

**Town Council Minutes
Morehead City, North Carolina**

**Thursday, May 19, 2011
Special Meeting/Budget Work Session**

The Honorable Council of the Town of Morehead City met in special session on Thursday, May 19, 2011 at 8:00 a.m., in the Municipal Building Auditorium at 202 South 8th Street, Morehead City, North Carolina. The purpose of the special meeting was to review the proposed Operating Budget for FY 2011/2012. Those in attendance were:

MAYOR:	Gerald A. Jones, Jr.
MAYOR PRO TEM:	Demus L. Thompson
COUNCILMEN:	George W. Ballou Paul W. Cordova David Horton John F. Nelson
CITY MANAGER:	R. Randy Martin
CITY CLERK:	Jeanne M. Giblin
OTHERS:	Lennie Griffin, Bill Taylor, Finance Director Ellen Sewell, Mike Shutak, Reporter, THE CARTERET NEWS TIMES

Mayor Jones opened the meeting at 8:00 a.m.

Manager Martin noted that the proposed total operating budget for the City is almost flat when comparing the current year to the FY2011-2012 proposed budget. The proposed budget is \$20.1 million which is only \$67,140 or 0.03 percent higher than FY2010/2011.

Manager Martin stated the recommended tax rate for FY2011/2012 is 28.5 cents; .014 of a cent over the revenue neutral tax rate of 28.36 cents. The proposed budget recommended an increase in utility rates effective January 2012, of 10 percent. The solid waste fee is recommended to be increased by \$1 per month, however, staff analysis has shown that it would need to be raised by \$1.75 to keep the fund solvent and to be able to pay for future trucks and equipment without acquiring debt; as the current funding is \$25,000 under what is necessary.

Councilman Horton spoke about the revenue neutral tax rate and he disagreed with the way the rate is calculated. He commented that it is revenue neutral plus a 10 percent tax rate increase for the growth rate.

Manager Martin reminded the Council that the state legislature several years ago established by statute a uniform method of calculating a revenue neutral tax rate. He also advised that the proposed Carteret County revenue neutral tax rate is 30 cents.

In response to a question by Councilman Ballou as to why Manager Martin recommended going up to the nearest ½ cent instead of rounding down the ½ cent, Manager Martin replied that if the tax rate was rounded down it would impact the state sales tax revenue rate with the City getting a smaller share of the sales tax revenue distribution in subsequent years and that the proposed budget revenues needed to balance the budget warranted at least a revenue neutral rate.

Finance Director Sewell responded to Councilman Horton's comment on revenue neutral tax rate calculations by stating that the calculations for the growth rate factor for the revenue neutral tax rate are set by the legislature and is a requirement for municipal government. If a municipality does not use the growth factor in determining the tax rate, you are in a sense "discounting" your tax rate.

Councilman Ballou was of the opinion that figuring in the growth rate resulted in putting more "pork" in the budget.

Councilman Horton was interested in setting a tax rate that does not penalize the citizens for growth.

Councilman Nelson recommended finding what the number would be for a revenue neutral tax rate that meets the state requirements. He was of the opinion that he would prefer a whole number and to go up to a 29 cent tax rate.

Manager Martin reported that the Fire/EMS Fund for outside the District is set by the county commissioners. He continued that City staff met with the Carteret County's Fire/EMS

Commission and that the current year tax district rates were 7.5 cents per \$100 assessed valuation for fire service and 4 cents per \$100 assessed valuation for EMS service. Based upon the reduced property values resulting from the revaluation these rates will not generate adequate revenues to meet the budgetary needs. He continued that the tax base is always fluid and that one has to figure what is likely going to happen as one cannot predict what the growth rate will be. Tax values have dropped dramatically during the tax revaluation countywide.

Councilman Horton commented that from one [1] month to the next month Morehead City lost \$100,000 in real property values; this equates to \$285,000 in less taxes.

Finance Director Sewell commented that in setting the tax rate one cannot be certain until at least June 30, 2012, if the rate had been correct based upon the information available at the time the budget is developed.

Manager Martin continued that City staff looks at historical revaluation data to determine the proposed FY2011/2012 budget values. Due to the revaluation, the shared burden of the tax base is shifting from real estate to personal property. Utilities are valued annually. For the first time personal property and public service companies will be taking on more of the tax burden. This is unique to this revaluation cycle because real values declined.

Finance Director Sewell distributed a comparison of property values and tax revenues associated which includes a \$500,000 loss in the real estate value share of the tax burden from June 30, 2011 to June 30, 2012. If the tax rate did not change, it would equate to approximately \$1 million less in revenues overall.

Manager Martin reported that no growth is projected in the state sales tax revenues in the proposed budget. Morehead City's share of the county allocation of sales tax will slightly increase, however, the new adopted county tax rate has to be factored in. He cautioned the Council that the gap between Morehead City and the county tax rate needs to be close in determining the City's share of the sales tax revenue. Inspection fees seem to be faring better than anticipated whereas investment earnings continue to be minimal.

