

**MINUTE BOOK 23, PAGE 478
STATESVILLE CITY COUNCIL BUDGET WORKSHOP
CITY OFFICE BUILDING – 2ND FLOOR TRAINING ROOM
MAY 24, 2010 – 5:00 P.M.**

Mayor Kutteh presiding:

Council Present: Gregory, Matthews, M Johnson, J Johnson, Stallard, Steele, Huggins, Eisele

Staff Present: Hites, Smyth, Pressley, Salmon, Cornelison, Fugett, Davis, Cline, Bullins, Tripplett, Cranford, Tomlin

**Media Present: Jim McNally – Statesville Record & Landmark
David Vieser – Charlotte Observer**

Visitors: 2

Mayor Kutteh called the meeting to order.

Introductory Comments

City Manager Rob Hites stated Ms. Salmon will begin with a presentation of revenues and projections, followed by comments from Council. We will then discuss how the Streetscape and City Hall projects may or may not fit into this budget.

Presentation of Revenue Trends

Finance Director Ms. Salmon reviewed the current year Ad Valorem Taxes. She advised that updated figures from Iredell County show a revised figure of \$3,008,900,000, up from \$2,920,500,000 due primarily to more accurate estimates of aircraft located at the airport. This increases the Ad Valorem Tax revenues by \$322,483 from \$10,653,984. Staff is recommending appropriating these funds for additional street paving from \$275,000 to \$597,483.

Council member M. Johnson referred to a memo from the Finance Director on May 21, 2010 which stated General Fund revenues next year are expected to fall by \$325,000. That number is now offset by the \$322,483. The net result is the 2010-2011 budget will experience a net revenue decline of approximately \$3,000.00.

The second revision is Ad Valorem property taxes for downtown. Ms. Salmon reported a revision from \$98,300,000 to \$99,850,000. This will increase revenues by \$1,488.00 and increase the payment to DSDC to \$97,356.

Council member M. Johnson stated at the Managers' meeting, the Tax Supervisor, Mr. Doolittle, alluded to the fact that this was the first year they would also do commercial/industrial calculation on real property by income approach analysis. During the meeting the assessor was asked if that would be a basis for evaluation. He replied staff would look at that.

Mr. Hites explained the different approaches that could possibly be used. The income approach is applicable for commercial property but not applicable for residential. The tax assessor had not decided to what extent he would be using the income approach at the time of the Managers' meeting. Mayor Kutteh agreed that the tax assessor did not state which approach he would be using. Council member M. Johnson clarified he is simply pointing out that there is another methodology afoot that may countermine the replacement cost analysis for property value that the tax assessor is going to use with revaluation in the coming year.

Mr. Hites recalled the tax assessor discussed a number of vacant buildings that are new in the county. No income in a brand new vacant building could depress the value of a building that is occupied and has income.

Finance Director Salmon reviewed revisions to the Recreation Department budget. The Recreation and Parks Director has determined that it would be more cost efficient to contract out the janitorial services for SFAC. He is recommending a reduction in staff by 1 custodian in the Public Grounds budget. This will create a salary and benefits savings of \$34,107. He intends to use \$16,470 of the savings to add to the Recreation Administration Contracted Services for outside janitorial services, which would go from \$3,000 to \$19,470. He further recommends savings of \$17,637 be reallocated to the new park project at Garfield.

Ms. Salmon reported Mr. Cranford is in the process of executing a new contract with AT&T that will increase pole rental revenues by \$64,000, from \$82,000 to \$146,000 in the Electric Fund. Ms. Salmon is recommending an additional revenue appropriation of \$64,000 to Purchase Power for Resale, due to underestimated increase for purchases from SEPA – 21% rate increase effective 10/01/2010. The Purchase for Resale will increase from \$34,000,000 to \$34,064,000.

Ms. Salmon reviewed the General Fund 2009-10 Revenue Forecast in detail. (Attachment A) Council member M. Johnson noted there is \$200,000 more forecasted for Ad Valorem Taxes. Ms. Salmon explained that as of the Council Retreat, sales tax revenues were 17% below prior year collections, and we are now 15% below projections. Staff expects a sales tax shortfall this year of \$615,000. Ms. Salmon stated although we are seeing some improvement in the economy, staff is carrying that trend into the next fiscal year. Other Taxes and Licenses are projected at \$5.2 million.

