

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

**Thursday, June 2, 2011
Special Meeting/Budget Work Session**

The Honorable Council of the Town of Morehead City met in special session on Thursday, June 2, 2011 at 12:30 p.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: Bill Taylor, Finance Director Ellen Sewell, Mike

Shutak, Reporter, THE CARTERET NEWS TIMES, Bob Brown, Eric Broyles and Public Utilities Director Daniel Williams

Mayor Jones opened the meeting at 12:30 p.m., in the lobby of the Municipal Building at 202 South 8th Street and immediately recessed to hold the meeting at the Webb Memorial Public Library at 812 Evans Street due to a mechanical failure with the air conditioning system in the Municipal Chambers.

Water/Sewer Operating Budget

Manager Martin reported that City Consultant Engineer Tyndall Lewis reviewed the budget projections for the Water/Sewer Operating Fund as a follow-up to the previous utility rate increase discussions. Consultant Engineer Lewis then e-mailed a report following the Public Utilities Committee of the Council Meeting [Attached and made a part of these minutes is the e-mail from Tyndall Lewis dated June 2, 2011]. The City Manager in the proposed operating budget for FY2011/2012 has recommended an increase of 10 percent effective with the January 1, 2012 billing. The City has requested that the Consultant Engineer do a long-term multi-year projection analysis of revenues and expenses for the Water/Sewer Operating Fund. Consulting Engineer Lewis has done similar analysis a number of times for the City in the past.

Public Utilities Director Williams reported that the City had planned on doing a rate study of a five [5] year analysis which would be ready by early fall. The current revenue numbers from this year indicate a 10 percent increase for next year. There is a projected cash loss of \$166,104 in the Water/Sewer Operating Fund for FYE2010/2011; expenditures are expected to be around \$5 million.

Councilman Horton questioned about the growth of the system.

Public Utilities Director Williams commented that in calculating the fund's needs growth was not taken into account as he would prefer to error on the side of getting enough revenue to operate the utility. He continued that there are increases in expenses in running the new water treatment plant for insurance costs, utility costs, chemicals, etc., which should be about \$150,000 extra per year.

Councilman Horton commented that the money which was loaned to acquire the Jib property on the waterfront returns to the Water/Sewer Fund. Discussion then ensued about the correct accounting procedures for the money which was loaned and will be subsequently returned to the Water/Sewer Fund for the acquisition of the Jib property.

It was ascertained that the needed increase in revenue for this year would be \$520,000 which equates to 10 percent of the Water/Sewer Operating Budget. The debt service on the new Wastewater Treatment [WWTP] is \$750,000 in principal and \$305,775 in interest payments annually. The money borrowed from the United States Department of Agriculture [USDA] loan for water improvements may or may not begin being paid next year.

Councilman Nelson wanted to know the dollar figure for the 10 percent rate increase for an average water/sewer customer.

Councilman Horton stated that the growth rate is more than one percent [1%], and that the City also receives impact fees on new development. He continued that there is debt of \$800,000 in this account which could be paid off early.

Manager Martin cautioned that any projected additional impact fees from new construction would come from buildings which are not yet built and may not materialize. To budget revenues from proposed development would be risky at this time. The City is not proposing to cover with this increase the full \$520,000 needed increase which the engineer has proposed in operating and debt service expenses when the water system upgrades are complete. The engineer originally estimated a 30 percent increase would likely be necessary and it should be phased in over three [3] years. The new rate study will update his recommendation for any further increases in future years.

Councilman Nelson wanted to know how the City ended up in an operating deficit situation in a year.

Public Utilities Director Williams commented that the new WWTP came online and the first phase of the water treatment will be online in the new budget year.

Manager Martin commented that the City had anticipated a much larger deficit and used reserve funds to meet the debt. This was a known factor that the City would have to use reserve funds for the debt service when the new WWTP came on line. This year's revenues from water/sewer sales were \$4.5 million. Reserves were built up by rate increases spread over a six [6] year period to meet operating and debt needs while the WWTP was being constructed.

Councilman Horton stated that as a City resident he would prefer to pay five percent [5%] beginning in July 2011, than 10 percent in January 2012, as recommended in the proposed budget.

Manager Martin commented that historically the City Council has preferred to increase water/sewer rates in January to give the public proper notice, however, any schedule the Council desires could be done with adequate lead time to make the changes.

In reply to Councilman Horton on a question about debt, Finance Director Sewell commented that the Council should review the cash position of the fund before considering paying off debt early.

Councilman Horton commented that Consultant Engineer Lewis' e-mail is very cursory as the detailed analysis has not yet been done.

Manager Martin agreed that the staff's projections are conservative but the projections are good as the City knows that the debt service will increase and likely exceed the benefits of the recommended 10 percent rate increase.