Manager Martin reported on the proposed expenditures for FY2011/2012. In the General Fund he recommended an increase of 2 percent or \$198,000 over the current year budget.

Councilman Horton stated that in his opinion, it was more important to look at what the City spent for the past fiscal year than what the budget amount was.

Manager Martin stated that the City's operating costs were mostly flat. In the Capital Projects area, the City will be spending money, for example, the Little Nine Road project. Capital costs will be increasing by \$500,000 which is mostly for streets, sidewalks and drainage projects.

Councilman Horton commented that he would prefer to spend money each year on street improvements and maintenance.

Manager Martin stated that a number of streets and sidewalks will be improved. A lot of the older sidewalks are recommended to be fixed with approximately \$90,000 being set aside for sidewalks.

He continued that he recommends holding the line on salaries and benefits for the employees except for a bonus in like manner to the bonus given this budget year. The total budget for salaries and benefit costs equals 41 percent of the operating budget. He continued that due to diligence in reducing associated costs the City has realized a decline in personnel costs over the recent few years as a percentage of the total operating budget.

Finance Director Sewell confirmed that for FY2010/2011, the personnel costs have decreased \$250,000. This speaks well for the City's management of its resources during difficult economic times and to holding the line on spending as much as possible.

Manager Martin reported that the FY2011/2012 budget unfreezes the garage mechanic/technician position and the addition of a part-time person in Utilities, Public Works Departments.

Both Councilman Nelson and Horton asked for clarification on the police salaries as four [4] police dispatch positions were absorbed into the Emergency 911 Center under Carteret County.

Manager Martin explained that one E-911 position temporarily in the Police Department is recommended to become a regular permanent part time position at the E-911 Center in the proposed budget. Some portions of the changes in the department's personnel costs in the current and proposed budgets were related to employee benefits, the bonus in January, etc. He continued that Morehead City had a cost avoidance by the opening of the E-911 System which saved a lot of personnel and capital costs which would have been entailed in the upgrading of the prior Police Department dispatch system.

Manager Martin reported that the City's personnel salaries and benefits will remain flat for FY2011/2012. He has recommended a continued freeze on most of the positions previously frozen and explained that insurance costs will remain the same with the changes in benefits which were made. There will be a much smaller increase in retirement costs this year as compared to last year's increase.

He continued that this would be the third year in a row in which he is not recommending a cost-of-living-adjustment [COLA] or merit increase in salaries. This is consistent with most peer towns. He recommended that the employees receive some sort of bonus of a flat amount of \$500 each for full time staff which would equate to a 1.32 percent increase on all salaries. He continued that he was disappointed he could not recommend a COLA, but the employees would be able to keep their benefits as they are and the suggested bonus will offset to some degree the reduced health care benefit resulting from plan modifications. The cost would be approximately \$36,366 for a bonus for the employees.

Councilman Horton suggested giving a 1.2 percent increase to each employee as an incentive to keep the employees who are harder to keep and get.

Councilman Nelson disagreed and thought it was better to do the \$500 bonus, however, he thought it may be better to make the judgment of awarding the bonus later in the fiscal year to be sure that expenses would be covered.

Councilman Thompson commented that the employees deserved the recommended increase, however, these are unusual times and he would rather wait until Christmas and give it then.

Manager Martin commented that the budget projections are better than last year at this time in terms of determining the budget recommendation and that allowed the proposed budget to include the funds necessary for the bonus.

Councilman Ballou commented that the employees have already been told about the recommended bonus.

Manager Martin continued that last year there were savings in personnel costs and that the proposed bonus was awarded based on known facts resulting from reduced costs. He recommended the bonus be approved with budget adoption rather than having the employees' salaries frozen for four [4] years.

Councilman Nelson commented that whatever you do now, you are going to have to do the same next year or it will be looked upon as a salary decrease.

Manager Martin explained that by necessity to keep the insurance rates the same, the emergency room co-pay will increase by \$150 plus an additional \$750 to the deductible expense. He noted there were a couple of other minor changes that would benefit covered employees as detailed in the proposed budget.

Councilman Nelson stated that in his opinion the economy was not better than last year.

Manager Martin commented that in terms of the budgeting process the revenue projections are to some degree better than the conditions when the budget was being prepared last year.

Councilman Horton was in favor of the employees receiving a percentage of their pay. He continued that it was his opinion that the City needed to value the employees and they needed a raise. He was in favor of cutting the 2 percent [2%] discount on people who pay property taxes early and use the money for employee salaries.

