-ups were completed. Once legal services are obtained, housing write-ups will begin.

2. Business Items

a. Citizen request to address the Council (Pam Lampe)

Pam Lampe of 415 North Second St. requested the Town Council to vote no on Resolution No. 665 because the expansion of the water plant was unnecessary. She stated Smithfield citizens only use 1.5 MGD of the current water plant capacity of 6.2 MGD. Just 24 %, which meant the capacity for future growth was 4.7 MGD. The Town's expected future rate of growth reported to outside agencies is low. For instance, according to the Town's Local Government Commission loan application, they expect 1.24% growth. Also, the 2019 Local Water Supply Report, filed with the NC Division of Water Resources by Mr. Credle shows little growth by 2060. This report was approved by council in June 2020 and it provided no justification for any expansion of the water supply and it should have if growth was expected. Some council members have said we may need more water supply because of potential economic development in West Smithfield. However, Clayton uses 3 MGD capacity, of which 1 MGD is for the pharmaceutical companies/industrial users. The Town always has the capacity to provide for this. Also, since water and sewer go together, the real question to Council is whether we have the sewer capacity for such economic growth. It was understood that the sewer capacity with the county was 2.4 MGD. Compare this to water capacity of 6.2 MGD. Johnston County's sewer bulk capacity fee is 11.00/gallon, so 1 MGD sewer capacity costs \$11 million. She asked if it made sense to expand water capacity when the Town lacks sewer capacity. The LGC also rightfully questioned whether the \$12 million loan was adequate for the cost of the project since the numbers are 3 years old. If recent experience with the broken plant generator is any indication, the costs will be significantly higher. The generator's estimated cost in 2017 was \$300,000 and now its estimated over \$500,000. She questioned what the Council would do if the project came in over budget. As for this resolution, some on the council have told us: "I am voting for the resolution to borrow money, but not necessarily for the expansion." We would like to have this on the record and part of the minutes as to who among the council support this statement. Why not just borrow money for deferred maintenance? The LGC could reduce the principal of this loan easily. So, unless you are reducing the loan principal, please vote no for the new resolution #665. Thank you.

Emma Gemmell asked if others could address the Council. Mayor Moore stated this was not a public hearing, but if there were no objections from the Council, she could speak briefly. Councilman Barbour stated that while he did not have a problem with limited additional comments, this was not advertised as a public hearing. Therefore, others were not provided the same right to speak in favor of or against adoption of the Resolution.

Emma Gemmell of 207 Hancock Street explained to the Council that for over two years, she and Mrs. Lampe have provided the Council and staff with clear facts that the citizens of Smithfield do not need more water since the Town has an abundance of water. She stated that she and Mrs. Lampe have had questions that either have not been answered or have been unsatisfactorily answered. She further stated it was time for the Town to show its citizens facts that make the water plant expansion a necessity. She requested the Council vote against Resolution No. 655 for the unnecessary expansion of the water plant.

Kay Kennedy of 122 West Riverside Drive expressed her appreciation to Mrs. Lampe and Mrs. Gemmel for their extensive work on this project. She stated she found it alarming that the Town would even consider this project amid the COVID-19 pandemic. She explained she agreed with Mrs. Lampe and Mrs. Gemmel that the expansion of the water plant was unnecessary. She further explained that it was her understanding there were pipes that needed to be repaired before the Town spent funds on the expansion of the water plant. She strongly suggested the Town put the expansion of the water plant on hold until COVID-19 is no longer an issue and the Town has a better grasp of how the pandemic would influence the economy. She stated the Council should vote against the resolution stating it was the wrong time to do so.

b. Consideration and Request for approval to adopt Resolution No. 665 (14-2020) reaffirming Resolution No. 611 (16-2017) for the water plant expansion/ improvements for state loan funding.