Ms. Salmon stated there doesn't seem to be a downward trend in unrestricted intergovernmental revenue. She reported we are not budgeting anything for the Hold Harmless reimbursement and NCLM believes this payment will take place at the end of the budget year. Ms. Salmon explained there is new revenue called Federal Interest Subsidy on Debt. \$2 million for the debt service payment on Fire Station #4 has been appropriated. Part of the revenue we will receive is a 45% federal interest subsidy. This combined with the transfer in from capital reserve will make the debt service payment. Ms. Salmon reported ABC revenues have fallen considerably due to the economy. There was some discussion on ABC General and ABC Liquor by the Drink revenue.

Ms. Salmon reviewed the Restricted Intergovernmental Revenues. Council member Stallard asked about expiration of the grants. Ms. Salmon reviewed each grant. This detail information can be found in the staffing summary on pages 61-63. There was some discussion on the SIGI (Statesville Iredell Gang Initiative) Grants. Ms. Salmon explained the Weed & Seed goes to the Housing Authority so the City does not have a match for that grant.

Council member M. Johnson recalled that Council was told the three fire fighters in the SAFER grant would be part of the total fifteen for Fire Station #4. Council member J. Johnson agreed. Mayor Kutteh asked Chief Bullins for clarification. Mayor Kutteh questioned the purpose of the three fire fighters that were hired with the SAFER Grant. Chief Bullins explained the duties of the new hires and stated the need to hire fifteen additional firefighters to maintain constant staffing. He explained to improve ISO ratings they have to dispatch a ladder truck. Mayor Kutteh asked if the three SAFER Grant fire fighters were put at Fire Station #4, how would that compromise deployment for other stations.

Chief Bullins stated the direct impact would be the ladder truck. If the ladder truck is dispersed differently, it will take points away from our ISO rating. Council member M. Johnson asked if Council hires twelve people for Fire Station #4 will the ISO rating change from 4 to 5. Chief Bullins replied no. Council member M. Johnson asked if the three SAFER Grant men are moved to Fire Station #4 with twelve new people will our ISO rating move from a 4 to a 3. Chief Bullins stated it is possible, but he could not guarantee it. Council member M. Johnson recalled the issue with Fire Station #4 is the preservation of ISO rating of 4.

Ms. Salmon reviewed permits and fees. Court fees are coming in higher than projected. Civil Citations will come in around \$25,000 this year. Recreation fees and Pool Fees have far surpassed the budget expectations with an increase of \$173,000. The Airport is showing additional revenue due to the new lease rates.

Council member M. Johnson asked if we have collected more than \$110,000 in Fuel Flow Fees as of March. Ms. Salmon replied no, not as of March 31st, but we expect to reach \$130,000 by June 30th.

Ms. Salmon reviewed the transfers from other funds into the General Fund. She reviewed estimated expenditures of \$27,158,223. The net result of Revenues over Expenditures is estimated at (\$1,216,323). In the 2008-2009 budget, over \$2 million in capital equipment was frozen. \$1 million was initially cut from the Operating budget. Staff recommended that Council release \$2 million in Capital, which was done after October 2009. \$677,000 was for the street paving contract and \$646,000 was for the purchase of the fire pumper; these two projects will not be complete as of June 30, 2010.

Council member M. Johnson inquired about escrow totals for Fire Station 4 payments. Ms. Salmon replied the entire term of the loan is in debt service. Council member M. Johnson stated this is what causes the loss. We are getting investment income return on the money that was borrowed. Ms. Salmon recalled the Council instructions were that they did not want to raise taxes. Council member M. Johnson agreed staff is only doing the mechanics and no one is questioning that. The total escrow amount is \$2 million dollars. He questioned why the City would borrow the money if we had that money sitting in an account. Ms. Salmon stated the reason to borrow was because the interest rate was so favorable. Council member M. Johnson countered that the federal government pays us 45%. He stated assuming the prevailing interest rate is 3%. Ms. Salmon advised the rate is 2.77%. Council member M. Johnson confirmed the return on investment income is ½-1%. He summarized that it cost 7/10 of a percent to borrow that money. Ms. Salmon stated the fire station is paid out of debt proceeds. The money sitting in capital reserve pays the debt service payments so we do not have to generate new revenue. Council member M. Johnson stressed we reserved these funds for the entire 10 years. Mayor Kutteh asked for the alternative. Ms. Salmon replied raising taxes. Mayor Kutteh stated another alternative would be to appropriate fund balance every year. There was a lengthy discussion on the issue of historically borrowing money because we could make more interest on the reserves. Council member M. Johnson pointed out that is not the present situation and expressed concern with taxing the citizens and holding the funds. He stated he disagrees with the General Fund expensing the total debt service in one year. Ms. Salmon explained the logic behind this was concern, from Council members, that there would not be sufficient funds to pay the debt service payment each year. Council discussed paying the loan in full at this time. Ms. Salmon reminded Council the terms of the loan contained a prepayment penalty. Discussion continued on the theory of financing projects. Mayor Kutteh asked Ms. Salmon to provide information on revenues and expenses without transfers, at the meeting on Wednesday.