OVERVIEW OF THE VARIOUS FUNDS:

Fire/EMS Fund:

Manager Martin reported that the Fire/EMS proposed budget reflects an increase of \$28,600 over the current budget resulting from capital outlay equipment purchases necessary to meet regulatory requirements and service obligations specifically including the grant funded acquisition of the MAB [mobile ambulance bus]. The City will have to assume debt service for the Fire/EMS Station No. #2 project which should be completed during the year.

Finance Director Sewell reminded the Council that for the acquisition and construction of Fire Station No. #2, the City borrowed \$1.5 million from the United States Department of Agriculture [USDA] with no interest having to be paid during the construction of the project and transferred \$500,000 from the Fire/EMS Operating Fund. The property was purchased for \$1.1 million. The Capital Project Fund stands at \$2,044,000.

The proposed budget includes the replacement of the Quick Response Vehicle [QRV] for Fire/EMS Station No. #2.

Sanitation Fund:

The Sanitation Fund has not had a rate increase in a number of years. The Fund has historically produced enough revenue to set aside money for the purchase of a yard waste truck or other equipment when necessary every five [5] to seven [7] years. There is no debt in this fund, however, a \$1 increase is recommended at this time to keep the fund solvent and continue to save for future equipment purchases. It has also been proposed as a cost savings measure to have the yard waste pickup done on an "on call" basis in some areas of the City similar to what is now done on the white goods pickup. This would reduce the routes for the equipment for yard waste pickup in areas with few trees and reduce fuel consumption and equipment wear.

Councilman Thompson requested that the street sweeper schedule should be published so that vehicles could be removed from the streets prior to its use.

Councilman Cordova expressed concern about contractors doing work without a permit in Morehead City and particularly yard waste contractors putting yard waste on City streets.

Mayor Jones stated this could be a topic of discussion for the Planning Committee for a penalty on illegal contracting for anyone doing construction without a permit.

Water/Sewer Fund:

The Water/Sewer Operating Fund proposed budget shows a decrease of 3 percent under the current year expenses. Debt Service will increase related to projects which have been undertaken and there are more operating costs associated with the water treatment plant project.

Councilman Nelson questioned the need for another water tank.

Manager Martin replied that according to state requirements there is a need to have more water elevated "in the air" than is used on an average day. The proposed site for another water tank would be either in the Crab Point area or on Radio Island. The tank is a longer term need and will meet City needs for 20 years, but it is being funded with grant resources at this time

Councilman Nelson questioned the placement of the water tank on Radio Island. Manager Martin replied that there is a need for expansion on Radio Island and it would provide resources for a water tie-in with the Town of Beaufort whereby the City could sell excess capacity. Manager Martin also noted that the Crab Point siting of the tank has certain advantages that are being evaluated before a final decision on the tank site is made. The only concerns are finding and acquiring a suitable location in a timely manner.

Councilman Horton stated he did not feel comfortable with the proposed 10 percent increase in water/sewer fees without discussing it in detail at a meeting. He also had concern with the contracted expenses for the water/sewer fund. He also commented that the new plant is having sludge disposal problems. The dryer is two [2] years old and is not producing Grade A sludge. Hauling the sludge away is something that the manufacturer should be paying. Councilman Horton continued that he felt these numbers are raising the costs and he was concerned with the high costs of contractual services.

Manager Martin commented that it is necessary to raise the rates incrementally instead of one big increase to fund the water treatment system project and that the water system needs to be updated in order to meet federal and state standards with softening of the water an added benefit.

Councilman Horton discussed the borrowing of funds for the proposed laboratory building.

Councilman Ballou commented on the perception of borrowing from the Water/Sewer Fund for the purchase of the Jib property and then having to raise water/sewer rates.

Councilman Horton mentioned that long term capital projects do not “show up” in the budget until the projects have been done.

Manager Martin replied that information on each of the capital projects was in the Work Session Books. The capital projects analysis is in the workbook. He continued that there is no capital funding for the baseball park project, for example, in the proposed budget. Some of the capital project funds are kept open a number of years such as the MATS Fund when the project could be expanded in the future.

Police Department:

Manager Martin stated that the recommendation was to replace five [5] police vehicles this year and to purchase a police dog to replace the one retiring.

With regard to the present Municipal Building, it is proposed to initially do energy efficiency projects downstairs, upgrade the restrooms and cosmetic upgrades to the office areas with an estimated cost of \$150,000. The use of the Municipal Building for employees would negate the necessity of renting the Hamilton Building.

Councilman Horton was concerned with spending money on the Municipal Building and the contracted services expense.

Manager Martin replied that the City has avoided costs on upgrading the building which should have been done ten [10] years ago. Renovations were delayed until the building was vacated.

There being no further business the meeting was recessed at 11:35 a.m. to reconvene at 12:30 p.m. on Thursday, June 2, 2001, in the Municipal Building at 202 South 8th Street, Morehead City.

Gerald A. Jones, Jr., Mayor

Attest:

Jeanne M. Giblin, City Clerk