Councilman Horton questioned if these numbers are so well thought out, was the \$150,000 for the debt service and operating expenses well thought out now.

Councilman Nelson suggested the Council close the discussion and allow Public Utilities Director Williams to finish his report.

Councilman Nelson MOVED, seconded by Councilman Thompson, and carried unanimously, to allow Public Utilities Director Williams to finish his report.

In conclusion, Public Utilities Director Williams agreed with Consultant Engineer Lewis to recommend a 10 percent increase in water/sewer rates commencing with the January 2012, billing and to do a more in depth review which will be ready in early fall with future projections.

Finance Director Sewell distributed an analysis of water/sewer fund financial results and key ratios. She explained that this is based on audit information by June 30, 2010, which is gathered and analyzed by the Local Government Commission [LGC] a Division of the State Treasurer's Office. The widely accepted quick ratio calculation included in the data is two [2] to one [1] which equates to the eight percent [8%] the LGC considers as the minimum

reserve required in the General Fund. In any case, the ratio should not go below two percent [2%]. Morehead City now has a significant investment in improvements to the infrastructure. The City utility system financials are currently at or just below the recommended level.

Manager Martin commented that it was the intent of the City Council to build up reserves in previous years to meet the future debt service payments and this recommendation would hopefully accomplish the same purpose.

Sanitation Fund

Manager Martin commented that solid waste pickup and disposal is not subsidized by the General Fund. The proposed budget recommendation was for a \$1 increase. City staff projected up to a \$1.75 increase would be needed to meet long term obligations and to have reserve funds for the future acquisition/replacement of collection equipment.

Finance Director Sewell reported on the analysis of the rates for solid waste. There is no debt in the fund, however, the concern is that the City is not replacing the cash in order to build up reserves. If the fund continues to operate in a deficit as it is projected to do this year, the City would have to get a loan for the future replacement of equipment. The \$1 increase would begin July 1, 2011. There are currently approximately 3,800 refuse customers. In 1997, the charge was \$18 a month, the same as today.

Councilman Horton commented that the increase is reasonable given the expenses of the fund. He commented that in order to save money the yard waste truck should not do the entire pickup route all of the time.

Manager Martin replied that City staff is considering recommending a new procedure not unlike how white goods are currently handled where a customer would request yard waste material be picked up in areas where regular collection is typically very low.

Finance Director Sewell commented that \$105,000 was used from the account reserves for the purchase of a new collection truck this year.

Fire EMS Fund

Manager Martin reported that overall the proposed Fire/EMS operating budget is static from last year and that the county will set the property tax rates for the extra-territorial jurisdiction [ETJ] areas which are included in the Fire/EMS service districts previously established by the county. The City's request to the county was that the taxes generate the same amount of money as last year as the rates are set for the district tax. Manager Martin speculated that the rates would need to be increased cumulatively 1.5 cents above the current rate of 7.5 cents for fire and 4 cents for EMS services per \$100 of property evaluation based upon input from the county staff.

The Council discussed the FEMA grant and the Homeland Security grant and the need for a replacement QRV [quick response vehicle] for Station #2.

Police Department

Councilman Horton commented that the maintenance of the building this year was budgeted at \$10,000, while next year it is projected at \$25,000 and questioned whether it include all the facilities.

Finance Director Sewell responded that the figure refers to janitorial services, cleaning supplies, air filters, light bulbs, mowing, pest control, etc., for the department's facilities.

Councilman Horton questioned the telephone bill, he thought that without the dispatchers, it would decrease.

The proposed budget has five [5] replacement police cars which was reported to Council.

Councilman Ballou commented that the Public Safety Committee of the Council recommended acquiring another police dog since the previous dog was retired.

Streets and Sidewalks

Manager Martin reported that money has been accumulated in reserve to allow a significant amount of effort to address street repaving and to improve some of the downtown sidewalks and additional storm drains. The Council will decide what streets are to be addressed. The City is required to restrict the use of the Powell Bill funding to eligible street improvements only.

Councilman Horton stated that the City should know how many miles of road, what the estimated life cycle is for each and place money in a reserve fund for the future.

Manager Martin reported that lighting of the bike path along Bridges Street Extension is being funded this year as recommended by the Public Works Committee of the Council. The Nine Mile Road improvement project will be going out to bid shortly once permitted.

Library

The elevator project will be partially funded with a \$25,000 donation. The library also receives donations for the purchase of new books.

Upon a question from Councilman Nelson that the maintenance of the building was only \$12,000, Manager Martin explained that was only for the cleaning. There are no recommended Library capital improvements included in the budget with the exception of the installation of an elevator.

Recreation

Councilman Nelson commented on the funding for dues and subscriptions.

