MINUTES of the KEENE CITY COUNCIL

THURSDAY, MAY 16, 2019

PRESENT: Mayor Gary Heinrich, James Belz, Lisa Parrish, Robert Cooper, Rob Foster, Cheryl Schram, and Gwen Beeson.

ABSENT: None

CALLED TO ORDER: Called the Regular meeting to order at 6:00 p.m.

Invocation & Pledge of Allegiance – Mayor Gary Heinrich

1. Public Comments.

No public comments.

2. Mayor’s Comments.

No comments or announcements.

4. Discussion regarding Keene’s property tax rate.

Cheryl Estes gave a presentation on the property tax rate. The City of Keene is the second highest tax rate of all the cities compared. The reason we have such high property tax is due to the City having a lot of tax-exempt property. Keene is the third highest when it comes to having exempt property. Compared to other surrounding cities, Keene’s total market value is notably less. Therefore, Keene has high property tax.

Gwen Beeson asked if the reason for the property value being so low is due to not having that many new homes.

Brian LaBorde stated that can be a part of it. The other part of that is Keene doesn’t have the growth in commercial either. The taxes have increased to help pay for the services that the City provides.
Mayor Heinrich added that the census counts the students that live on campus which drives up our population.

3. Presentation of City’s Debt Capacity by Hilltop Securities.

Andre Ayala with Hilltop Securities gave a presentation. As of FY 2019, the City has $10,880,452 debt outstanding as a combination of certificates of obligation and bank loans. The City uses a combination of debt services property tax revenue, sales contributions from the KBDC and Utility Fund net revenues to pay for debt services on its obligations The City is analyzing a possible debt restructuring of its outstanding debt to eliminate interest rate risk on the Series 2016 and Series 2017 Certificates of Obligation as well as lower annual debt service requirements. The City is analyzing the possibility of issuing debt beginning in FY 2020 to finance street improvements. Debt would be issued as either certificates of obligation and/or general obligation bonds from FY 2020 through – FY 2024. Keene has a number of bonds and bank loans that are outstanding. The oldest one is a 2005 bond that was sold to the USDA for utility projects in the amount of $4,295,000. It was a 40-year loan. That bond matures is 2044. It is at a fixed interest rate of 4.125%. In 2014 and 2015, the City entered into loans with Pinnacle Bank at a fixed interest rate of 3.875%. Two of those loans will be paid off this year. The third loan from 2015 is due in 2022. In 2016 a bond was sold to Pinnacle Bank. Instead of Pinnacle Bank giving the City a loan, they bought the bond. The amount of that bond was $5,648,000. The amount the City has outstanding is $5,598,405. This bond terminates in 2040. The interest rate is 2.35% until 2021. The interest rate is subject to change every five years subject to the Treasury Department plus 1.30% with a 10% max. This was issued for the City Hall and Community Center project. In 2017 certificates of obligation were sold to Pinnacle Bank to have money to draw down on in the amount of $2,00,000 with $403,562 remaining. $1.5 million is accruing interest. The shorter the loan, the higher the payments. Currently it is 3% fixed interest until 2023. This will also reset every five years plus 1.14% with a 10% max. The 2018 loan is a fixed rate of 4.55% with final payment in 2020.

Mayor Heinrich asked about the USDA loan and the amount. This was for a water line but don’t remember that amount for the loan. I heard that the water line was sold to JSUD.

Robert Cooper stated that the USDA loan was to get water from Grandbury.
Brian LaBorde stated that he believes that the water rights were sold and the City became a customer of JSUD. However, we would still maintain the infrastructure. We were paying on some water rights which were too expensive. In order to get some revenue back some of those water rights were sold to JSUD in return we would be a customer.

Cheryl Schram stated that we went from being with BRA to JSUD. We were able to get a better rate.

Andre Ayala showed a chart showing the outstanding City debt as FY 2019 – Gross debt service payments with the following slide showing outstanding City debt as FY 2019 – net debt service payments. On page 7 is the actual, adopted and pro forma debt service budget – additional utility transfers. This was followed by the debt service fund pro forma analysis – utility fund transfer only scenario and the actual, adopted and pro forma debt service budget – additional debt service tax. Basically, the City is paying debt with debt.

Rob Foster clarified that property values are not increasing at all.

Andre Ayala stated yes.

Mayor Heinrich asked about page 7 regarding debt service property tax revenue. In FY 2017 is that coming from tax revenue. The 2005 bond was for water and sewer. Can water and sewer pay for that without taking it from the general fund?

Andre Ayala stated that the City is doing that. The first column is utility fund debt service transfers. On page 19 the red shows the I&S tax rate and the blue shows the M&O tax rate. These amounts are based on the tax rate not changing.