Town Manager Michael Scott addressed the Council on a request for approval to reaffirm Resolution No. 611 made in September 2017 with Resolution No. 665 for the water plant expansion/ improvements. Resolution No. 611 was voted on and approved to apply for a loan for the expansion and improvements to the water plant at an estimated cost of \$12.05 million. Resolution No. 611 was presented to the Local Government Commission (LGC) on September 1, 2020. They reviewed the loan and because of the delay of the project and some issues with the May 28th special meeting. They were unsure if the Council voted to delay the overall project. They asked the Town to reaffirm the resolution before the LGC's October meeting. The only change to the original resolution was the LGC asked that their findings of facts be included in the resolution. This will ensure that there was no confusion about what they must decide as they are looking at this loan approval.

The Town Manager stated he had additional information that may address some of the citizen's concerns.

He explained some have stated the Town's rates were too high and rates would increase because of the water plant expansion. The rates were not high as some might believe. For an in-town residential customer using 4,000 gallons of water the monthly cost would be \$27.89. In comparison, the same amount in Selma would cost \$32.53, in Johnston County would cost \$34.60 and in Clayton would cost \$42.52. When comparing rates, even though the Town increased its rates this fiscal year, Smithfield's rates were still lower than surrounding communities.

The Town Manager stated he also heard concerns over COVID-19 and how that would impact the Town. He explained it was a pandemic that was ever changing. While the Town was concerned, the Town was fiscally responsible and sound in all its funds. He further explained the water and sewer fund was an enterprise fund which was self-supporting driven by fees and usage. Tax dollars do not support the enterprise fund. The water and sewer enterprise fund currently had a fund balance of 115% which meant, the Town could continue operations for an entire year without receiving any revenue. The Council was provided a monthly report on utility bills (which includes water, sewer, electric, trash collection and yard debris) that were in the arrears because of COVID-19. In June, \$122,606 was not collected due to customers being unable to pay their utility bills. In July, the amount increased to \$128,000. In August, the number decreased to \$104,000 and the Town has customers that have entered into contracts to pay their unpaid utility bill at an estimated amount of \$81,000. Those customers under contract are making those payments. Staff believed the \$81,000 will be paid. This potentially leaves the Town in the arrears \$22,000 which is not significant considering the total budget. A lot of communities are experiencing much different results, but Smithfield has competent people who work hard and are willing to pay their bills. COVID-19 is currently not impacting the Town of Smithfield as it is in other communities and it should not impact this discussion.

The Town Manager explained the water plant capacity was currently 6.2 MGD (million gallons per day). When it is expanded, the plant will have a capacity of 8.3 MGD. The Town's current usage was approximately 5 MGD which was 80% of the plant's capacity. This was significant because when the plant reached 80% capacity, the Department of Environmental Quality mandated that the Town start planning for what we will do when the plant reaches 90% capacity. At 90% capacity, the Town must expand its water plant or purchase water from another source. The Town must have a plan in place so it can provide water for its customers.

The Town Manager explained the Town currently sold 3.5 MGD to Johnston County. 1.5 MGD are sold to Town customers. He has heard that the Town could buy back its allocation to Johnston County or we could take it back and use it for Town customers. The Town could take back .5 MGD from the allocation to

Johnston County at no cost simply by notifying them a year in advance. The 1 MGD of the contract amount requires a two-year notification to Johnston County and at a cost of \$3.25 per gallon. Which would be a reimbursement since Johnston County already paid the Town \$3.25 million for that capacity fee. If the Town chose to buy back the capacity, the money goes to Johnston County depending on how much the Town wants to purchase. The Town could buy back 1.5 MGD from Johnston County, but the 2 MGD is under contract until August of 2027. This contract has been in place since 1999. The 2 MGD is purchased by Johnston County whether they use it or not.