Ms. Salmon reviewed the Electric Fund and advised there are no dramatic changes in total revenues and expenditures. They are still tracking 6% ahead, but are still 2% behind due to the 8% wholesale rate increase. The expected year end revenues are \$40.3 million. The revenue over expenditures for year end is expected to be \$1.8 million. The transfers in from the Delivery Station Capital Project Fund to close the fund was \$860,606 and appropriated funds of \$804,000 for the Sub-Station 5 project, which will be incomplete at year end.

Council member M. Johnson noted he is under the impression that the 5% electric increase that Council is approving for this year is guaranteed to be followed by another 3% in the next two subsequent years. Mayor Kutteh and Mr. Cranford advised the projection is that there will be 3 years of 5% increases and 1 year with a 3% increase on wholesale rates.

Ms. Salmon advised timber sales of approximately \$502,280 are included in this year's revenue in the Water & Sewer Fund. Staff is recommending a 6% rate increase. Council commented that Troutman & Mooresville have already raised their rates.

Council member J. Johnson asked about the minimum charge for meters that are proving difficult to collect. Council member M. Johnson asked if the City can put a lien on the property if bills are unpaid. Ms. Salmon stated we cannot lien a property for utility charges. She suggested that Council consider pulling the meter at a certain stage if the charges are not paid and require the property owner to pay a system development fee to get the meter back.

Council member J. Johnson proposed a fee for Fire Department responses. Staff will research this and report back to Council. Council member M. Johnson asked if the Statesville Fire Department is the first responder on cases such as heart attacks, does the City get reimbursement from Medicare. Mr. Hites replied that whoever drives the ambulance to the hospital receives the fee. Chief Bullins noted the new dispatching system has eliminated many of the previous hindrances associated with first responders.

Ms. Salmon advised that Water Sales are coming in a little over 3% of projections. We have \$2.77 million in water sales for the year. Staff is recommending a 6% rate increase. The total revenue for the year is \$9.783 million. She reviewed the forecast expenditures.

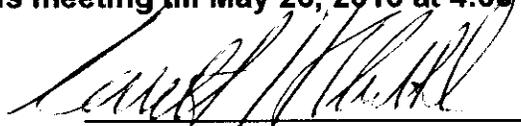
Council member M. Johnson asked if we have seen the detail for the \$677,000 Fund Balance appropriation. Ms. Salmon replied this will be used for capital. Mayor Kutteh clarified that of the \$1,082,000 total capital in the Water/Sewer Fund the appropriation from Fund Balance is required. The projection is that revenues will be below expenditures by \$677,000. Council member M. Johnson summarized this is based on the revenue stream for the calendar year. Council member M. Johnson stated he is opposed to the City sitting on \$8 million dollars in this fund and he questions the purpose. Ms. Salmon responded that money is needed for cash flow, aging sewer plants and unexpected water and sewer line breaks. Council member M. Johnson stated he does not think the purpose of government is to take peoples' money and hold it. Mayor Kutteh said Council member M. Johnson's objections amount to a philosophical examination of the matter and that on the other side of that are cities and towns whose reserves are too low. He stated some municipalities cannot buy a pickup truck without having to go to the bank. He noted that Council member M. Johnson's point is well taken. Council member J. Johnson agreed and stated the 6% increase for water and sewer rates is not necessary.

Ms. Salmon stated she would like to provide more statistics before Council makes a decision.

Ms. Salmon reviewed the residential water comparisons chart. Council member M. Johnson questioned the average residential customer use. Ms. Salmon replied about 5,000 gallons.

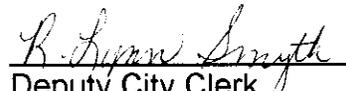
Ms. Salmon reviewed the operating margins and other financial ratios for the Electric and Water and Sewer Funds. The statistics were briefly discussed by Council.

Council member Steele made a motion, seconded by Council member Gregory, to continue this meeting till May 26, 2010 at 4:00 p.m.



Mayor

ATTEST:



Deputy City Clerk