Cheryl Estes stated that all of debt except for USDA is put in the debt service fund to determine how much is needed to pay that debt. Money is transferred from water and sewer. The Shady Oak project was paid for with loan money. In the future they will need to come from the general fund.

Andre Ayala continued his presentation.

Rob Foster asked if the utility fund would sustain.
Cheryl Estes stated yes with half the debt coming from water and sewer and general fund without an increase.

Andre Ayala continued with the presentation with the restructuring of series 2017 certificates only.

Cheryl Estes stated that when the City originally borrowed the $2 million the City had identified projects that they felt the life of those projects was only 7-10 years. The City didn’t want to structure the debt after the asset had depreciated. Since then the sewer/water fund had taken on all the projects. The only projects that are left right now are being funded by actual loan money for streets. That justifies a longer life.

Brian LaBorde stated that when the $2 million was issued, it was capital projects. It was CR 317, CR 318, Shady Oak, meter replacement, and court/utility software. These decisions were made before me and the current council. However, we do have to deal with it.

Cheryl Schram stated that Council has never had this kind of analysis.

Andre Ayala continued with the presentation which included possible solutions and bond/credit rating.

Rob Foster asked when does the tax rate change.

Brian LaBorde stated that it is done every year with the budget.

Cheryl Estes stated that the tax rate history is on page 19.

Andre Ayala continued the presentation. On page 20, valuations increased.

James Belz asked about the average citizen that owns a $100,00 home when the City raises the tax $.05.

Andre Ayala stated that on a $100,000 home equals an extra $50 a year.

James Belz asked about a $250,000 home.

Andre Ayala stated $125 a year.
Rob Foster stated that transferring that $250,000 in the bank into the operations of next year. That is bothersome because it is a drop in the bucket.

Andre Ayala stated that the focus is on the cash flow and long-term solution. Hopefully this will buy the City time.

Mayor Heinrich asked about restructuring some of the loans to save some of the debt.

Andre Ayala stated on the short term yes. Page 25 is the 5-year US Treasury Rates.

Cheryl Estes brought up the Economic Development Boards. Type A seems to spend their money on pretty good. They are doing lots of things with their money. Type B currently has $500,000 in the bank and looking to spend it on something. I don’t know what the law is about Type B spending money on street debt. There is some kind of law about doing that. Type B gets $200,000 in sales tax a year. If Type B is eliminated, that is $200,000 a year that can be moved to the general fund according to Brian LaBorde.

Brian LaBorde stated that if the Council chooses to eliminate the boards, a proposition can be taken to the voters worded in a way that the City gets to keep some of those funds.

Cheryl Schram asked if it needs to be spelled out where it goes and how it is used.

Brian LaBorde stated only if you want the money to go to street maintenance.

Mayor Heinrich stated that when the A and B Board were voted in, A was supposed to be economic development and B was supposed to be quality of life. If we can’t learn to live with what we have, we need to do without. That is the way it is done at home.

Cheryl Schram stated that the City would have to assume their debt if they are eliminated.

James Belz asked what is A and B’s debt.

Cheryl Estes stated that is on page 22.
Mayor Heinrich stated that it looks like A owes $104,000. Do they have that in the bank.

Cheryl Estes stated no. They owe the City $325,000.

Mayor Heinrich asked about B.

Cheryl Estes stated that they have about $500,000 in the bank. Their debt is mostly land and the community center.

Cheryl Schram asked about what happens to Economic Development.

Brian LaBorde stated that Council can create an ED department under the City Manager.

Mayor Heinrich stated that Type B should be paying for the maintenance of the park. That is quality of life money. Instead of $30,000 coming out of the general fund it should be coming from Type B.

James Belz stated that the City needs to pay their bills.

Brian LaBorde asked Andre and Cheryl what their recommendations were.

Andre Ayala stated that it is up to the Council to discuss it further during the budget process.

Cheryl Estes stated that the City needs to establish a credit rating.

Brian LaBorde stated that if you want to take this to the voters, you have two elections dates. For November elections, it has to go on the ballot in August. For May, it has to go on the ballot in February.

Mayor Heinrich asked about restructuring the USDA loan.

Brian LaBorde stated that is more difficult to restructure.

Gwen Beeson stated that two of the loans will be paid off in July.
Brian LaBorde stated that is true, but you never know what debt will takes its place.

James Belz asked if there is a bid process for lawn maintenance.

Brian LaBorde stated yes.

Cheryl Estes asked about franchise fees.

Brian LaBorde explained franchise fees.

Lisa Parrish asked about the tax rate.

Cheryl Estes stated that will be calculated during budget.

5. City Manager's Report.

No report.

6. Discussion and requests for future items on the agenda.

No requests.

7. Adjournment.

Council adjourned at 8:26 PM.

By: [Signature]
Gary Heinrich, Mayor

Attest: [Signature]
Holly Owens, T.R.M.C., City Secretary