The Town Manager explained that when new houses or new businesses come into Town, the Town must allocate a certain amount of water for those homes and businesses. If a two-bedroom house is built, the Town must permit water capacity of 240 GPD (gallons per day) of water and an additional 120 GPD for each additional bedroom. For hotels, the Town must permit water capacity of 120 GPD per bedroom. Currently, the Town of Smithfield has 11 hotels. An additional hotel will open in October and another hotel just broke ground on September 13th. When all the hotels are in full operation, there will be about 1,000 hotel rooms in Smithfield. The Town must consider its residents, but also the millions of people that visit the Town. The Cracker Barrel restaurant in Smithfield is the busiest Cracker Barrel in the state of North Carolina because of its location.

The Town Manager stated it was suggested that the Town could buy 2 MGD of capacity from Johnston County which is roughly the same amount produced by the expansion of the water plant. To purchase 2 MGD of capacity from Johnston County that would cost the Town \$12.5 million to reserve the water for the Town. The Town would also have to pay \$2.85 for every thousand gallons used. The annual cost if the Town used 2 MGD would be \$2,080,500. That would be the cost if the Town had to purchase water from Johnston County instead of building or enhancing the Town's water plant.

The Town Manager explained that currently the water plant has a maximum capacity of 6.2 MGD, but only 90% of that capacity can be used which equates to 5.6 MGD. The Town's usage is 1.5 MGD and the Town allocates 2 MGD capacity to Johnston County. Those two numbers equal 3.5 MGD. The Town has projects that are ready to come online by 2023 to use another .3 MGD.

As for growth, a lot of growth was expected in the Town of Smithfield. Growth projections indicate that an additional 2 MGD will be needed in the next 10 years. The debt for this loan will be paid off by 2041. At that time, we also estimate during that last ten-year period, the Town will need an additional 2.25 MGD. This will place the water plant at almost half a million gallons of its current capacity without the expansion. With the expansion, the Town would maintain 1.64 MGD for future development. The Town Manager explained while some may think the expansion was unnecessary now, you have to consider this was a twenty-year loan and the Town had to plan for twenty years into the future. Based on the current growth of the Town, staff believed the expansion was going to be necessary for the future.

Some of the projects that make up the .3 MGD usage are as follows: the East River build out which is currently in phase 2 and will need an allocation of 90,000 GPD, the Hampton Inn that will go online in October will need an allocation of 13,000 GPD, the Tru Hotel which just broke ground will need an allocation of 11,000 GPD and additional development will need an allocation of 190,000 GPD.

The Town Manager addressed the cost of the project. He explained the estimated cost was \$16.7 million, but staff will not know the actual cost until the project is bid out. When those bids are received, staff will then know the overall cost of the water plant expansion. If the project comes in well over this amount, the Council will have to figure out if the project was worth doing. The County just received bids for its new detention center and that bid was so low they are going to be able to build two additional buildings for the same amount as was originally budgeted for one building. Because of COVID-19, the trend was for construction projects the competition was fierce because people want to work. Staff is hopeful bids for this project will come in considerably lower, but we will not know until the bids are received.

The Town Manager reiterated that the estimated cost for the water plant expansion was \$16.7 million. \$3.25 million was paid by Johnston County for the additional capacity fee. Council voted that those funds be used for engineering fees and one additional water tank at the site. The Town can pay cash for both of those. \$6.5 million is needed for the expansion of the plant. \$7.4 million is needed for improvements to the plant. A 5% contingency was also built into the cost. As Mrs. Lampe earlier stated, the Council could consider taking out a loan for the \$7.4 million for improvements to the water plant. The Town Manager explained that the \$12.05 million dollar loan would be at an interest rate of 1.82%. The annual debt service (loan) payment would be \$719,244 and the interest on the loan (if not paid off early) would be \$2.33 million. If the Town

