

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

**Tuesday, June 24, 2014 at 5:30 p.m.
Special Meeting/Budget Work Session**

The Honorable Council of the Town of Morehead City met in a Special Meeting/Budget Work Session on Tuesday, June 24, 2014, at 5:30 p.m., in the Council Chambers, Morehead City Municipal Building, 202 South 8th Street, Morehead City, North Carolina. The purpose of the Special Meeting was adoption of the FY2014/2015 Budget; setting the FY2014/2015 Tax Rate, Water/Sewer Rate and Sanitation Rate; adoption of Ordinance 2014-27 and a Closed Session to receive an update on the Martin vs. Town of Morehead City litigation and other potential litigation from the City Attorneys. Those in attendance were:

MAYOR: Gerald A. Jones, Jr.

MAYOR PRO TEM: George W. Ballou

COUNCIL: William F. Taylor
Demus L. Thompson
Harvey N. Walker
Diane C. Warrender

CITY MANAGER: David Whitlow

CITY CLERK: Jeanne M. Giblin

CITY ATTORNEYS: Nelson Taylor, Derek Taylor

OTHERS: Jewel A. Lassater; Mark Hibbs, Reporter, THE CARTERET NEWS TIMES; Linda Staab; Jeannie Vaughan; Ken Wood; Eric Broyles; David McCabe; Chris Judy; Jamie Fulk; Susan Nixon; Kelly Urban; Wrenn Johnson; and several others.

I. Regular Meeting Call to Order, Invocation, Pledge of Allegiance

Mayor Jones opened the meeting at 5:30 p.m., Councilman Thompson gave the invocation and all joined in the Pledge of Allegiance.

Mr. Eric Broyles presented the Council with a petition against tax increases which will be made part of the permanent record.

II. Adoption of the FY2014/2015 Budget; Setting of the FY2014/2015 Tax Rate, Water/Sewer Rate and Sanitation Rate

City Manager David Whitlow reported that City staff has continued to work through the budget to review other options and to see if the tax rate could be reduced by one cent [\$0.01]. The recommendation, which was delivered in the Council's packet last week, was a reduction from three cents [\$0.03] to two cents [\$0.02] for a total tax rate of \$0.335 per \$100 of assessed valuation. This could be achieved as follows:

1. Reduce General Fund Ad Valorem revenues by \$184,000
2. Reduce Motor Vehicle taxes by \$6,000
3. Reduce General Fund Transfer to Fire/EMS Fund by \$130,000
4. Reduce Contingency by \$63,000 to fund ACT contribution and \$60,000 to Fire/EMS Fund
5. Appropriate \$130,000 of Fire/EMS Fund Balance to offset the reduction in the transfer from the General Fund

The resulting effect would be to reduce the General Fund contingency to \$116,610, representing 1% of the total budget, and reducing the Fire/EMS General Fund Balance available to appropriate to \$282,180.

City Manager Whitlow explained that this was the budget which he recommended for adoption.

The adoption of this budget with the above prospective would set the General Fund budget at \$11,630,700; Water/Sewer Fund at \$6,259,000 and Other Funds at \$5,386,150 for a Total Budget of \$23,275,850. In accordance with the goals expressed, the recommended tax rate would be \$0.335 per \$100 of assessed property value. The Water/Sewer budget includes a recommendation for a 6 percent [6%] increase in the rates. This increase would

take effect in January 2015. There is no recommended increase in the sanitation rates which would remain at \$19.50 per month per household.

Councilwoman Warrender asked for an explanation of the \$130,000 from the Fire/EMS Fund Balance and would that be a result of Morehead City Fire/EMS merging with the Wildwood Fire Department.

City Manager Whitlow replied that the \$130,000 recognizes the three [3] Fire/EMS positions which are currently in the budget. The City is making progress with the merger. If it comes to pass, the City could further reduce the transfer from the General Fund to the Fire/EMS Fund.