Manager Martin replied that the figure represents affiliation with professional organizations and the internet connection fees.

Councilman Nelson questioned the \$5,000 funding for a doggie park and suggested it be decreased to \$2,500 and use the remainder to make improvements to Piney Park as he would like to see that area developed with playground equipment and a fence.

Manager Martin replied that the doggie park was a project in cooperation with the PAWS organization which needed and requested additional funding. The City was to donate the \$5,000 to that organization in this current budget, but the funding would not be allocated by year end requiring reappropriation.

Councilman Thompson was of the opinion that a fence around Piney Park would alleviate some of the riff-raff congregating there and he would see if he could get funding for some of the playground equipment donated.

Councilman Nelson recommended giving PAWS \$2,000 and place \$3,000 toward Piney Park improvements.

Councilman Horton commented that there is only one full-time position in the Parks Department, but he notices that a lot of people working in the parks and therefore the City does not get a good cost analysis for parks. He also questioned a letter with proposals from Buddy Bengel, the Manager of the Morehead City Marlins, about the baseball park and noticed that none of those requests were proposed to be funded in this coming year. He continued that maintenance, equipment and personnel costs for the ballfield are extremely high. In his opinion, the City is not getting nearly the marginal costs from the use of the field. He stated that the City needs to let the Marlins know that their expectations will not be fulfilled.

Councilman Nelson stated that there is a need for permanent restrooms and dressing rooms at the baseball field and that the agreement with Riverfront Sports and Entertainment needs to be revised.

Councilman Horton was concerned about the baseball park not being used if the Marlins do not decide to stay in Morehead City.

Manager Martin spoke about the benefit to the community from the economic impact of the ballfield. One of the reasons to build the park was to attract visitors. No one organization using the facilities is making a lot of money off the facilities. The business community has benefitted more than anybody else from visitors to the community staying in hotels and eating in restaurants, etc.

Councilman Nelson commented that the City needed to revise the agreement with Riverfront Sports and Entertainment so that there is more of a complete understanding, such as only having the baseball park for the dates requested and what the \$500 fee entails.

PERSONNEL

Councilman Nelson commented that there are two [2] part-time positions in the proposed budget.

Manager Martin explained that one [1] is in the Water/Sewer Department and the other is in the Police Department. The positions must be under 1,000 hours per year to be part-time and minimize benefit costs.

Councilman Horton commented on the proposed \$500 bonus to all employees. He commented that the receipt of the \$500 equally would seem like a raise to a lower paid employee or someone who has not been with the City a long time. He was of the opinion that the higher paid employees should get more of a bonus. He proposed a 1.3 percent COLA [cost of living adjustment] with the pay raise being cumulative and the City should do away with the discount for early payment of ad valorem taxes to pay for the increase.

Manager Martin replied that the City cannot do away with the tax discount this year. State law requires the decision would have had to be made not later than April 1st in the year before it can be effective.

Councilman Thompson commented that a lot of people have not had a raise in Carteret County in recent years. It would seem that the City employees would understand that the times are not good. A lot of things need to be considered and how it affects everyone.

Councilman Cordova commented that the employees were told there may be a bonus, which is different than a pay raise. Lower paid employees appreciate the bonus a lot more than the higher paid employees.

Councilman Ballou agreed and felt that the entry level employees needed the bonus.

Councilman Nelson commented that whatever the City does, the cost for the bonus must be covered.

Manager Martin stated that a 1 cent increase in the tax rate would likely be necessary next year if the employees are given a COLA this year to meet the ongoing costs associated.

Councilman Horton commented that a tax rate of 27 cents is what was needed to keep the same amount of funding as last year.

Manager Martin stated that the City's overall personnel costs have decreased by 3 percent in recent years from cost reduction efforts and that 28.36 cents is the revenue neutral tax rate that the City is required to make available to the public by the General Statutes. He also commented that the Council also needs to consider the impact on the City's future share of sales tax revenues and the impact of changes in the tax rate.

Discussion ensued about the revenue neutral tax rate and the discount for early tax payment.

Councilman Cordova commented that three [3] of the Council Members were on the Council for 16 years or more and have worked with the City Manager and Finance Director for those years. Each budget year the Council has adopted the budget as presented by the City Manager and Finance Director with few changes and the City has made budget every year. The tax rate collection of 99 percent is good and he felt that the City staff had a great track record.

There being no further business, the meeting was recessed at 4:45 p.m., and will reconvene on Tuesday, June 7, 2011, at 4:30 p.m. in the Council Chambers in the Municipal Building at 202 South 8th Street, Morehead City.

Gerald A. Jones, Jr., Mayor

Attest:

Jeanne M. Giblin, City Clerk