chose to only obtain a loan for the \$7.4 million for improvements, we would likely not receive the 1.82% interest rate and would probably not be able to obtain a loan from the lender because of turning down the \$12.05 million loan. If the Town chose to pursue the \$7.4 million for improvements and we estimate at 2.5% interest rate, the Town would still pay over \$2 million in interest. The annual debt payment would be \$470,500 for twenty-years. If the Town lowered the terms to 10 years, the total interest paid on the loan would be just under \$1 million, but the annual debt service payment would be \$837,120. That would be a considerable increase which would have to be investigated. Staff knows it can afford the annual debt service payment of \$719,244 because of the results of the recent Utility Financial Solutions (USF) rate analysis that included the debt service payment. The results revealed the Town can afford the annual debt service payment. If the Town were able to obtain a loan for the \$7.4 million at an interest rate of 1.82% for ten years, the total interest would be \$669,000, but the annual debt service payment would be \$800,000.

The Town Manager reiterated that the water plant capacity was 6.2 MGD and only 90% of that can be used. The Town currently has 1.5 MGD for current water usage. If the Town has additional development, it would have to buy back the 1.5 MGD capacity from Johnston County. Staff does not believe that will be enough for future development. The Town still has the 2 MGD it is under contract to provide Johnston County until 2027. With the known developments, that will leave the Town with 896,000 GPD for the maximum capacity of 6.2%. That would leave 274,000 GPD that could be used to reach the 90% capacity. The Town needs to expand the water plant for future development and growth

Councilman Barbour made a motion, seconded by Councilman Wood, to adopt Resolution No. 665 (14-2020) reaffirming Resolution No. 611 (16-2017) for the water plant expansion/ improvements for state loan funding.

Councilman Scott asked if the Council could have a discussion before a vote was taken because he did have a question for the Town Manager. Councilman Scott questioned how the Town Manager obtain the \$12.5 million it would cost the Town to purchase water from Johnston County. The Town Manager responded he obtained that information from Johnston County's current fee schedule.

Councilman Scott stated he was concerned that the Town was not getting a good deal from the county. If the Town had more security from the county that they were going to continue to purchase water from the Town, the decision to expand would be a no brainer. He stated that no matter what happened, the Town should continue to negotiate with the county.

Councilman Scott stated staff also had to do a better job with its capital improvement plan because it does not reflect the \$7.45 million in deferred maintenance. Staff must do a better job of planning.

Councilman Scott stated that the citizens have expressed some great concerns about the expansion of the water plant. He stated his real concern was the risk the Town was taking for Smithfield to help others. He further stated he had done some research and the proposed water plant expansion provided by staff highlighted the need for the expansion due to the expansion of Novo Nordisk in Clayton and the 500 jobs it would bring. The report also talked about the historic growth in Johnston County. With the pandemic like it is, the Town may get a better deal on the construction of the water plant, but it is important to note that this was a risk the Town was taking.

Councilman Scott stated in the Town Manager's presentation, the Town Manager the water plant was a part of an enterprise fund. The enterprise fund pays for itself, but the resolution clearly states that the increase in taxes, if any, necessary to service the proposed debt, will not be excessive. Councilman Scott stated if the Town failed or if the county decided to stop purchasing water from the Town, the debt must be paid. He further stated that was why he was opposed to this project at this moment in time.

Mayor Pro-Tem Dunn stated he agreed with Councilman Scott on some of the issues because it was an uncertain time. He felt the Town needed to plan for the future. He stated the maintenance issues also needed to be addressed. There is not any guarantee of what will happen. No one wants to rush out and borrow \$12 million today, but the Town needs to plan for when that day will come.

Mayor Moore called for the vote on the motion on the floor.

Councilman Barbour made a motion, seconded by Councilman Wood, to adopt Resolution No. 665 (14-2020) reaffirming Resolution No. 611 (16-2017) for the water plant expansion/ improvements for state loan funding. Councilman Barbour, Councilman Wood, Mayor Pro-Tem Dunn, Councilman

Stevens and Councilman Rabil voted in favor of the motion. Councilman Scott and Councilman Lee voted against the motion. The motion passed five to two.