Councilman Taylor commented that with the budget numbers as presented that it was a good time to recap that when the budget was planned last year it was with the intention of implementing the Employee Compensation Plan for three [3] years. There was a commitment from the Council to accomplish that. With the addition of the new water well, tank and plant, the City invested \$10 million in infrastructure and it was determined that there would of necessity be an 8 percent [8%] increase per year in water/sewer fees for the next five [5] years. The Council also promised to closely review the budget and reduce it as much as possible. This budget contains cost abatements wherever possible. It has changed the tax rate from a three cent [\$0.03] increase to a two cent [\$0.02] increase; the water/sewer increase has been reduced to 6 percent [6%]. The Public Works Department with the new recycling program has avoided a 62 cents [\$0.62] increase in the Sanitation Fund. A two cent [\$0.02] increase for an average house valued at \$200,000 is \$40 a year. The difference between an 8 percent to 6 percent adjustment on 4,000 gallons of water avoids a bill increase of \$1.21. The new recycling pickup schedule enables the City to keep the Sanitation fee at \$19.50 per household per month.

Councilman Taylor continued that a City provides services that the citizens need and implied in that the City needs to budget adequately. He spoke about providing mosquito spraying, that if the budget were cut, mosquito spraying may not be as frequent. The City needs to provide good quality services and give value. He questioned cutting the budget too deeply and not being able to provide services.

Councilman Ballou commented that the last thing he wanted to do was cut against the employees and services of the City. He stated he tried to come up with substantial numbers to decrease the budget, but a zero increase would be unrealistic. Although he realized that there are current lawsuits, he suggested taking the attorney fees from the Undesignated Fund Balance. In Capital Projects, i.e., the Jib Project, he commented he would sacrifice that project and place it on hold for a ½ cent [\$0.005] tax decrease.

Councilman Taylor reminded the Council that funding for the Jib Project was already in place.

City Manager Whitlow stated that the City has entered into a loan agreement for \$407,000 with zero percent [0%] interest for five [5] years and that the City would have to decide how to handle the \$200,000 CAMA grant which has been received which allows the City to move into the next phase of the project.

Councilman Taylor commented that the City could not hire the additional employees as suggested and ask the Department Heads that if they wanted that person they would have to find money in their budgets.

Councilman Ballou said he would be comfortable with a one cent [\$0.01] increase.

Councilwoman Warrender was concerned that if the one cent [\$0.01] was imposed this year, the City would be faced with the same costs again next year, the costs are not going to go away. She was of the opinion that the Council was basically delaying for another year. She stated she did not want to take funding from the Fund Balance as the area could experience a hurricane and the \$3 million that is currently in the Fund Balance would be used rather quickly under that scenario.

Councilman Ballou replied that the General Statutes requires \$800,000 to \$900,000 for a city the size of Morehead City in the Fund Balance and that the Council a few years back arbitrarily set a Fund Balance limit of \$2 million. He did not believe using the Fund Balance would put the City in harm's way as long as it was used for the citizens.

When Councilman Walker questioned the legal fees, Councilman Ballou replied that the City hoped that it would not have to spend as much as budgeted.

It was ascertained that the attorney fees were budgeted for \$175,000.

Councilman Taylor stated that if the City were to use Fund Balance, to make sure it was not for a recurring fee. Referring to the current lawsuit with the City versus the Martins, he advised that if the City were to lose the lawsuit the City may have to buy the Martin house and that would have to come from Fund Balance.

Councilman Thompson was concerned that the Council who had worked so diligently on reducing the tax rate would not receive the credit for all the effort. He commented that it was the City Manager's job to cut the specifics from the budget. It was the Council who needed to set a certain budget and request the City Manager to find the cuts.

City Manager Whitlow commented that it was his job to present a budget which the Council could adopt.

Councilman Ballou stated that the Council needed to compromise and get the budget down to a one cent [\$0.01] increase and spoke about using the Contingency Fund if a hurricane should happen.

Councilman Thompson commented that the citizens have known about the tax increase since last year.

City Manager Whitlow addressed the situation with Fire/EMS Station No. #3 and that there is presently no agreement with the Wildwood Fire Department nor have the Carteret County Commissioners taken action on the merger. The Wildwood Fire Department needs to agree to the process that Morehead City has set and the county needs to have an agreement that the county will pay for the costs of the service. Major points have been made, but the merger still needs to be agreed to by all parties.

Councilman Ballou asked if the one cent [\$0.01] increase would jeopardize the City.

City Manager Whitlow replied that he promised that the staff will do anything possible to make it work to the extent that Mother Nature and other matters of that sort could be controlled. He continued that the general rule is 25 to 30 percent of an operating budget is a margin to be able to cover emergencies or in Morehead City's case \$3.4 million. He continued that it would not be his recommendation to reduce the Fund Balance to the level suggested and still be comfortable. These expenses are recurring, employee expenses do not go away. Funds are necessary for unforeseen emergencies.

Mayor Jones commented that the Local Government Commission [LGC] specifies that 8 percent [8%] is the absolute minimum for the Fund Balance. If a city falls below that number, the LGC starts reviewing their books. The LGC recommendation is 25 to 30 percent.

Councilman Thompson recalled when Morehead City was in dire straits financially and the Fund Balance was \$67,000.

Mayor Jones stated that the City has until June 30th to take action. The Manager and staff did find a one cent [\$0.01] reduction. The City could use Fund Balance, but he was not sure this would be a wise decision. The City could reduce the planned employee hiring for another year.

Councilman Walker replied, or the Council could support the proposed two cents [\$0.02] increase and move on with it.

Councilwoman Warrender agreed that the budget could be reviewed again, but it was her opinion not to reduce funds that next year may have to be added back. She would be in favor of the two cents [\$0.02] increase.

Councilman Taylor spoke about two proposals: a two cents [\$0.02] increase and a one cent [\$0.01] increase and what would be the effect on services that the City is required to provide. He did not believe that the Council could do what it has tried to accomplish without some additional tax revenue; the zero [0] option was not possible.

Councilman Ballou wanted the budget reviewed for further reductions.

Councilman Thompson wanted the same but refrain from changing employee salaries/benefits or services.

City Manager Whitlow replied that in order to reduce the tax increase, it would be a reduction in services.

Councilman Thompson asked if the City could purchase only four [4] police cars instead of five [5] as a cost savings.

City Manager Whitlow replied that reducing Capital Expenditures would not reduce taxes.

Mayor Jones commented that all the Councilmembers agreed that some tax increase was inevitable. He suggested reducing attorney fees in half.

City Manager Whitlow commented that if the attorney's budget was reduced by \$85,000, that would reduce the tax rate by ½ cent [\$0.005]. He stated that unless there were specific areas that the Council wanted targeted, he did not know where else to look. There are pennies to be saved, but that would not bring the Council to where they wanted to be unless they wanted to take a program from the budget. He further stated he left in the budget those items which are needed to maintain a level of service.

Councilman Walker MOVED, seconded by Councilman Thompson, and carried unanimously, to adopt Budget Ordinance 2014-26 Setting the FY2014/2015 Budget at a total of \$23,180,850.00; set the FY2014/2015 Tax Rate at \$0.33 per \$100 of assessed property valuation; and increase the Water/Sewer Rate by 6 percent [6%]. The Sanitation Rate will remain unchanged at \$19.50 per monthly household fee. Budget Item 10-4200-192 [Legal Services] will be reduced by \$95,000.00 and the total budget will be reduced by \$95,000.00. [Budget Ordinance 2014-26 is attached to Ordinance Book #7 in the vault.]

III. Adopt Ordinance 2014-27 Jib Property Waterfront Access Grant Project Fund

The purpose of this amendment is to increase the budget as follows:

- Increase revenue to recognize CAMA grant for Phase 2 improvements in the amount of \$200,000.
- Increase revenue to recognize proceeds from Carteret County/NC Eastern Region loan in the amount of \$407,000.
- Increase expenditures for Jib phase 2 improvements in the amount of \$607,000.

Councilwoman Warrender MOVED, seconded by Councilman Walker, and carried unanimously, to adopt Ordinance 2014-27 Jib Property Waterfront Access Grant Project Fund to recognize the proceeds from Carteret County/NC Eastern Region loan in the amount of \$407,000 and CAMA grant for Phase II improvements in the amount of \$200,000. [Budget Ordinance Amendment 2014-27 is attached to Ordinance Book #7 in the vault.]

IV. CLOSED SESSION as per G.S. 143.318.11[a][3][5] to receive an Update on the Martin vs. Town of Morehead City Litigation and Discuss other Potential Litigation and Contracts with the City Attorney

Councilman Ballou MOVED, seconded by Councilman Thompson, and carried unanimously, to enter into CLOSED SESSION.

Councilwoman Warrender MOVED, seconded by Councilman Taylor, and carried unanimously, to return to OPEN SESSION.

V. Adjournment

There being no further business, the meeting was adjourned at 7:15 p.m.

Gerald A. Jones, Jr., Mayor

Attest:

Jeanne M. Giblin, City Clerk