RESOLUTION No. 665 (14-2020)
BY TOWN COUNCIL OF THE TOWN OF SMITHFIELD
APPROVING FUNDING APPLICATION

WHEREAS, The Federal Clean Water Act Amendments of 1987 and the North Carolina the Water Infrastructure Act of 2005 (NCGS 159G) have authorized the making of loans and grants to aid eligible units of government in financing the cost of construction of collection system, stream restoration, stormwater treatment, drinking water treatment works, and/or drinking water distribution system or other “green” project), and

WHEREAS, The Town of Smithfield has need for and intends to construct an expansion to the existing drinking water treatment works to expand capacity of the plant. Work includes installation of new process units, upgrade of existing process units and other work, as applicable, for the new capacity.

WHEREAS, The Town of Smithfield intends to request state loan and/or grant assistance for the project.

NOW THEREFORE BE IT RESOLVED, BY THE TOWN COUNCIL OF THE TOWN OF SMITHFIELD:

That Town of Smithfield, the **Applicant**, will arrange financing for all remaining costs of the project, if approved for a State loan and/or grant award.

That the **Applicant** will adopt and place into effect on or before completion of the project a schedule of fees and charges and other available funds which will provide adequate funds for proper operation, maintenance, and administration of the system and the repayment of all principal and interest on the debt.

That the governing body of the **Applicant** agrees to include in the loan agreement a provision authorizing the State Treasurer, upon failure of the Town of Smithfield to make scheduled repayment of the loan, to withhold from the Town of Smithfield any State funds that would otherwise be distributed to the local government unit in an amount sufficient to pay all sums then due and payable to the State as a repayment of the loan.

That the **Applicant** will provide for efficient operation and maintenance of the project on completion of construction thereof.

That Mayor M. Andy Moore, the **Authorized Official**, and successors so titled, is hereby authorized to execute and file an application on behalf of the **Applicant** with the State of North Carolina for a (loan and/or grant) to aid in the construction of the project described above.

That the **Applicant**, authorizes the filing of an application with the Local Government Commission, pursuant to NCGS 159G-40, for approval of the State of North Carolina loan in the principal amount not to exceed \$12,050,000, and directs the **Authorized Official**, and successors so titled, to file such application with the Local Government Commission.

That the **Applicant** makes the following factual findings:

1. That the proposed project, as described above, to be financed with a State loan, is necessary and expedient.
2. That the amount of the proposed loan, \$12,050,000, is adequate and not excessive for the proposed project.
3. That the **Applicant’s** debt management policies and procedures are good, and **Applicant** has in the past always appropriated funds in accordance with North Carolina law during each fiscal year in an amount sufficient to pay its required debt service.
4. That the increase in taxes, if any, necessary to service the proposed debt, will not be excessive. No tax increase is proposed. The scheduled fees and charges along with other available funds of the water and sewer utility system will be adequate to pay principal and interest on the debt.

5. That the rate of interest proposed for the State loan is reasonable and at or below market rates.

That the **Authorized Official**, and successors so titled, is hereby authorized and directed to furnish such information as the appropriate State agency may request in connection with such application or the project: to make the assurances as contained above; and to execute such other documents as may be required in connection with the application.

That the **Applicant** has substantially complied or will substantially comply with all Federal, State, and local laws, rules, regulations, and ordinances applicable to the project and to Federal and State grants and loans pertaining thereto.

Originally Adopted on the 5th day of September 2017 in Smithfield, North Carolina.

Reaffirmed by the Town Council on this the 22nd day of September 2020 in Smithfield, North Carolina by a vote of 5 ayes and 2 nays.

Adjourn

Councilman Barbour made a motion, seconded by Councilman Wood, to adjourn the meeting. The meeting adjourned at approximately 7:22pm.

ATTEST:

M. Andy Moore, Mayor

Shannan L. Parrish, Town Clerk